



JOHN CHIANG
California State Controller

May 22, 2013

Doug Willmore, City Manager
City of Bell
6330 Pine Avenue
Bell, CA 90201

Dear Mr. Willmore:

Attached is the final report of the State Controller's Office (SCO) follow-up review of the City of Bell's prior audit findings and recommendations to determine whether the City implemented the recommended corrective actions for the following audits:

1. Administrative and Accounting Internal Controls
2. Redevelopment Agency
3. Gas Tax Funds
4. State and Federal Expenditures

On May 10, 2013, the SCO auditors held an exit conference with your staff to present the draft report findings. Your response to the draft report, dated May 20, 2012, is included as Attachment 5 of this report. In addition, the Director of Finance responded on May 20, 2012, via email and telephone.

We have reviewed your response and the documents that you provided electronically. Our comments to items in your response are included in this report.

The following provides a summary of the issues in the report:

The prior SCO reports referenced above collectively contain 34 recommendations for corrective action (see Appendix 1).

- 1 recommendation has been implemented.
- 12 recommendations have had some corrective action taken but additional action is needed.
- 21 recommendations have not been implemented.

Fiscal Concerns not Discussed in Previous Reports

The City is facing significant fiscal challenges that, if left unresolved, could lead to a fiscal crisis.

- The unaudited General Fund cash balance as of December 31, 2012 was negative, with a balance of \$(1,123,019), which represents (8.84%) of the budgeted revenues for the 2012-13 fiscal year.
- The City's General Fund now has a smaller tax base.
- The City expects the following expenses, which will impact the General Fund:
 - \$3.182 million in refunds are due as a result of repealed business taxes and Sanitation and Sewerage System District assessments. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.
 - \$100,000 monthly is being accrued for additional ongoing litigation costs due to previously identified mismanaged City financial activities.
 - \$663,000 of Gas Tax funds identified in the 2010 Gas Tax Audit currently remain unpaid to the Gas Tax Fund.
 - Reimbursement of \$665,000 to the RDA was identified in the 2010 review and currently has not been transferred to the RDA Successor Agency.
 - \$256,000 due the Department of Parks and Recreation, identified in the State and Federal Expenditures Audit, currently remains unpaid.
 - The City faces \$4 million in potential legal fees for ongoing litigation.

Administrative and Internal Accounting Controls Audit

While certain internal control issues were resolved and the City created a new culture with increased transparency regarding financial transactions and other issues, there are still areas that need significant improvement to protect public dollars.

- 25 have been corrected primarily through the termination of the prior City Manager.
- 13 have been addressed in part and the City is now in the process of correcting them.
- 19 have yet to be addressed.
- The City's employee loan program has ceased, however, our follow-up review noted that:
 - The City's assertion that "administrative loans" have been repaid was deemed inaccurate by an agreed-upon procedures engagement by its auditor, Macias Gini & O'Connell LLP (MGO).
 - The final MGO report notes there is still more than \$700,000 to be repaid to the City by previous or current employees.
- In relation to the unauthorized increases in pension assessment and business license taxes, the City reduced these taxes to their appropriate rates. In addition, the inappropriate assessments for the Sanitation and Sewerage System District were returned to an

appropriate level by the City.

- Because the City rolled back property tax rates, the City refunded \$2,800,000 to more than 4,000 residents related to the inappropriate pension levy.
- Even though the City rolled back business tax rates and the Sanitation and Sewerage System District assessments, it has yet to refund excess business taxes and Sanitation and Sewerage System District assessments that were overcharged. Sanitation and Sewerage System District assessments to be refunded total \$822,000, and the business tax amount totals \$2.355 million. The City indicated that they do not have the available cash to make such refunds. There is no statute of limitations regarding the requirement to pay these refunds.
- Our prior report noted that the City issued \$50 million in general obligation bonds for Measure A without any documented plan or time frame to utilize the proceeds, nor any apparent need for the funds.
 - The City decided not to pursue the remaining bond projects because of significant operation and maintenance costs that the City cannot afford. At this point, it appears that the City is concerned primarily with meeting debt service payments and will use all remaining bond proceeds to do so.
 - To date, the City has about \$2.5 million remaining in bond proceeds, maintained in a Wells Fargo commercial checking account. City staff have stated that these proceeds will be used to make future debt service payments.

RDA Review

In its 2010 RDA review, the SCO found approximately \$500,000 of unallowable charges to the Low and Moderate Income Housing Fund and Capital Projects Fund. Since the issuance of our report in 2010, the RDA was dissolved as of February 1, 2012, and the City has not implemented any of the SCO's recommendations, including the reimbursement of funds to the RDA.

Gas Tax Fund Audit

In the 2010 audit, the SCO found numerous issues creating a shortage in the City's Gas Tax Fund. The SCO concluded that the City should reimburse \$663,178 to the Gas Tax Fund. The City has yet to repay this amount, and indicated that it does not have the funds to do so.

If you have any questions, please call Andrew Finlayson, Bureau Chief, State Agency Audits Bureau, at (916) 324-6310 or email him at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Contents

Review Report

Executive Summary	1
Background	7
Objectives, Scope, and Methodology.....	8
Conclusion	8
Views of Responsible Officials	9
Restricted Use.....	9
Findings and Recommendations.....	10
Appendix 1— Summary of Prior Findings and Corrective Actions Taken	27
Appendix 2—Evaluation of Elements of Internal Control	31
Attachment 1—Administrative and Internal Accounting Controls Audit, dated September 22, 2010	
Attachment 2—Redevelopment Agency Review, dated October 20, 2010	
Attachment 3—Gas Tax Fund Audit, dated October 20, 2010	
Attachment 4—State and Federal Expenditures Audit, dated November 18, 2010	
Attachment 5—City’s Response to the Follow-up Review	

Review Report

Executive Summary

This report summarizes the major findings and recommendations from the State Controller's Office (SCO) reports issued in 2010 concerning the City of Bell's (City's):

1. Administrative and Internal Accounting Controls Audit (Attachment 1)
2. Redevelopment Agency (RDA) Review (Attachment 2)
3. Gas Tax Fund Audit (Attachment 3)
4. State and Federal Expenditures Audit (Attachment 4)

Copies of these reports are included as attachments for reference and to provide detail of each of the original findings.

The purpose of this review is to identify what actions, if any, the City has taken in response to the SCO findings and recommendations from those reports. The symbol "➤" in the left hand margin next to the action identifies areas of concern regarding issues that have not been adequately addressed. The prior SCO reports referenced above collectively contain 34 recommendations for corrective action (see Appendix 1).

- 1 recommendation has been implemented.
- 12 recommendations have had some corrective action taken but additional action is needed.
- 21 recommendations have not been implemented.

In addition, during our review we identified a potential issue not mentioned in the prior reports issued by the SCO—The City of Bell is facing a fiscal crisis.

Fiscal Concerns not Discussed in Previous Reports

The City is facing significant fiscal challenges that, if left unresolved, could lead to a fiscal crisis.

- The unaudited General Fund cash balance as of December 31, 2012 was negative, with a balance of \$(1,123,019), which represents (8.84%) of the budgeted revenues for the 2012-13 fiscal year.
- The City's General Fund now has a smaller tax base because of:
 - Lower pension assessment impacting property taxes
 - Lower business license tax rates
 - Lower Sanitation and Sewerage System District assessments impacting property taxes

- The Director of Finance does not believe the December 31, 2012 General Fund cash balance stated above is correct and estimates that the June 30, 2013, General Fund cash balance will have a positive balance of \$300,000. However, he was unable to provide any supporting documentation or verbal assurances as to how the City plans to obtain this positive balance by June 30, 2013.

Based on our analysis of the city's financial records and discussions with the Director of Finance, we have concluded that the city's current accounting records, general ledger, and balances are inaccurate because:

- Last independent audit was for fiscal year (FY) 2009-2010
- Transfers of amounts from sub-funds to General Fund
- Smaller tax base
- 60 days behind in booking transactions
- No account reconciliation performed from July 2010 to present
- Inadequate and outdated electronic accounting system
- Legal issues
- In addition to the above, the City expects the following expenses, which will impact the General Fund:
 - \$3.182 million in refunds are due as a result of repealed business taxes and Sanitation and Sewerage System District assessments. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.
 - \$100,000 monthly is being accrued for additional ongoing litigation costs due to previously identified mismanaged City financial activities.
 - \$663,000 of Gas Tax funds identified in the 2010 Gas Tax Audit currently remain unpaid to the Gas Tax Fund.
 - Reimbursement of \$665,000 to the RDA was identified in the 2010 review and currently has not been transferred to the RDA Successor Agency.
 - \$256,000 due the Department of Parks and Recreation, identified in the State and Federal Expenditures Audit, currently remains unpaid.
 - The City faces \$4 million in potential legal fees for ongoing litigation.

Administrative and Internal Accounting Controls Audit

Certain internal control issues were resolved and the City created a new culture with increased transparency regarding financial transactions and other issues.

- A new, permanent City Manager was hired in June of 2012, and

- A permanent Director of Finance was hired in October of 2012.
- The City has not had a concentrated effort to correct internal control findings noted in the prior SCO report. The City appears to primarily have concentrated its efforts on pressing legal and financial issues; the City has not been proactive in establishing better internal controls until recently.

There are still internal control issues that need significant improvement to protect public dollars.

- Finding 1 of the report contained 57 issues that were separately identified in the internal control matrix in that report. See Appendix 2 for a description of prior issues and corrective actions taken in regard to Finding 1. Following, is the current status of those issues:
 - 25 have been corrected primarily through the termination of the prior City Manager.
 - 13 have been addressed in part and the City is now in the process of correcting them.
 - 19 have yet to be addressed.
 - The City's employee loan program has ceased, however, our follow-up review noted that:
 - The City's assertion that "administrative loans" have been repaid was deemed inaccurate by an agreed-upon procedures engagement by its auditor, Macias Gini & O'Connell LLP (MGO).
 - The final MGO report notes there is still more than \$700,000 to be repaid to the City by previous or current employees.
 - Per the MGO report, many of the payments that the City indicated were made were determined to be unsubstantiated by MGO for various reasons.
- Our report also indicated that payments were made to a contractor, who also was acting as the City's Community Service Director. Payments continued even after the contract had expired in June of 1997. The contractor also charged the City a 10% administrative fee (which would appear to be profit) for any subcontractor he hired, which raised questions about a conflict of interest relative to his role as Community Service Director. The City now employs a full-time Community Service Director and has a system in place with new procurement procedures for all new expenditures.
- In relation to the unauthorized increases in pension assessment and business license taxes, the City reduced these taxes to their appropriate rates. In addition, the inappropriate assessments for the Sanitation and Sewerage System District were returned to an appropriate level by the City.
 - Because the City rolled back property tax rates, the City refunded \$2,800,000 to more than 4,000 residents related to the inappropriate pension levy.

- Even though the City rolled back business tax rates and the Sanitation and Sewerage System District assessments, it has yet to refund excess business taxes and Sanitation and Sewerage System District assessments that were overcharged. Sanitation and Sewerage System District assessments to be refunded total \$822,000, and the business tax amount totals \$2.355 million. The City indicated that they do not have the available cash to make such refunds. There is no statute of limitations regarding the requirement to pay these refunds.
- Our prior report noted that the City issued \$50 million in general obligation bonds for Measure A without any documented plan or time frame to utilize the proceeds, nor any apparent need for the funds. The surplus funds inexplicably were deposited in a non-interest-bearing checking account. In addition, rather than depositing increased property tax proceeds in a separate Debt Service Trust Account as specified in the City's Paying Agent Agreement with the U.S. Bank National Association, the funds were deposited in the General Fund, which artificially inflated the General Fund's cash balance. The SCO's follow-up review noted that:
 - The City decided not to pursue the remaining bond projects because of significant operation and maintenance costs that the City cannot afford. In addition, the City believed that community support for these bond projects was uncertain. At this point, it appears that the City is concerned primarily with meeting debt service payments and will use all remaining bond proceeds to do so.
 - To date, the City has about \$2.5 million remaining in bond proceeds, maintained in a Wells Fargo commercial checking account. City staff have stated that these proceeds will be used to make future debt service payments.
 - A portion of the City's ad valorem taxes are collected to support debt payments. However, it is unclear whether the amount assessed is sufficient to cover these debt service payments. According to the original Paying Agent Agreement with U.S. Bank National Association, the City was to maintain a debt service account established in trust, which set aside the ad valorem tax collected for debt service payments. City staff have stated that a debt service account was established with U.S. Bank; however, on January 31, 2013, the balance was \$0. It does not appear that ad valorem taxes have been maintained in this account. Despite this requirement in the Paying Agent Agreement, we received an e-mail from U.S. Bank stating that "U.S. Bank's standard practice is not to set up accounts on our trust accounting system for general obligation bond issues for which we act solely as paying agent and registrar."

RDA Review

In its 2010 RDA review, the SCO found approximately \$500,000 of unallowable charges to the Low and Moderate Income Housing Fund and Capital Projects Fund, specifically:

- 1) The RDA used \$244,850 in tax increment revenue in its Low and Moderate Income Housing Fund to pay for administrative costs without an annual determination by the RDA governing board, as required by Health and Safety (H&S) Code section 33334.3(d). Of this amount, \$66,100 (27.00%) and \$24,856 (10.15%) respectively, were used to pay a portion of the former City Manager's and the Director of Administrative Services' compensation. There was no evidence that these officials engaged in activities specifically related to the Low and Moderate Income Housing Fund.
- 2) The RDA used another \$242,268 in the RDA's Capital Projects Fund to pay a portion of the salaries of the former City Manager, former Assistant City Manager, and the Director of Administrative Services. The charges appeared to be arbitrary and there is no evidence that these officials engaged in activities benefitting the Capital Projects Fund.
- 3) Members of the City Council received \$55.38 for every two-week pay period as a member of the RDA governing board. In addition, for three payroll periods, we found two former board members received a \$27.69 stipend even though they were no longer members of the board. The majority of the meetings—conducted as a part of the regularly scheduled general City Council meetings—lasted three minutes or less, and in some months, there was no record of an RDA meeting at all.
- 4) The RDA used its Low and Moderate Income Housing Fund for other questionable charges, including automotive charges, uniform allowances, and furniture refinishing expenses.
- 5) The RDA governing board did not adopt an annual budget for each year of the ten-year period of this review as required by H&S Code section 33606. All budgets were adopted by the City Council rather than by the RDA governing board. In addition, the RDA meeting minutes and expenses were not approved by its governing board. Instead, they were approved by the City Council members acting in their capacity as the City Council during joint meetings as the City Council and as the RDA governing board.
- 6) RDA staff members stated that they were unaware of H&S Code section 33080.1, which requires every RDA to submit an annual report to its governing board detailing its activities and the status of its projects. RDA staff did not produce such a report for any of the ten years of the review period.
- 7) The 20% set-aside deposit for the Low and Moderate Income Housing Fund was not deposited directly into that fund as required by the H&S Code section 33334.2(a). This resulted in a loss of interest earnings by that fund.

- 8) The RDA overstated the amount of outstanding debt on its statement of indebtedness, which may overstate the amount of the tax increment it is eligible to receive.
- 9) Finally, the adoption of the RDA's last five-year implementation plan is nearly a year late.

Since the issuance of our report in 2010, the RDA was dissolved as of February 1, 2012, and the City has not implemented any of the SCO's recommendations, including the reimbursement of funds to the RDA, as noted above. The SCO is scheduling an RDA Asset Transfer Review. We performed a limited follow-up on some of the issues identified above, as the findings from our previous report will be reported again and followed up on in our pending RDA Asset Transfer Review.

Gas Tax Fund Audit

In the 2010 audit, the SCO found numerous issues creating a shortage in the City's Gas Tax Fund. The SCO concluded that the City should reimburse \$663,178 to the Gas Tax Fund. The City has yet to repay this amount, and indicated that it does not have the funds to do so.

The SCO has not yet started the process to withhold the City's future state highway users tax apportionments; however, we are scheduling a special audit of the City's Gas Tax Fund, as our previous audit only covered the period of July 1, 2007, through June 30, 2010.

State and Federal Expenditures Audit

In the 2010 audit, the SCO identified that the City failed to establish contracts, which created situations where the City made overpayments that need to be reimbursed to various agencies.

The City has started to implement procurement policies and require proper contracts. In regard to the state and federal overpayments, we found:

- The City has not repaid all grants to the Department of Parks and Recreation, except for one grant in the amount of \$189,000.
- The City has not contacted the California Integrated Waste Management Board regarding questioned costs of \$99,882.
- The City has \$99,542 in questioned costs from the Los Angeles Community Development Block Grant program (LACDBG). This has not been repaid, and LACDBG is threatening to cut off funding due to the City's lack of audited financial statements.

Background

The City of Bell is located in Los Angeles County, California. According to the 2000 census, the population of Bell was 36,664, and at 2.5 square miles it is ranked 13th among the 25 geographically smallest cities in the United States with populations of at least 25,000.

City residents voted to become a charter city in a special municipal election on November 29, 2005. Fewer than 400 residents turned out for the special election. The City charter provided more autonomy to City management and exempted the City from State contracting procedures and a State law that limits council members' salaries.

The Los Angeles Times newspaper released a series of articles concerning the City of Bell in July of 2010. These articles revealed that some City administrators and council members were receiving disproportionately high salaries.

Many Bell citizens became outraged and called for the suspension of the salaries of these officials and later, the resignation of several council and staff members. On July 23, 2010, the administrative officers resigned their positions, while the Mayor and the City Council continued to govern.

On July 24, 2010, the City Council contracted with the Chief Executive Officer of a consulting firm to be the interim Chief Administrative Officer (CAO) of the City. The firm was providing other services to the City at the time.

One of the first actions taken by the newly-appointed interim CAO was to request an audit of the City. In response to this request, the SCO agreed to perform a series of audits to assess whether the City had adequate administrative and internal accounting controls to ensure proper accountability over the use of public funds and assets.

The SCO issued four reports from September through November of 2010 related to:

- Administrative and Internal Accounting Controls
- Redevelopment Agency
- Gas Tax Fund
- State and Federal Expenditures

From September of 2010 through June of 2012, the City had four interim City management teams. During this time, the City faced numerous federal, state, local, and community issues and law enforcement inquiries. These issues and inquiries took precedence and resources away from implementing and/or addressing significant issues presented by the SCO in our reports.

Since those reports were issued, a new City Council has been sworn in and the City has hired new managers. A permanent CAO was hired in June of 2012 and a permanent Finance Director was hired in October of 2012. Although the new management team has made progress in the

short time it has been in place, it still has been more than two and one-half years since the audits of the City have been conducted by the SCO.

Objectives, Scope, and Methodology

This review was performed to determine whether the City has implemented corrective actions to adequately address the findings as presented in four SCO audit reports issued in 2010.

For this report, the following procedures were performed to determine whether corrective action had been taken:

- Reviewed findings from the prior audits;
- Interviewed City staff to determine whether corrective action was taken, and if so, what action was taken;
- Performed limited tests and documented the City's resolutions of the recommendations made in the findings;
- Reviewed the City's documentation and supporting financial records; and
- On a limited basis, performed tests of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls.

Conclusion

Our review disclosed an issue not mentioned in the prior reports issued by the SCO. The City is facing significant fiscal challenges that, if left unresolved, could lead to a fiscal crisis. The City may not be able to continue to pay its current obligations and mounting legal costs from the General Fund if these issues are not resolved.

The prior SCO reports collectively contain 34 recommendations for corrective action (see Appendix 1):

- 1 recommendation has been corrected.
- 12 recommendations have had some corrective action taken but more action is needed.
- 21 recommendations have not been implemented.

Although the City has taken some corrective actions, there still are many issues and challenges the City faces, specifically:

- Its ability to pay back certain agencies, individuals, and businesses due to overbillings and charges identified in the prior audits.
- A serious cash flow issue that is pushing the City towards insolvency.
- Outstanding litigation, claims, and assessments.
- A lack of audited financial statements since FY 2009-10.
- An outdated electronic accounting system.
- Outstanding personal loans.

Views of Responsible Officials

We issued a draft report and held an exit conference on May 10, 2013. Doug Willmore, City Manager, responded by letter dated May 20, 2013 (Attachment 5) in which he understood our findings, did not disagree with any of our findings, and recognized the SCO reports as a valuable blueprint for action for the city.

In addition, Josh Betta, Director of Finance, responded by email on May 20, 2013, regarding the Gas Tax Fund Audit and the State and Federal Expenditures Audit. On these two items, we note the following:

- Mr. Betta supplied additional data to show that the City made adjustments and reallocated unsupported costs charged to the City's Gas Tax Fund. However, as this data was not made available to us during our review, we did not have an opportunity to audit it. As a result, our finding remains unchanged. We will review this information in our upcoming audit of the City's Gas Tax Fund.
- Mr. Betta supplied a copy of a review dated December 20, 2010, from the Los Angeles County Community Development Commission, of Findings 3 and 5 of the SCO's State and Federal Expenditures Audit. The SCO noticed inconsistencies between information in this review and our findings. As the SCO did not receive this information until May 20, 2013, we will follow up on these inconsistencies at a later date.

Finally, Mr. Betta responded by voice mail on May 20, 2013, regarding two issues:

- Mr. Betta indicated he currently agreed that the negative general fund cash balance of (\$1,123,019) was close for December 31, 2012.
- Mr. Betta reported that the Director of Planning Services should be referred to as the Community Services Director. The final report has been modified to reflect this change.

Restricted Use

This report is solely for the information and use of the City 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 this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

May 22, 2013

Findings and Recommendations

Administrative and Internal Accounting Controls Audit Report, Issued September 2010

**FINDING 1—
The SCO identified significant control deficiencies in virtually every aspect of the City’s fiscal functions. Under the current system, the potential for waste, fraud, abuse, and misappropriation of public funds is extremely high (see Attachment 1, pages 4-9)**

- The City Council approved raises for the Chief Administrative Officer (CAO) without any accountability for performance. The CAO continued this process by allowing disproportionately high salaries for other administrative staff.
- Public funds were used to repay the former CAO’s personal loans, and, apparently without authorization.
- Loans in the form of advances were made to members of the City Council, City officials, and City employees at the discretion of the former CAO. This constituted a gift of public funds.
- Payments were made to a contractor, who also was acting as the City’s Community Service Director. Payments continued even after the contract had expired in June 1997.
- The City purchased real property from a trust established by a former Bell mayor for \$4.8 million. However, there was no documentation available to show what the property was to be used for, how the property was selected, and cost analyses to justify the purchase amount.

**FINDING 2—
The City mismanaged its voter-approved Measure A bond funds, which resulted in its citizens absorbing unnecessary interest charges and/or lost interest incomes (see Attachment 1, pages 10-11)**

To date, the City has issued \$50 million in bonds under Measure A in two series—the first issuance of \$15 million in 2004 and the second bond issuance of \$35 million in 2007. Our review of controls and transactions related to Measure A funds identified the following concerns:

- For the first issuance, the bond proceeds were deposited in an outside account maintained with Citigroup. However, the CAO assumed the role of fiscal agent for the second issuance of \$35 million. The removal of the outside account provided the former CAO with total discretion over how bond funds were to be used.
- We could not find any plans or documentation identifying what projects were to be funded through Measure A funds, the budget for each project, milestones and time frames for completion, and periodic assessments of the status of the projects.
- The City did not establish separate accounts in accordance with its paying agent agreement with the U.S. Bank National Association, which maintains trust accounts on behalf of the bondholders. The paying agent agreement specifically requires that a Debt Service Account be held in trust solely for payment of principal and interest on bonds. Increased property tax proceeds were redeposited into the General Fund instead of into a Debt Service Fund, which inflated the General Fund cash balance. Under the former CAO’s employment agreement with the City, his salary increases were contingent on positive cash position in the City’s General Fund.

- We could not find any rationale for why the City conducted a second bond issuance of \$35 million. The total proceeds were deposited in August of 2007 in the Wells Fargo checking account. That account still had a cash balance of approximately \$23.5 million as of August 31, 2010.
- There appears to be little activity on the Bell Sports Complex which, according to various City officials, was the primary thrust of Measure A. We did not find any documentation regarding plans for completion of this project.

**FINDING 3—
The City engaged in questionable practices of raising assessment/taxes without voter approval; a significant portion of the increased assessments were used to increase compensation for two of the City’s senior management staff members (see Attachment 1, pages 12-15)**

- The City Council had no legal authority to increase the assessment of the Sanitation and Sewerage System District without voter approval. The estimated amount of charges related to the Sanitation and Sewerage System District increase for FY 2007-08 through FY 2009-10 is \$621,737.
- The total of \$1,143,618 used to fund portions of payments to the former CAO and the Assistant CAO for regular and holiday pay, and pay in lieu of vacation was inappropriately charged against four districts for FY 2007-08 through FY 2009-10.
- There may be other questionable charges against the districts funded through direct assessments. In addition to the findings regarding programs funded through direct assessments, the SCO identified questionable practices related to pension assessment and business license taxes where the City Council or city management may have inappropriately increased tax levies. These increases either increased the City’s General Fund revenues or reduced the General Fund burden to fund pension obligations, which in turn increased the amount available to fund increase in compensation of City managers and staff members. In a letter dated August 13, 2010, to the Los Angeles County Auditor–Controller, the State Controller identified this issue and requested immediate action to reduce the property tax levy that ultimately was applied toward the City’s pension obligation during FY 2010-11, and to repay the excess amounts collected in accordance with applicable statutory provisions.

- Pension Assessment

The increased rates resulted in \$2,934,144 in additional taxes over a three-year period, and reduced the City’s General Fund burden to fund pension obligations by the same amount.

- Business License Taxes

The city increased the amount for business license taxes, which includes rental business license taxes, by more than 50% for more than 1,000 business owners in the City since the 2000 calendar year. The increase was made without voter approval. In addition, there is no evidence to suggest that the City Council had approved the increases.

The following recommendations were made concerning Findings 1 through 3 in the Administrative and Internal Accounting Controls audit report.

Recommendation 1

Retain the services of an outside firm to develop new business policies, processes, and procedures as well as institute sound administrative and internal accounting controls. The current system does not have the capacity to implement needed changes with the current management structure and staff. To ensure independence, selection of the outside firm should be made using a sound request-for-proposal system and final selection should be made openly and competitively with citizen participation.

City of Bell's Corrective Action

- Recommendation not implemented. Current management has stated that the use of an outside firm has not been considered.

Recommendation 2

As an alternative to the above recommendation, the City should contact the League of California Cities and seek assistance to install a new internal control system from a panel of its peers.

City of Bell's Corrective Action

Recommendation not implemented. The city has not contacted the League of California Cities. However, they note in their response that they contacted their peer community in making interim and permanent hiring decisions.

Recommendation 3

Assess the status of the current projects funded through Measure A bond funds and develop a plan for completion that includes budgets, milestones, status, and completion date. Prior to adoption, the plan should be present to the City Council in open sessions and public input should be carefully considered. Once the plan is adopted, monthly updates of the status of implementation and costs incurred on the projects should be made to the City Council in open sessions. The services of outside contractors needed to complete the projects should be acquired through open, competitive bids.

City of Bell's Corrective Action

- Recommendation partially implemented. The City made the decision to not pursue the remaining bond projects since this would impose significant operation and maintenance costs after completion of the projects that the City cannot afford. In addition, the City believed

that community support for them was unclear. At this point, it appears that the City is mainly concerned with being able to meet debt service payments and will use all remaining bond proceeds to do so.

- To date, the City has about \$2.5 million left in bond proceeds, maintained in a Wells Fargo commercial checking account. Per discussions with City staff, the remainder of these proceeds will be used towards making future debt service payments.

Recommendation 4

Immediately refund the unallowable excess amounts of taxes (pension levy and business license) collected.

City of Bell's Corrective Action

- The City has rolled back the pension levy and business tax rates. The City has rolled back property tax rates and has refunded most amounts related to the pension levy. The Los Angeles County Auditor-Controller has indicated that the County has been able to refund \$2,800,000 to more than 4000 residents. The City currently is having trouble locating more than 1,200 residents, as their properties have been sold over the last three years.

City of Bell's Corrective Action

- Partially implemented. The City has rolled back the business tax rate to a legal and appropriate level. However, they have yet to refund business taxes in the amount of \$2.355 million. The City did not concur that these refunds needed to be made; however, even if the City agreed to refund business taxes, it does not have any available cash to make such refunds. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.

Recommendation 5

Immediately refund or offset future Sanitation and Sewerage System District assessments that were collected without voter approval.

City of Bell's Corrective Action

- The Sanitation and Sewerage System District assessments have been rolled back to their legal assessment. However, the City has yet to refund the assessments that were overcharged in the amount of \$822,000. The City did not concur that these refunds needed to be made; however, even if the City agreed, the City does not have any available cash to make such refunds. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.

Recommendation 6

Comply with its paying agent agreement with the U.S. Bank National Association by establishing separate trust accounts for Measure A funding in accordance with the provisions of the agreement.

City of Bell's Corrective Action

A portion of the City's ad valorem taxes are collected to support debt payments. However, it is unclear if the amount assessed is sufficient to cover debt service payments. According to the original Paying Agent Agreement with U.S. Bank National Association, the City was supposed to maintain a debt service account established in trust, which set aside the ad valorem tax collected for debt service payments. Per discussions with City staff, a debt service account was opened with U.S. Bank; however, at January 31, 2013, the balance is \$0. It does not appear that ad valorem taxes have been maintained in this account. According to U.S. Bank Corporate Trust Services, "U.S. Bank's standard practice is not to set up accounts on our trust accounting system for general obligation bond issues for which we act solely as paying agent and registrar."

Recommendation 7

Reverse the salary charges that were incorrectly charged to four districts and allocate the amounts to the appropriate funds.

City of Bell's Corrective Action

- Although the City has made great strides in aligning their positions with adequate pay amounts with similar positions in like kind cities they have not reversed the salaries nor reallocated the amounts to the appropriate funds.

Recommendation 8

Seek repayment as soon as legally possible on all outstanding "administrative agreement" loans as well as the \$300,000 business loan.

City of Bell's Corrective Action

The city loan program has ceased. In addition, the city hired the independent accounting firm of Macias, Gini & O'Connell, LLP (MGO) to conduct an "agreed upon procedures" review to determine the adequacy of repayment, if any, and the methodologies used in its repayment schedules. The MGO report indicated that:

- City's assertion that "administrative loans" have been paid back was inaccurate.
- There is amount of over \$757K still due.
- Some of the loan payments the city had indicated they had received could not be verified. However, MGO gave the city credit for these if city had indicated the payment had been made.

Recommendation 9

Make the Community Service Director a city employee to avoid conflicts of interest and save the city money.

City of Bell's Corrective Action

The city now employs a full-time Community Service Director and has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures.

Redevelopment Agency Review Report, Issued October 2010

**FINDING 1—
Administrative costs
charged to Low and
Moderate Incoming
Housing Fund (Fund
22) were unallowable
(see Attachment 2,
pages 4-5)**

The redevelopment agency (agency, or RDA) charged \$244,850 in salaries, 457 contributions, vacation, holiday time, and sick time for administrative purposes to the Low and Moderate Income Housing Fund for the ten-year period under review.

The agency charged various insurance costs to fund expenses such as life, health, and dental insurance. The amount allocable to the planning and administration is not readily quantifiable because there were also eligible labor charges for housing preservation co-mingled with the costs.

Recommendation

The City of Bell should refund the \$244,850 ineligible labor charged to the low and moderate income housing fund. In addition, the city should determine the amount of insurance attributable to the ineligible labor charges and refund that amount also. The agency should institute procedures to ensure that proper procedures have been followed prior to charging administration and planning to the Low and Moderate Income Housing Fund. The agency should institute procedures to ensure that only labor that benefits the Low and Moderate Income Housing Fund is charged to the fund.

City of Bell's Corrective Action

- Recommendation not implemented. No amounts were reversed and no procedures were instituted. The RDA was dissolved on February 1, 2012. The SCO currently is in the process of scheduling an asset transfer review of the RDA.

**FINDING 2—
Ineligible labor costs
charged to Fund 20 –
Capital Projects (see
Attachment 2, page 5)**

We found some of the labor charges to Capital Project Fund did not provide benefit to the fund and apparently were arbitrarily charged based on a percentage of available work hours. In addition, there is no evidence that the agency attempted to recoup overpayment from its board members. Specifically, our review identified that the former Chief Administrative Officer (CAO) and the Director of Administrative Services (DAS) charged a portion of their salary to the Agency Capital Projects Fund for five years during the review period

Members of the Bell City Council also serve as members of the Agency's governing board. It is our understanding that the governing board members may charge \$60 per month for service on the governing board. For two years of the review period, the members were receiving \$55.38 every two-week pay period.

Recommendation

We recommend the city refund \$242,268 to the Agency Capital Projects Fund as well as refund the overpayments made to the board members. We recommend that the agency determine if it is proper to charge the fund when meetings are not held or when meetings last for a very short

period of time. We recommend the agency establish procedures to ensure that benefits received by the agency are commensurate with costs incurred.

City of Bell's Corrective Action – Please refer to Finding 1

**FINDING 3—
Other charges to the
Low and Moderate
Income Housing Fund
did not serve to increase
the supply of low and
moderate housing (see
Attachment 2, page 6)**

In addition to the labor charges discussed in Finding 1, there were other charges to the Low and Moderate Income Housing Fund that did not serve to increase or preserve the supply of low and moderate income housing in the city, including a 20% county administration fee of \$101,192 and an audit services fee of \$8,486.

The County Auditor-Controller is allowed to charge a fee for services rendered in allocating property tax revenues. The agency allocated 20% of the fee charged by the county to the Low and Moderate Income Housing Fund. The fee should have been charged against the Capital Projects Fund as the Low and Moderate Income Housing Fund is restricted for specific purposes.

Recommendation

The audit fee and the 20% administration fee should be reimbursed to the Low and Moderate Income Housing Fund from the Capital Projects Fund. All other items should be refunded by the city to the Low and Moderate Income Housing Fund. The agency should establish procedures to ensure that only costs that increase or preserve the low- and moderate-income housing supply are charged to the fund. The agency should investigate the concession to Bell Housing Partners to determine if the charge increased or preserved the low and moderate income housing supply.

City of Bell's Corrective Action – Please refer to Finding 1

**FINDING 4—
The agency did not
adopt a budget during
the ten-year review
period; all budgets were
adopted by the City
Council while convened
as the City Council
rather than as the
Redevelopment Agency
Board (see Attachment
2, page 7)**

Health and Safety Code section 33606 requires every agency to adopt an annual budget.

During the review period, we could not find in the minutes of the agency's meetings that the agency had ever adopted a budget.

Recommendation

The agency should implement procedures to ensure that it passes a redevelopment agency budget in conformity with the Health and Safety Code.

City of Bell's Corrective Action – Please refer to Finding 1

FINDING 5—

There was no evidence to suggest that the agency had presented the annual report required by Health and Safety Code section 33080.1 during the ten-year period under review (see Attachment 2, page 8)

Health and Safety Code section 33080.1 requires every redevelopment agency to submit an annual report to its legislative body within six months of the end of the agency's fiscal year.

Recommendation

The agency should institute procedures to ensure that the annual report is submitted promptly and contains all information required by the Health and Safety Code.

City of Bell's Corrective Action – Please refer to Finding 1

FINDING 6—

The 20% set-aside deposit for the Low and Moderate Income Housing Fund was not deposited directly into the fund as required by the Health and Safety Code (see Attachment 2, page 8)

Recommendation

We recommend that the agency transfer 20% of the tax increment received into the Low and Moderate Income Housing Fund on the same day the tax increment is received. If the agency cannot make the transfer on the same day, then when the transfer is made, an appropriate amount of interest also should be transferred.

City of Bell's Corrective Action – Please refer to Finding 1

FINDING 7—

The agency statement of indebtedness overstated the amount of outstanding debt (see Attachment 2, page 9)

Health and Safety Code section 33675 requires every redevelopment agency that receives tax increment financing to submit a statement of indebtedness (SOI) to the county auditor by October 1 of each year.

Recommendation

The agency should revise its procedures for preparing the SOI to ensure that only the portion of the indebtedness that is not being paid from the Low and Moderate Income Housing Fund is reported.

City of Bell's Corrective Action – Please refer to Finding 1

FINDING 8—

Five-year implementation plan was not prepared in a timely manner (see Attachment 2, page 10)

Our review in this area was limited to the process for updating the current plan. The last five-year implementation plan dated December 5, 2005, covered FY 2004-05 through FY 2008-09. The next plan should have been adopted by the end of 2009. However, it is nearly a year late.

Documentation provided by the DAS indicates that the next five-year implementation plan is currently in draft form and still needs to be reviewed and approved by agency personnel.

Health and Safety Code section 33490 requires that "On or before December 31, 1994, and each five years thereafter, each agency that has adopted a redevelopment plan"

Recommendation

We recommend that the agency move expeditiously to review the plan and take all necessary actions for its approval. We recommend that the agency institute procedures to ensure that contracts entered into by or for the agency have agency review and approval.

City of Bell's Corrective Action – Please refer to Finding 1

**FINDING 9—
Meeting minutes and
agency expenses were
not approved by the
agency (see Attachment
2, page 11)**

Recommendation

We have previously noted that the agency and the city are two separate entities. As such, we recommend the City Council convene as the agency board prior to conducting agency business.

City of Bell's Corrective Action – Please refer to Finding 1

Gas Tax Audit Report, Issued October 2010

FINDING 1—

**Unsupported costs:
payment for
engineering charges
without a written
contract (see
Attachment 3, page 5)**

Recommendation

The city must reimburse \$301,810 to the Gas Tax Fund for payments for engineering services without a written contract. Additionally, the city should ensure that it has written contracts for engineering services charged to the Gas Tax Fund.

City of Bell's Corrective Action

- Recommendation partially implemented. No amounts were reversed. The city now has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures. The SCO currently is in the process of scheduling a Gas Tax Audit for the city.

FINDING 2—

**Unsupported costs:
general maintenance
charges (see
Attachment 3, page 6)**

Recommendation

The city must reimburse the Gas Tax Fund \$129,600 for costs charged in excess of general maintenance services relating to streets. Additionally, the city should ensure that only street-related costs are charged to the Gas Tax Fund.

City of Bell's Corrective Action

Recommendation not implemented. The \$129,600 was not reimbursed and no procedures were instituted. The SCO currently is in the process of scheduling a Gas Tax Audit for the city.

FINDING 3—

**Unsupported costs:
payments for street
sweeping services
without a written
contract (see
Attachment 3,
pages 6-7)**

Since January 2009, the City of Bell has been making payments for street sweeping services without a written contract. For the audit period, the ineligible amount is \$76,992.

Recommendation

The city must reimburse the Gas Tax Fund \$76,992 for payments for street sweeping services without a written contract. Additionally, the city should ensure that expired contracts are renewed and/or amended.

City of Bell's Corrective Action

- Recommendation partially implemented. The \$76,992 was not reimbursed. The city now has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures. The SCO is currently in the process of scheduling a Gas Tax Audit for the city.

**FINDING 4—
Ineligible non-street
related expenditures:
painting of house
numbers on curb
(see Attachment 3,
page 7)**

In Fiscal Year (FY) 2008-09, the city improperly charged \$7,806 to its Gas Tax Fund for painting house numbers on curbs.

Recommendation

The city must reimburse the Gas Tax Fund for non-street-related expenditures totaling \$7,806. Additionally, the city should ensure that all costs charged to the Gas Tax Fund are street-related.

City of Bell's Corrective Action

- Recommendation not implemented. The \$7,806 was not reimbursed. The city now has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures. The SCO is currently in the process of scheduling a Gas Tax Audit for the city.

**FINDING 5—
Unsupported costs:
amounts charged in
excess of contract
amount (see
Attachment 3, page 7)**

The City of Bell had a written contract with All American Asphalt in the amount of \$229,229 for a street overlay project during FY 2008-09. However, the city was billed and paid All American Asphalt \$234,107 without a change order to increase the contract amount. This resulted in an overcharge of \$4,878 to the Gas Tax Fund.

Recommendation

The city must reimburse the Gas Tax Fund \$4,878 for charges in excess of the written contract amount for the street overlay project. Additionally, the city should ensure that payments do not exceed the contract amount without an approved change-order.

City of Bell's Corrective Action

Recommendation partially implemented. The \$4,878 overcharge was not reimbursed. The city now has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures. The SCO is currently in the process of scheduling a Gas Tax Audit for the city.

**FINDING 6—
Traffic Congestion
Relief Fund (TCRF)
– shortfall in the
maintenance-of-
effort requirements
(see Attachment 3,
page 8)**

The city did not meet its TCRF maintenance-of-effort (MOE) requirements of \$278,254 for FY 2008-09. The city only had eligible TCRF MOE expenditures of \$136,162 for FY 2008-09. Therefore, the city's shortfall amount is \$142,092. The city received \$327,968 in TCRF allocations in FY 2008-09.

Recommendation

The city must meet the MOE expenditure requirement for FY 2008-09 or return the TCRF allocations received in FY 2008-09 in the amount of \$327,968. In order to meet the MOE expenditure requirement, the city

must transfer \$142,092 of discretionary funds to the Gas Tax Fund to make up for the shortfall amount. Additionally, the city should review future discretionary street-related expenditures to ensure that the MOE expenditure requirements are met.

City of Bell's Corrective Action

- Recommendation not implemented. The \$142,092 was not transferred and no review procedures were instituted. The SCO currently is in the process of scheduling a Gas Tax Audit for the city.

FINDING 7— Internal control deficiencies (see Attachment 3, page 8)

We noted significant internal control deficiencies and weaknesses related to the Gas Tax Fund and the TCRF. Internal control deficiencies and weaknesses noted were as follows:

- Potential conflict of interest—For over 12 years, the contracted city engineer has performed all street-related engineering services for the city, including major projects. No consideration has been given to other engineering firms. The lack of competition may not be cost-effective and may lead to abuse.
- There is a lack of current written contracts for street services, including engineering and street sweeping, charged to the Gas Tax Fund.
- There is a lack of internal administrative and internal accounting controls over gas tax expenditures. For example:
 - The Department of Administrative Services-Procedures Manual was not approved by the city council.
 - The requirement of a written contract and/or a purchase order for payments was not followed.
 - Invoices were paid solely with an approval signature; no matching of invoices to the supporting contracts and/or purchase order.
 - Some invoices lack sufficient detail and description for services provided.
 - The requisition process for materials and supplies was not consistently followed.
- There is a lack of monitoring discretionary street-related expenditures to ensure compliance with MOE expenditure requirements relating to the TCRF.

Recommendation

The city should immediately implement the following:

- Consider other contractors and the competitive bidding process for all street-related engineering services, especially when undertaking major projects. This will ensure competition, lower costs, and will minimize potential conflicts of interest.

- Obtain written contracts for all the street-related services it receives from outside contractors/vendors. Ensure that contracts are updated or amended when necessary.
- Improve internal administrative and internal accounting controls over gas tax expenditures by:
 - Updating the Department of Administrative Services Procedures Manual and obtaining approval by the city council.
 - When appropriate, obtaining written contracts and/or a purchase order.
 - Matching invoices against supporting contracts and/or purchase orders, prior to making payments.
 - Following the requisition process for materials and supplies.
- Establish a process for monitoring discretionary street-related expenditures to ensure compliance with MOE expenditure requirements relating to the TCRF.

City of Bell's Corrective Action

Recommendation(s) have been partially implemented. The city now has a system in place to have contracts for all new expenditures requiring them under the new procurement procedures. The SCO currently is in the process of scheduling a Gas Tax Audit for the city.

State and Federal Expenditures Audit Report, Issued November 2010

**FINDING 1—
Use of purchase
requisitions to
circumvent the
contract process (see
Attachment 4, page 8)**

We questioned \$199,528 in reported expenditures for park improvements funded under California State Department of Parks and Recreation Contract No. RZ-19-250 (Roberti-Z'Berg-Harris) and Contract No. 02-19-156. (Bond Act of 2000–Parks and Water Per Capita Grant).

We question the legality and propriety of the \$199,528 in payments to Great Western Park and Playground as they were made in violation of the city's contracting requirements and without complying with the city's competitive bid requirements.

Recommendation

The city should contact the California Department of Parks and Recreation to resolve the \$199,528 in questioned costs identified in this finding.

City of Bell's Corrective Action

With respect to findings and recommendations 1 through 3, the city has returned \$180,000 in funds. As of February 20, 2012 on request from the city, the Department of Parks and Recreation is evaluating and determining whether they will forgive the remaining amounts.

**FINDING 2—
Questionable
contracting practices
(see Attachment 4,
page 9)**

We question \$180,368 in expenditures for professional services, engineering and construction management services for the Bell Community Health and Wellness Center. These expenditures were funded under the California State Department of Parks and Recreation, 2002 Resources Bond Urban Park Act Grant (Project No. UP-19-018, Contract No. C0201054).

Decisions regarding selection of contractors appear to have been made based on retaining a certain individual rather than obtaining the best value.

Recommendation

The city should contact the California Department of Parks and Recreation to resolve the \$180,368 in questioned costs identified in this finding.

City of Bell's Corrective Action – Please refer to Finding 1

**FINDING 3—
Costs outside the
scope of the contract
(see Attachment 4,
page 10)**

We questioned \$56,854 in reported expenditures for Medina Construction. Our review of expenditures noted that Medina Construction billed for the following:

\$37,164 for Debs Park under the Bond Act of 2000—Parks and Water Per Capita Grant for removal and replacement of wrought iron gates as well as the demolition, disposal, and preparation of fitness equipment and shade coverings.

\$19,690 for services under the Community Development Block Grant (federal grant) for various repairs of residential homes under this program.

The current contract between the city and Medina Construction is for public works and general maintenance services; however, it does not provide authorization to perform the above services. In addition, we could not find documentation showing that the Bell City Council approved these services. Consequently, the city was paying these costs without any contract or authorization from the Bell City Council.

Recommendation

The city should contact the Department of Parks and Recreation and Los Angeles County to resolve the \$37,164 and \$19,690, respectively, in questioned costs identified in this finding.

City of Bell's Corrective Action – Please refer to Finding 1

**FINDING 4—
Payment for
professional services
without a contract
(see Attachment 4,
page 11)**

We questioned \$99,882 in reported expenditures for the California Integrated Waste Management Board's used oil recycling grant. The services supposedly were provided by D&J Engineering whose owner also serves as the city's Community Service Director.

City staff members could not provide any documentation to show that the services from D&J Engineering were acquired through competitive bids. The owner of D&J Engineering also serves as the city's Community Service Director. This arrangement, at least in appearance, raises the question of possible conflicts of interest.

We question the legality and propriety of the \$99,882 in payments to D&J Engineering as they were made without a valid contract and without complying with the city's competitive bid requirements.

Recommendation

The city should contact the California Integrated Waste Management Board to resolve the \$99,882 in questioned costs identified in this finding.

City of Bell's Corrective Action

Recommendation not implemented. The city has not contacted the California Integrated Waste Management Board concerning the \$99,882 in questioned costs.

**FINDING 5—
Payment for services
after contract had
expired (see
Attachment 4, page 12)**

We questioned the legality and propriety of \$99,542 in reported expenditures for the city's Graffiti Removal Program—Community Development Block Grant, which is funded through federal funds. The grant is administered by Los Angeles County.

City staff members could not provide any documentation to show that the services from Graffiti Protective Coatings, Inc. were acquired through competitive bids. Without competitive bids, there is a question of possible favoritism or other improprieties.

Recommendation

The city should contact Los Angeles County, the administrative agency over the Community Development Block Grant, to resolve the \$99,542 in questioned costs.

City of Bell's Corrective Action

Recommendation not implemented. The city has had no discussion with the Los Angeles County Community Development Block Grant program concerning the questioned costs.

**FINDING 6—
Unauthorized
purchases –
equipment servers
(see Attachment 4,
page 13)**

A review of the expenditures funded under the Community Oriented Policing Services (COPS) Technology Grant included the purchase of five computer servers, including parts and labor, amounting to \$74,285 from Relia-Tech. We could not find any purchase order or any approval from Bell City Council minutes or authorization from a city resolution for the equipment costs. The Bell City Charter allows the CAO to only authorize purchases up to \$50,000 and any purchases greater than \$50,000 needs the Bell City Council's approval.

As the city cannot provide a valid purchase authorization relating to these computer servers, we cannot ascertain that these purchases were legal and proper. Accordingly, we question \$74,285 of reported costs for federal funding under the COPS Technology Grant.

Recommendation

The City should contact U.S. Department of Justice relative to its COPS technology grant to resolve \$74,285 in questioned costs.

City of Bell's Action

Recommendation not implemented. The City has not contacted the U.S. Department of Justice about this issue.

Appendix 1

Summary of Prior Findings and Corrective Actions

No.	Recommendations	Corrective Action
	ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS AUDIT	
1	Retain the services of an outside firm to develop new business policies, processes, and procedures as well as institute sound administrative and internal accounting controls. The current system does not have the capacity to implement needed changes with the current management structure and staff. To ensure independence, selection of the outside firm should be made using a sound request-for-proposal system and final selection should be made openly and competitively with citizen participation.	No corrective action taken. Current management has stated that the use of an outside firm has not been considered
2	As an alternative to the above recommendation, the City should contact the League of California Cities and seek assistance to install a new internal control system from a panel of its peers.	The City has not contacted the League of California Cities; however, City officials note in their response that they contacted their peer community in making interim and permanent hiring decisions.
3	Assess the status of the current projects funded through Measure A bond funds and develop a plan for completion that includes budgets, milestones, status, and completion date. Prior to adoption, the plan should be presented to the City Council in open sessions, and public input should be carefully considered. Once the plan is adopted, monthly updates of the status of implementation and costs incurred on the projects should be made to the City Council in open sessions. The services of outside contractors needed to complete the projects should be acquired through open, competitive bids.	Measure A bond funds are not being considered for use. In fact, the City has recently defeased \$5,945,000 of the bond debt and tendered \$10,435,000 for cash on July 10, 2012.
4	Immediately refund the unallowable excess amounts of taxes (pension levy and business license) collected.	The City has refunded the pension levies during November 2010 in the amount of \$2.8 million. The business license tax has not been refunded. The SCO found that \$2.6 million of business license taxes currently need to be refunded. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.
5	Immediately refund or offset future Sanitation and Sewerage System District assessments that were collected without voter approval.	The Sanitation and Sewerage System District assessments have not been refunded. The SCO found that \$822,000 of Sanitation and Sewerage System District assessments need to be refunded. These over-collected taxes were assessed without voter approval and therefore, the increase was unconstitutional. As a result, these refunds will remain collectible in perpetuity.
6	Comply with its Paying Agent Agreement with the U.S. Bank National Association by establishing separate trust accounts for Measure A funding in accordance with the provisions of the agreement.	Not implemented. As of July 2012, the city maintained separate trust accounts however; the city is not depositing the taxes collected into the trust account. Prior interim city management did not begin to address this issue from September 2010 to July 2012.

No.	Recommendations	Corrective Action
7	Reverse the salary charges that were incorrectly charged to four districts and allocate the amounts to the appropriate funds.	Although the City has made strides in aligning staff positions with pay amounts for similar positions in similar cities, it has not reversed the salaries of the previous CAO, nor reallocated the amounts to the appropriate funds.
8	Seek repayment as soon as legally possible on all outstanding “administrative agreement” loans as well as for the \$300,000 business loan.	<p>The city hired the independent accounting firm of Macias, Gini, and O’Connell (MGO) to conduct an “agreed-upon procedures” review to determine the adequacy of repayment, if any, and the methodologies used in its repayment schedules.</p> <p>The firm’s results and conclusions were presented to the SCO auditors. MGO concluded that \$757,000 was still due from multiple borrowers as of March 8, 2013.</p>
9	Make the Community Service Director a City employee to avoid conflicts of interest and save the City money.	The City hired a permanent Community Development Director in August 2012.
REDEVELOPMENT AGENCY (RDA) REVIEW		
10	The City of Bell should refund \$244,850 of ineligible labor charged to the Low and Moderate Income Housing Fund. In addition, the city should determine the amount of insurance attributable to the ineligible labor charges and refund that amount also. The agency should institute procedures to ensure that proper procedures have been followed prior to charging administration and planning to the Low and Moderate Income Housing Fund. The agency should institute procedures to ensure that only labor that benefits the Low and Moderate Income Housing Fund is charged to the fund.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
11	We recommend the City refund \$242,268 to the Agency Capital Projects Fund as well as refund the overpayments made to the board members. We recommend that the agency determine if it is proper to charge the fund when meetings are not held or when meetings last for a very short period of time. We recommend the agency establish procedures to ensure that benefits received by the agency are commensurate with costs incurred.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
12	The audit fee and the 20% administration fee should be reimbursed to the Low and Moderate Income Housing Fund from the Capital Projects Fund. All other items should be refunded by the City to the Low and Moderate Income Housing Fund. The agency should establish procedures to ensure that only costs that increase or preserve the low- and moderate-income housing supply are charged to the fund. The agency should investigate the concession to Bell Housing Partners to determine if the charge increased or preserved the low and moderate income housing supply. Additionally, the Legislature may wish to consider legislative remedies to specify the permissible uses of low- and moderate-income housing funds and to clarify the consequences for misuse of those funds.	Not implemented. The SCO is currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved February 1, 2012.
13	The agency should implement procedures to ensure that it passes a redevelopment agency budget in conformity with the Health and Safety Code.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.

No.	Recommendations	Corrective Action
14	The agency should institute procedures to ensure that the annual report is submitted promptly and contains all information required by the Health and Safety Code.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
15	We recommend that the agency transfer 20% of the tax increment received into the Low and Moderate Income Housing Fund on the same day the tax increment is received. If the agency cannot make the transfer on the same day, then when the transfer is made, an appropriate amount of interest also should be transferred.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
16	The agency should revise its procedures for preparing the SOI to ensure that only the portion of the indebtedness that is not being paid from the Low and Moderate Income Housing Fund is reported.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
17	We recommend that the agency move expeditiously to review the plan and take all necessary actions for its approval. We recommend that the agency institute procedures to ensure that contracts entered into by or for the agency have agency review and approval.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
18	We have previously noted that the agency and the city are two separate entities. As such, we recommend the City Council convene as the agency board prior to conducting agency business.	Not implemented. The SCO currently is in the process of scheduling an asset transfer review of the RDA. The RDA was dissolved effective February 1, 2012.
GAS TAX FUND AUDIT		
19	The City must reimburse \$301,810 to the Gas Tax Fund for payments for engineering services without a written contract. Additionally, the city should ensure that it has written contracts for engineering services charged to the Gas Tax Fund.	Partially implemented. No amounts were reversed. The City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
20	The City must reimburse the Gas Tax Fund \$129,600 for costs charged in excess of general maintenance services relating to streets. Additionally, the city should ensure that only street-related costs are charged to the Gas Tax Fund.	Not implemented. The \$129,600 was not reimbursed and no procedures were instituted. The SCO currently is in the process of scheduling a gas tax audit for the city.
21	The City must reimburse the Gas Tax Fund \$76,992 for payments for street sweeping services without a written contract. Additionally, the city should ensure that expired contracts are renewed and/or amended.	Partially implemented. The \$76,992 was not reimbursed. The City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
22	The City must reimburse the Gas Tax Fund for non-street-related expenditures totaling \$7,806. Additionally, the city should ensure that all costs charged to the Gas Tax Fund are street-related.	Not implemented. The \$7,806 was not reimbursed. The City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
23	The city must reimburse the Gas Tax Fund \$4,878 for charges in excess of the written contract amount for the street overlay project. Additionally, the city should ensure that payments do not exceed the contract amount without an approved change-order.	Partially implemented. The \$4,878 overcharge was not reimbursed. The City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.

No.	Recommendations	Corrective Action
24	The city must meet the MOE expenditure requirement for FY 2008-09 or return the TCRF allocations received in FY 2008-09 in the amount of \$327,968. In order to meet the MOE expenditure requirement, the city must transfer \$142,092 of discretionary funds to the Gas Tax Fund to make up for the shortfall amount. Additionally, the city should review future discretionary street-related expenditures to ensure that the MOE expenditure requirements are met.	Not implemented. The \$142,092 was not transferred and no procedures were instituted. The SCO currently is in the process of scheduling a gas tax audit for the city.
25	Consider other contractors and the competitive bidding process for all street-related engineering services, especially when undertaking major projects. This will ensure competition, lower costs, and will minimize potential conflicts of interest.	Partially implemented. No procedures have been implemented; however, the City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
26	Obtain written contracts for all the street-related services it receives from outside contractors/vendors. Ensure that contracts are updated or amended when necessary.	Partially implemented. No procedures have been implemented; however, the City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
27	Improve administrative and internal accounting controls over gas tax expenditures by: Updating the Department of Administrative Services-Procedures Manual and obtaining approval by the city council. When appropriate, obtaining written contracts and/or a purchase order. Invoices should be matched against supporting contracts and/or purchase orders, prior to making payments. The requisition process for materials and supplies should be consistently followed.	Partially implemented. No procedures have been implemented; however, the City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
28	Establish a process for monitoring discretionary street-related expenditures to ensure compliance with MOE expenditure requirements relating to the TCRF.	Partially implemented. No procedures have been implemented; however, the City now has a system in place to have contracts for all new expenditures approved under the new procurement procedures. The SCO currently is in the process of scheduling a gas tax audit for the City.
STATE AND FEDERAL EXPENDITURES AUDIT		
29	The city should contact the California Department of Parks and Recreation (DPR) to resolve the \$199,528 in questioned costs identified in the findings.	The City has returned \$180,000 in funds. As of February 20, 2012, on request from the City, the DPR is determining whether to forgive the remaining amounts.
30	The City should contact the California Department of Parks and Recreation to resolve the \$180,368 in questioned costs identified in the findings.	
31	The City should contact the Department of Parks and Recreation and Los Angeles County to resolve \$37,164 and \$19,690, respectively, in questioned costs identified in the findings.	
32	The City should contact the California Integrated Waste Management Board to resolve \$99,882 in questioned costs identified in the findings.	Not implemented.
33	The City should contact Los Angeles County, the administrative agency over the Community Development Block Grant (CDBG), to resolve the \$99,542 in questioned costs identified in the findings.	The City Finance Director, stated that from October 2012 through February 2013, the City has been in contact with Los Angeles County CDBG, and there has been no discussion that questioned costs are due from the city.

No.	Recommendations	Corrective Action
34	The City should contact the U.S. Department of Justice relative to its COPS Technology Grant to resolve \$74,285 in questioned costs identified in the findings.	Not implemented.

Appendix 2

Evaluation of Elements of Internal Control

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
Management Oversight and Control (Control Environment)					
A1.Integrity and Ethical Values					
a. Are code of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards to ethical and moral behavior in existence and communicated to all city management and employees?	Such policies are non-existent and it appears that lack of communication exists. Events or transactions that occurred are as follows:	The City is improving, as detailed below:		1	
	Salaries of the City Council and management are disproportionate when compared with salaries in other cities. We noted that the average annual salary of 4 of 5 City Council members was \$97,372, while annual salaries of City Council members around the Los Angeles area average \$13,977. In addition, the City of Bell's Chief Administrative Officer's (CAO) annual salary was \$666,733 and the Assistant CAO's was \$325,180. The average salaries for the same position around the Los Angeles area are \$209,050, and \$165,277, respectively.	The City has made salaries more transparent by posting positions and pay amounts on its website. Also, a comparison of similar positions in the Los Angeles area indicates that the positions and salaries are more in line with similar cities.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
	Contracts for several vendors were missing or non-existent. For fiscal year (FY) 2008-09 and FY 2009-10, \$841,766 and \$110,000 were paid to D & J Engineering and to Urban & Associates, Inc., respectively. The contract agreement between the city and D & J Engineering expired on June 30, 1996. The folder file for Urban & Associates did not contain any contract agreement.	A review of contract files determined that the City has begun to ensure that all active vendors/contractors have an active and valid contract on file. The City is almost finished reconciling all contract files.		1	
	Some purchases of capital assets are questionable. For example, the city purchased properties from the Pete Werrlein Children's Private Annuity Trust for \$4.8 million. From the file that was provided to us, we cannot determine what business benefit will be gained by the city in purchasing these properties.	The City has stopped purchasing capital assets.	1		
	City Council members did not perform adequate review relating to budgets, purchase approvals, and employee salaries and advancements.	The new city council reviews all transactions related to budgets, salaries, and advancements. Also, the city council recently approved a thorough purchasing ordinance.	1		
	The City Council approved the Program of Service/Budget for the fiscal years commencing July 1, 2008 and ending June 30, 2011 (a revision to the five-year 2005-10 budget). However, from our inquiry, a copy of this program service budget was not provided to the City Council until three days before the City Council meeting. Normally, the City Council reviews the budget revenue estimates five months prior to the beginning of the fiscal year.	The City now has one-year budgets. The City provided the approved 2011-12 budget to the SCO and during this engagement, the City approved the 2012-13 budget.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
	The City Council was to conduct an evaluation of the performance of the CAO. There were no evaluation reports found in the CAO's personnel record.	A review of the city council minutes indicated that they are conducting management reviews and evaluations during closed-door sessions.	1		
	The CAO obtained personal loans (total amount of \$100,000) from his deferred compensation plans (457 and 4019(a)). We noted that these personal loans were paid by the city.	The personal loan program has been eliminated. An independent auditor was hired to determine whether all personal loans have been repaid properly.			1
	The City had unacceptable loan arrangements for several city employees. Several city officials and employees obtained personal loans from the City and these loans were repaid with accrued sick leave and vacation.	The independent auditor's report concluded that in excess of \$1 million had not been repaid properly. The City Finance Director brought this to the City Council to request a plan for how the City will deal with this. No determinations were made as of March 29, 2013.		1	
b. Is reasonable management attitude "Tone at the Top" established by management and communicated to City management and staff?	The former CAO had too much autonomy and no one questioned his decisions or the processes to be implemented. The CAO appoints, and may promote, demote, suspend or remove, all department heads, officers, and employees of the city except elected officers and those department heads appointed by the City Council. In addition, the CAO approved purchases ranging from \$50 to \$50,000. The CAO had two personal loans of less than \$50,000 each that were paid by the city.	The former CAO has been discharged from office.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
c. Is everyday dealing with vendors, clients, auditors and other parties based on honesty and fairness?	Several vendors and service providers who were receiving payments from the city did not have contracts, or contracts are missing or expired. For FY 2008-09 and FY 2009-10, D & J Engineering was paid a total of \$841,766 without a current contract and Urban & Associates, Inc. was paid \$110,000 without a contract included in its vendor file.	The City now requires valid, up-to-date contracts. The City is reviewing all vendor files.		1	
d. Is appropriate remedial action taken in response to non-compliance?	There were no established procedures to address non-compliance. The city staff relied on the CAO for direction regarding non-compliance.	The City is improving, however, due to such a small staff there is no compliance officer.		1	
e. Is management intervention in overriding established controls documented?	None noted.				
A2. Commitment to Competence					
a. Is management analyzing tasks relative to a particular job regarding need and extent of supervision?	The city lacks full staffing to perform its daily operations. The CAO, Assistant CAO, and the Director of Community and Social Services resigned. In addition, other city staff members were assigned to the City of Maywood to perform accounting and other administrative services for that city.	New permanent management has been installed, with a more stable culture and business atmosphere.	1		
b. Is management evaluating and determining the knowledge and skills needed to perform jobs and the employees have the required knowledge and skill to perform assigned tasks?	There was no management evaluation noted regarding employees competence during our review of personnel records. In addition, City Council should evaluate the CAO's performance as a condition for his salary increases but there were no evaluation reports found in the CAO's personnel file.	The City Council now performs evaluations of executive management. Our inquiries of staff indicate that there still are no job duty statements or performance evaluations of rank-and-file staff members.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
A3. Management and Operating Style					
a. Is management conservative in accepting risks, moves carefully, and proceeds only after careful evaluation?	City management made various decisions that appear to be unreasonable. For example, there was an issuance of a lease revenue bond for which the city is in danger of defaulting; purchase of city lots from a former mayor does not make good business sense; and increases of property taxes over the limit established by the regulation.	The City is now making more conscious and conservative decisions.	1		
b. Is personnel turn-over in key functions at an acceptable level and not excessive?	See A2a above.	See A2a above		1	
c. Is management's attitude positive towards internal control and audit function?	The City management has given consideration to the adequacy of internal control (as stated in its Procedures Manual); however, adequate separation of duties is lacking due to inadequate staffing, there were improper authorizations of transactions and activities (see A1a above), and documents and records are inadequate (see A1c). The city does not have an internal audit unit and no internal auditor. The city contracted with an independent CPA firm to complete its annual financial statements.	The City is correcting this. The culture and atmosphere is changing, and the Finance Director states that there a "normalizing of transactions," meaning that transactions are being reported, recorded, and booked on a timely basis. Job duties are being addressed so that employees have better knowledge of their roles.		1	
d. Are there frequent interactions of senior management and operation management in both formal and informal settings?	The Director of Administrative Services stated that there were no formal or informal meetings between the CAO and other city management personnel.	Weekly meetings are being conducted. Better formal and informal communications are occurring.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
e. Is management's attitude appropriate towards financial reporting and other operational reporting?	There were errors noted in the CAO's direct labor distribution report, as with other high-level management personnel of the city. The CAO allocated direct labor salaries to different fund accounts (e.g., 35% to the General Fund). However, there was no vacation and sick leave pay allocated to the General Fund for the same pay period.	The City has not addressed prior labor allocations; however, this practice has since stopped.	1		
A4. Organizational Structure					
a. Is the organization structure centralized or decentralized to facilitate flow of information?	The organization structure is centralized; however, there were no procedures established for how information was disseminated to staff and the City Council. Letters, e-mail and direct oral communication were the medium of information.	The City is still operating in this manner. No corrective action has been taken.			1
b. Are key managers' responsibilities adequately defined and communicated?	Key managers' responsibilities were defined; however, incompatible functions were performed by these managers due to inadequate staffing. Most of the time, daily operation functions were performed by "whoever is available."	The City is addressing this, however, in situations of time-critical reports, former practices resurface.		1	
c. Do managers in charge have the required knowledge, experience, and training?	Some of the managers appear to have the required knowledge to perform their primary responsibilities; however, these managers will follow orders and instructions from the CAO without question. For example, the payments of the CAO's personal loans were never questioned.	This practice no longer occurs.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
A5. Assignment of Authority and Responsibility					
a. Is proper information considered in determining the level of authority and scope of responsibility to an employee?	Proper information was considered in determining the level of authority and scope of responsibility; however, the CAO had the authority to do whatever he wanted. For example, a document needed for the CAO personal loan application was signed by the Assistant CAO. This document should have been approved by a higher authority.	This practice no longer occurs.	1		
b. Are responsibilities for decisions related to assignment of authority and responsibility?	Most of the decisions are referred to the CAO. For example, significant revision of revenue items that were included in the budget was up to the CAO. Additional engineering services between D & J Engineering were discussed with the CAO.	This practice no longer occurs.	1		
c. Are employees at the right level empowered to correct problems or implement improvements?	Processing of payroll and correction of errors were made by either the treasurer or the accounting manager. Most city staff members follow orders and instructions from the CAO.	This practice no longer occurs.	1		
d. Do job descriptions exist and contain specific references to control-related responsibilities?	Job descriptions exist and contain specific references to control-related responsibilities; however, staff members perform incompatible duties due to inadequate staffing.	No job duty statements or descriptions are available for rank-and-file employees.			1
A6. Human Resources Policies and Practices					
a. Are policies and procedures established for hiring, training, and promoting employees and management particularly in hiring and training?	The CAO is responsible for hiring, firing, and promoting city staff (see A1b. above).	The City currently has a more open and transparent hiring process, assisted by the City Council.	1		

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
b. Are employees made aware of their responsibilities and expectations of them?	Employees are made aware of their responsibilities and expectations of them during the hiring process. There was no follow-up after an employee is hired, and no evaluation report noted in the personnel files that we reviewed.	Employees do not have duty statements or evaluations. No corrective action has been taken.			1
c. Is management's response to failure to carry out assigned responsibilities appropriate?	This is the sole responsibility of the CAO. There was no documentation questioning the CAO's decisions.	CAO/City Manager no longer makes unilateral decisions.	1		
Risk Analysis					
B1. Goals and Objectives					
a. Is information relating to objectives disseminated to all city employees?	There was no documented procedure for relaying information among city staff except that employees are notified of new information either by co-workers or superiors.	Formal means of information exchanges are occurring, including weekly staff and management meetings.		1	
b. Are goals (with specific targets and deadlines) established and relate to objectives?	Staff's goals are limited to their roles and responsibilities in performing their assigned tasks. The staff's attitude is that the goals and objectives are up to management, mostly to the CAO.	Finance Director and City Manager are beginning to define roles of staff.		1	
c. Are measurement data included in the objectives?	We were not able to obtain any measurement data.	There is not enough historical data to assess with new permanent management.		1	
d. Are managers involved in establishing objectives for which they are responsible?	It appears that managers are isolated to their departmental goals and objectives.	Information is now readily available and shared throughout the organization.	1		
B2. Risk					
a. Does the risk-assessment process in place consider the extent and internal factors affecting objectives?	There was no documented assessment process relative to risk. The Risk Assessment Officer (Assistant Chief Administrative Officer) no longer works for the city. The Director of Administrative Services temporarily assumed this responsibility.	No formal risk assessment process is being conducted. No corrective action has been taken.			1

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
b. Does the risk assessment process include estimated significance of risks, assessing likelihood of occurrence, and determining the needed actions to prevent risks?	Staff members were neither concerned nor did they have a clear understanding of the relevance of risk assessment. We were not able to obtain any documentation in support of a risk assessment.	The organization has no clear understanding of a risk assessment or the process by which to conduct one. No corrective action has been taken.			1
c. Is management considering the risks related to Human Resources, budgeting, labor relations, and Information Systems?	There was no documentation, and staff members and management stated that they were not involved in risk assessment.	The organization has no clear understanding of a risk assessment or the process by which to conduct one. No corrective action has been taken.			1
B3. Managing Change					
a. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives?	There was no documentation—written or verbal—relative to addressing routine events or acts that may affect objectives.	There is no formal documentation in place. No corrective action has been taken.			1
b. Are there mechanisms in place to identify and react to changes that can have dramatic and pervasive effect on the City?	No. The CAO will address all changes and will make recommendations to the City Council for approval.	The new permanent City Manager and Finance Director now work with City Council to obtain proper approvals.	1		
Control Activities					
C1. Management Reviews					
a. Controls are performed and checked for reasonableness, allowability and validity of transactions?	It appears that some controls are performed and checked for reasonableness, allowability, and validity of transactions; however, there were unreasonable and unallowable transactions that were processed. For example, personal loans by the CAO were paid through the city's accounting system.	This practice no longer occurs.	1		
b. Are controlled items counted check periodically?	Records were kept for some controlled items; however, these records were incomplete.	No records maintained, or are there counts of controlled items.			1

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
c. Does management compare different sets of data and investigate variances?	Variances relating to staff payroll records were investigated and corrected. We did not note if management performs these comparisons on other areas of the accounting transaction cycles.	Currently doing comparisons with cash/bank reconciliations.		1	
d. Are duties properly segregated?	See A2b above.	See A2b above.		1	
Information and Communication					
D1. Information					
a. Are mechanisms in place to obtain relevant information on program, legislative or regulatory developments, budget, or economic changes?	Information relative to some programs and budgets was not available and information regarding legislative or regulatory development or economic changes is not in place to readily access information. No staff or management are assigned to perform such functions.	In process with new management		1	
b. Have long range information technology plans been developed and linked with strategic initiatives?	None noted.	Corrected. In our discussions with management, we were able to confirm that the City is in negotiation with firms to implement a new accounting system and to implement current technology.	1		
D2. Communications					
a. Are communications channeled to people to report suspected act, permits anonymity, and feedbacks are provided?	We were not able to obtain any documentation.	No corrective action has been taken.			1
b. Does adequate communication exist across the organization? Is information complete, timely, and sufficient?	We were unable to document communication flowing from management to staff and staff to management.	In our discussions with staff and our observations of staff meetings, we confirmed that communication is now flowing between management and staff.	1		
c. Are feedback mechanism for external parties (suggestions, input, complaints) directed to relevant internal parties?	From our observation and inquiry, all complaints and suggestions were taken at the office counter.	Corrected. All suggestions are now properly forwarded.	1		
d. Is top management aware of the nature and volume of complaints?	A complaint log is not maintained.	No complaint log is maintained and complaints are not forwarded to executive management. No corrective action has been taken.			1

Deficiency Noted in this Area of Internal Control	Prior Internal Control Deficiency	City's Corrective Action	Corrected	Being Addressed but not Fully Corrected	No Action
Monitoring					
E1. Ongoing Monitoring					
a. Are operation personnel required to "sign off" on the accuracy of their unit's records?	Staff will perform their assigned tasks, but a procedure to confirm the accuracy of their work is not in place.	No control implemented. No corrective action has been taken.			1
b. Are communications from outside parties and monthly statements of accounts payable used as control monitoring technique?	The accounts payable clerk or supervisor does not use communication from external parties to monitor technique.	No control implemented. No corrective action has been taken.			1
c. Are employees' suggestions communicated and acted on as appropriate?	There were no formal processes of addressing employee or external parties' suggestions.	Weekly meetings are now performed, and employees are encouraged to suggest changes.	1		
d. Does a policy exist to adopt an Incompatible Activities Statement of Conduct?	There is a policy statement in the City procedural manual; however, the City was inadequately staffed to separate incompatible duties.	No corrective action has been taken.			1
E2. Separate Evaluation					
a. Do employees with appropriate skills evaluate portions of the internal control?	The staff and management did not evaluate internal controls.	The organization does not evaluate internal controls. No corrective action has been taken.			1
b. Do city staff members gain sufficient understanding of internal controls?	No internal control reviews employed by the city with the exception of the annual financial audits.	No controls implemented. No corrective action has been taken.			1
c. Are policy manuals, organization charts, and operational instructions available for review?	Only the City Bell procedures manual, City Charter Provision, and City Ordinance.	No new documented policies and procedures. City still maintains 2007 operations manual.			
E3. Reporting Deficiencies					1
a. Are means of obtaining reports of deficiencies from both internal and external sources exist?	A report of deficiencies is not maintained.	A report of deficiencies is now maintained for annual financial audits.	1		
b. Is there ongoing monitoring of internal controls?	Although procedures for monitoring internal control is stated in the procedures manual, monitoring of internal control has not been performed by city staff.	No corrective action has been taken.			1
			25	13	19

**Attachment 1—
Administrative and Internal Accounting Controls
Audit Report, dated September 22, 2010**

CITY OF BELL

Audit Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

July 1, 2008, through June 30, 2010



JOHN CHIANG
California State Controller

September 2010



JOHN CHIANG
California State Controller

September 22, 2010

Pedro Carrillo
Interim City Administrator
City of Bell
6330 Pine Avenue
Bell, CA 90201

Dear Mr. Carrillo:

Enclosed is the report of the State Controller's Office audit of the City of Bell's administrative and internal accounting controls system. The audit was conducted at your request for an assessment of the adequacy of the city's controls to safeguard public assets and to ensure proper use of public funds.

Our audit found that, because the control deficiencies were so serious and pervasive, the City of Bell's internal control system was virtually non-existent. All of the city's financial activities and transactions evolved around one individual—the former Chief Administrative Officer (CAO)—who for all intents and purposes had complete control and discretion over how city funds were to be used. There is no evidence of any oversight by members of the Bell City Council, most of whom received additional compensation and/or loans as a result of actions authorized by the CAO. Under this environment, the potential for waste, fraud, abuse, and misappropriation of public funds is extremely high.

Based on a review of a very limited sample of transactions, we identified the following conditions that suggest possible intentional abuse and misuse of city funds (Finding 1):

- The Bell City Council approved exorbitant salary and benefits for the former CAO without any accountability for performance. The former CAO continued this process by allowing enormous salaries for other chief administrative staff.
- More than \$93,000 in city funds was used to repay the former CAO's personal loans, apparently without any authorization or justification of public benefit, which constitutes a gift of public funds.
- Approximately \$1.5 million in loans were made to members of the Bell City Council, city officials, and city employees at the sole discretion of the former CAO and without any justification of public benefit, which again constitutes a gift of public funds.

- Payments were made to a contractor, who was also acting as the city's "Director of Planning Services." Payments continued even after the contract had expired in June 1997. The contractor also charged the city a 10% administrative fee (profit) for any subcontractor he hired, which raised questions about conflict-of-interest with his role of the Director of Planning Services. Total payment to two firms owned by the contractor was in excess of \$10.4 million from January 1995 through June 2010. In effect, the Director oversaw many subcontractors of the city, each garnering him a 10% administrative fee (profit).
- The city in May 2009 purchased real property for \$4.8 million from a trust established by a former Bell mayor who paid \$480,000 for it in 1981. There was no documentation available to show what the property was to be used for, how the property was selected, and cost analyses to justify the purchase amount. The store on the acquired site has been vacated and there has not been any activity on this site.

In addition, we found the city mismanaged its voter-approved Measure A bond funds (Finding 2) as follows:

- The city issued \$50 million in general obligation bonds for Measure A without any documented plan and timeframe to utilize the proceeds and apparent need for the funds.
- The 2007 series of bond proceeds of \$35 million had the former CAO assume the role of fiscal agent. As such he had total control and discretion over how bond funds were to be used. As of August 31, 2010, approximately \$11.5 million of the \$35 million had been spent. Given the questionable practices of the former CAO identified in other sections of this report, the risk for improper use of bond funds is very high.
- The amount of 2007 series of bond issuance (\$35 million) was far in excess of the amount that was needed and thus unnecessarily increased the city's costs of borrowing. In addition, the surplus funds inexplicably were deposited in a non-interest-bearing checking account which, assuming an interest factor of 2% per annum, resulted in interest losses of approximately \$1.7 million as of August 31, 2010.
- Rather than depositing increased property tax proceeds in a separate Debt Service Trust Account as specified in the city's paying agent agreement with the U.S. Bank National Association, the funds were deposited in the General Fund, which artificially inflated the General Fund cash balance. Under the former CAO's employment agreement with the city, his salary increases were contingent on a positive cash position in the General Fund. Again, at least in appearance, this practice could be self-serving.

We also found the Bell City Council exceeded its authority in increasing assessments and taxes without voter approval (Finding 3). Specifically, we found that:

- The Bell City Council improperly increased the assessment of the Sanitation and Sewerage System District without voter approval. The estimated amount of overcharge is \$621,737 for FY 2007-08 through FY 2009-10.

- The city improperly used \$1,143,618 in funds from four assessment districts (Sanitation and Sewerage System, Refuse Collection, Recycling and Integrated Waste Management, and Landscape and Lighting) to pay for portions of payments to the former CAO and the Assistant CAO for regular and holiday pay, and pay in lieu of vacation. The California Constitution stipulates that charges against assessment districts must be directly related to services provided to the districts.
- Other unauthorized increases in pension assessment and business license taxes have had the effect of reducing General Fund pension obligations or enhancing General Fund revenues, which in turn provided greater flexibility to increase compensation. At least in appearance, this raised the question of whether the decisions to increase assessments and taxes were motivated by personal gain considerations. The amount of the unallowable pension assessment is \$2,934,144 for FY 2007-08 through FY 2009-10. The estimated overcharge to the business license taxes is \$2,105,441 for calendar years 2000 through 2010.

We recommend the City of Bell takes immediate action to institute a system of business policies, processes and procedures that will provide proper checks and balances over public assets and public funds. The city should take other measures to refund unallowable excess amounts of assessments and taxes collected and, to the extent possible, recoup any inappropriate payments or loans. Furthermore, the Director of Planning Services should be a city employee to avoid conflict of interest and save the city money. In addition, as certain matters disclosed in this report suggest possible intentional misuse of public funds that may involve collusive practices, we will provide copies of this report to all appropriate law enforcement agencies for consideration of additional investigation and possible legal action.

The above findings were discussed with the City of Bell management during an audit exit conference on September 16, 2010. In its response, included as Attachment E of this report, the city did not dispute any of the findings contained in this report but offered legal theories suggesting that at least some of the increases in the Sanitation and Sewerage assessments and business license taxes were justifiable and that these matters require further legal review. These are legal issues that the city ultimately must address with the citizens or the businesses that paid the higher assessments and taxes.

If you have any questions, please contact Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

cc: The Honorable Edmund G. Brown, California Attorney General
The Honorable Steve Cooley, Los Angeles County District Attorney
Andre Birotte Jr., U.S. Attorney, Central District of California

Contents

Audit Report

Introduction	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	3
Findings and Recommendations	4
Appendix 1—Evaluation of Elements of Internal Control.....	17
Appendix 2—Summary of Annual Compensation	24
Appendix 3—Uses of General Obligation Bond—Measure A (2003 Election) Proceeds ..	27
Attachment A—Controller Chiang’s Letter to Wendy Watanabe Dated August 13, 2010, Regarding Pension Assessment Fund	
Attachment B—Jeffrey V. Brownfield’s Letter to James M. Casso Dated September 14, 2010, Regarding the Sanitation and Sewerage System District Assessment Fund	
Attachment C—Controller Chiang’s Letter to Pedro Carrillo Dated September 15, 2010, Regarding Business License Taxes	
Attachment D—Copy of Administrative Agreement	
Attachment E—City’s Response to Draft Audit Report	
Attachment F—SCO’s Comments	

Audit Report

Introduction

The State Controller's Office (SCO) audited the City of Bell's system of administrative and internal accounting controls for the period of July 1, 2008, through June 30, 2010. On July 28, 2010, the newly appointed interim Chief Administrative Officer (CAO) of the City of Bell made a request with the State Controller to perform an audit of the city to address numerous disclosures made in the news media suggesting possible misuse of public funds by senior management staff. In response, the State Controller agreed to perform an audit of the city's system of internal controls, property and business license tax revenues, and state and federal funding.

This report presents the results of findings and conclusions reached in the SCO audit of the city's administrative and internal accounting controls system.

Separate reports will be issued for our audits of the Special Gas Tax Street Improvement Fund, City of Bell's Redevelopment Agency, and other state and federal funding at a later date. In addition, we have issued letters concerning the City of Bell's Pension Assessment Fund (Attachment A), the Sanitation and Sewerage System District Assessment Fund (Attachment B), and the Business License Taxes (Attachment C).

Background

The City of Bell is located in Los Angeles County, California. The population was 36,664 in the 2000 census; at 2.5 square miles, it is 13th among the 25 geographically smallest cities in the United States with population of at least 25,000.

City residents voted to become a charter city in a special municipal election on November 29, 2005. Fewer than 400 residents, representing approximately 1.1% of the city's total population turned out for the special election. The charter provided more autonomy to city management and exempted the city from needing to follow state contracting procedures or complying with a state law that limits council members' salaries.

The Los Angeles Times was the first to break a story of the City of Bell in July 2010. A series of articles revealed that some City of Bell administrators and council members were receiving disproportionately high salaries.

Many Bell citizens became outraged and called for the suspension of the salaries of these officials and later the resignation of several council and staff members. On July 23, 2010, the administrative officers resigned their positions with the city, while the Mayor and the City Council continued to govern the city.

On July 24, 2010, the City Council hired (contracted) the Chief Executive Officer (CEO) of a consulting firm the city was paying for other services to be the interim CAO of the city.

One of the first actions taken by the newly-appointed interim CAO was to request an audit of the City of Bell. In response to this request, the SCO agreed to perform an audit to assess whether the city has had adequate administrative and internal accounting controls to ensure proper accountability over use of public funds and assets.

Objectives, Scope, and Methodology

The objective of this performance audit was to evaluate the City of Bell's system of administrative and internal accounting controls to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguard of public resources.

During our audit, we became aware of poorly designed and ineffective controls. Although the scope of our internal control review was city-wide, our audit focused on areas that we believed to have the greatest risk to city operations. These areas included budgets, payroll, expenditures, contracting, property and business license tax revenues, and the city's general obligation bonds.

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

- Evaluated the city's formal written internal policies and procedures.
- Reviewed the independent auditor's working papers for the audit of the city's financial statements for Fiscal Year (FY) 2007-08 and FY 2008-09.
- Conducted interviews with city employees and observed the city's business operations for the purpose of evaluating city-wide administrative and internal accounting controls.
- Reviewed the city's documentation and supporting financial records.
- On a limited basis, performed test of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

We found the City of Bell's administrative and internal accounting control system to be, in effect, non-existent as all financial activities and transactions evolved around one individual—the former Chief Administrative Officer (CAO)—who apparently had complete control and discretion over how city funds were to be used. Evidence suggests that the former CAO used public funds for personal gains. Members of the City Council, most of whom received additional compensation and/or loans as a result of action authorized by the former CAO, have never questioned or rejected any of the former CAO's requests or proposals. Under this environment, the potential for waste, fraud, abuse, and misappropriation of public funds is extremely high.

We also found the city, under the direction of the former CAO, mismanaged its voter-approved Measure A bond funds, which resulted in its citizens absorbing millions of dollars in unnecessary interest charges or losses in interest income.

In addition, we found the Bell City Council approved increased assessments/taxes without voter approval. A significant portion of the increased assessments/taxes was used to increase the compensation of two of the city's senior management staff members.

**Views of
Responsible
Officials**

The SCO conducted an exit conference on September 16, 2010, at which a draft report dated September 16, 2010, was presented. The auditee was informed that any responses should be made by September 20, 2010, at 5:00 p.m. Pedro Carrillo, Interim Chief Administrative Officer of the City of Bell, e-mailed a response on September 20, 2010, that failed to specifically agree or disagree on Finding 1 and Finding 2, and gave comments to parts of Finding 3 (see Attachment E).

The SCO has made specific comments in regards to the issues commented on by the city (see Attachment F).

Restricted Use

This report is solely for the information and use of the City of Bell 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 this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

September 22, 2010

Findings and Recommendations

FINDING 1—
The SCO identified significant control deficiencies in virtually every aspect of the city's fiscal functions. Under the current system, the potential for waste, fraud, abuse, and misappropriation of public funds is extremely high.

The State Controller's Office (SCO) made an assessment of the city's fiscal functions using standards adopted by the American Institute of Certified Public Accountants and the auditing profession that prescribe essential elements for a sound administrative and internal accounting controls system. In general, internal control encompasses a system of checks and balances designed to safeguard the entity's assets and to reduce the possibilities of intentional and/or unintentional errors. Examples of internal control include sound policies and procedures, a system of authorization and approval, clearly defined responsibilities, and separation of duties in relation to operations and custody of assets.

The results of our internal control assessment are presented in a matrix as Appendix 1 of this report. In essence, we found the city's system of internal control to be non-existent as all financial activities and transactions evolved around one individual, the former Chief Administrative Officer (CAO), who had complete control and discretion over how city funds were used. For example, the former CAO could approve any purchase transaction of \$50,000 or less, and transactions of more than \$50,000 were to be reviewed and approved by the members of the Bell City Council, most of whom received additional compensation and/or loans as a result of actions authorized by the former CAO. A review of the Bell City Council meeting minutes found all of the requests were approved by the City Council members with little or no question or deliberation. As disclosed in later parts of this finding, evidence suggests that the former CAO may have used public funds for personal gain. Under an environment of weak controls and questionable ethics, the potential for waste, fraud, abuse, and misappropriation of public funds is extremely high.

As a part of our assessment, we selected a limited number of transactions to validate and test the effectiveness of internal controls. Our review identified a number of instances where questions exist as to whether payments for goods or services were necessary, reasonable, and legal. It is highly probable that the conditions identified in our limited sample are pervasive throughout the city's system. Specifically, we identified the following conditions:

- **The Bell City Council approved raises for the CAO without any accountability for performance. The CAO continued this process by allowing enormous salaries for other top administrative staff.**

Our audit disclosed that the City Council minutes did not contain any detailed discussion or fiscal analysis of the CAO salary increases as the CAO's salary and compensation package continued to grow after his hiring. In 1993, his salary was \$72,000 per year and by the time he resigned in 2010, his employment contract, effective July 1, 2010, had his salary top out at \$787,000 per year. In addition, we could not determine any accountability for his performance. Many of his employment contracts required annual performance evaluations; however, our audit did not disclose any such evaluations.

In addition, our audit disclosed that the CAO authorized disproportionate salary and benefit package increases for top city administrators. The City Charter allows the CAO to appoint, promote, demote, suspend or remove, all department heads, officers and employees, except elected officials and those department heads, officers and employees the power to whose appointment is vested by the City Charter. Our audit did not disclose any annual performance evaluations as required by many of these employment contracts or any detailed discussion or fiscal analysis of compensation increases in the City Council minutes or personnel files.

The result was a significant increase in payroll for top city administrators. By FY 2009-10, the city expended \$2,391,544 in salaries and \$3,385,783 in compensation for six top city administrators, City Council members, and the mayor (see Appendix 2 for a list of staff members and their salary and compensation).

- **Public funds were used to repay the former CAO's personal loans, apparently without authorization.**

For the pay periods ended July 6, 2008, and August 16, 2009, the city's payroll registers indicated that the former CAO's earnings included "Miscellaneous" items in the amounts of \$47,563.09 and \$45,877.47, respectively. The same payroll registers also contained "Miscellaneous" deductions for the same amounts. Further inquiry disclosed that the former CAO, on April 2, 2004, borrowed \$50,000 each from his 401(a) and 457 retirement savings accounts at an interest rate of 6.875% and 5.8512%, respectively, per annum. Repayment of both loans commenced on May 2, 2004, and was to end on March 12, 2034.

Upon further review, our audit noted the city repaid the two loans on behalf of the former CAO by wire-transferring \$47,875.59 from its payroll account to the ICMA Retirement Corp. on July 14, 2008, and another \$45,877.47 on August 12, 2009. We reviewed the former CAO's employment contract which did not contain any provision authorizing repayment of his personal loans. The Bell City Council's meeting minutes did not contain any entry suggesting that the City Council authorized the repayments or even knew about them. None of the city's administrative or personnel staff could provide any explanation or documentation as to who authorized the repayments. The rationale and basis for the transactions according to the City Treasurer, "was to pay for the CAO's shortage of contribution to his retirement plans."

The above transactions demonstrate the severity of the internal control deficiencies as transactions of this nature and these amounts could be carried out without full justification and documentation. For instance, for Fiscal Year (FY) 2007-08 through FY 2009-10, total compensation of the former CAO increased significantly, in part through the above transactions and other practices (such as payment-in-lieu of vacation and sick leave and contributions to deferred compensation funds) authorized by the City Council through the CAO's employment contract.

The vacation and sick leave buyback practices were extended to other city officials and employees. For FY 2008-09 and FY 2009-10, the city paid a total of \$529,433 in sick leave buybacks and \$1,245,072.45 in vacation buybacks to its officials and employees. Appendix 2 provides a schedule of the compensation (excluding fringe benefits) of the former CAO, the City Council members, and some senior staff members that included sick leave and vacation buybacks.

- **Loans in the form of advances were made to members of the Bell City Council, city officials, and city employees at the discretion of the former CAO. This constituted a gift of public funds.**

The city made loans to City Council members, senior staff members, and employees totaling approximately \$1.5 million from November 2002 through March 2010. In addition, the city loaned another \$300,000 to a business owner in the city. The employee loan amounts ranged from \$1,000 to \$130,000, with senior management staff members receiving the most significant amounts. Four officials—the Assistant CAO, the Director of Administrative Services, the Director of Community Services, and a Deputy Chief of Police—collectively received more than \$690,000 in loans from the city. In addition, three City Council members each received \$20,000 in loans.

We noted that this practice first began in March 2002 when the city executed an addendum to the employment agreement of the former CAO to provide for a loan of \$80,000 to be repaid through his future vacation and sick leave earnings. The addendum language was used as a model for an “administrative agreement” (see Attachment D for an example) between the city and the employees, requiring repayment within a specified period at an interest rate tied to the Local Agency Investment Fund, which as of September 3, 2010, was 0.531%. Our current audit has identified the following concerns:

- There was no ordinance or written policy authorizing this loan practice or prescribing circumstances under which such loans could be authorized. When interviewed, city officials and employees informed the auditors that the loans were made at the sole discretion of the former CAO. This leads to questions about possible favoritism by the former CAO and conflict-of-interest by those individuals (including members of the City Council) who received the loans.
- These loans had no public benefit. As such, they are a gift of public funds. The California Constitution, Article XVI, section 6, prohibits any public agency from making any gift or loan of public money or thing of value to, among other things, any individual. In determining whether there has been an illegal gift of public funds in violation of the Constitution, the primary question is whether funds are used for a “public purpose.” The loans appear to be made for private, rather than public, purposes, and therefore are a gift of public funds.

- The loan amounts apparently were also determined at the sole discretion of the former CAO in absence of policy or guidelines. When interviewed, some city officials and employees stated that they believed the loans were to be based on the employees' accrued vacation and sick leave balances. However, as part-time elected officials, City Council members do not accrue any vacation or sick leave benefits.
- The "administrative agreements" were in actuality contracts, which, according to the city ordinance, require Bell City Council approval if the amount exceeds \$50,000. There is no evidence that the City Council approved any of the loans.
- A \$300,000 loan to a business entity in the city apparently was made without any knowledge or consent of the City Council. The loan currently is in default, which raises questions as to whether it constitutes gift of public funds.
- **Payments were made to a contractor, who was also acting as the city's Director of Planning Services. Payments continued even after the contract had expired in June 1997.**

In April 1995, the city contracted with D & J Engineering to "provide engineering services for the development of the plans and specifications for the Curb, Gutter and Sidewalk Improvement Project." The owner of the engineering firm was listed in the city's latest five-year budget plan as the "Director of Planning Services." This individual is not on the city's payroll but has been paid a monthly retainer to perform this role through the contract with the city. In addition, this individual also owns TD Urban Planners which also had a contract with the city.

Under the contract, D & J Engineering was to be paid for the following services:

- Cost of services on a time-and-materials basis not exceeding \$24,500 without prior authorization.
- Direct out-of-pocket expenses as included in the bid proposal based on hourly rates that range from \$35 to \$105 per hour. In addition, the contractor was to be reimbursed at cost plus 10% overhead of prints, research material, and other incidental expenses. It is our understanding D & J Engineering in reality used this 10% above the invoice amount to pay for a subcontractor retained by the firm to work on city projects.

According to its payment history, the city paid D & J Engineering a total of \$10,002,902.97 from January 3, 1995, through June 29, 2010. In addition, the city paid \$430,605.82 to TD Urban Planners from December 5, 2006, through June 28, 2010.

Our audit identified the following concerns:

- The most current D & J Engineering contract on file with the city expired on June 30, 1997. City officials told the auditors they were not aware of any contract extensions or amendments beyond that date. We also inquired with the Director of Planning Services who stated that he was unaware that the contract had expired and that he would see if he has a current contract. To date, he has yet to provide the auditors with a current contract. Unless a current contract is in effect, the city did not have the legal authority to pay for invoices after the contract had expired. Moreover, the relevance and necessity of the scope of work identified in a contract executed more than ten years ago is highly questionable.
- All of the D & J Engineering's invoices we reviewed show they were either approved by the former CAO or by the Assistant CAO on behalf of the former CAO. The invoices do not appear to contain sufficient details for meaningful reviews. For example, each invoice contained billing of \$10,000 for services to the Planning Department and \$10,000 for the Building and Safety Department without identifying what services had been performed. The more than \$10 million in payments made to firms owned by the Director of Planning Services show a high risk for abuse.
- The City Planner should have been acting as an independent city official in overseeing these contracts. However, because he was actually receiving his pay as part of one of the contracts, his independence was compromised.
- **The City of Bell purchased real property from a trust established by a former Bell mayor for \$4.8 million. However, there was no documentation available to show what the property was to be used for, how the property was selected, and cost analyses to justify the purchase amount.**

In May 2009, the city purchased a property located within the City of Bell for \$4.8 million that was owned by a trust established by a former mayor of the city who purchased it for \$480,000 in 1981. According to the purchase agreement, the Bell City Council, acting as the Bell Community Redevelopment Agency made a \$200,000 down payment and the trust financed the remaining \$4.6 million at an annual interest rate of 6% for 15 years at \$38,817.41 in monthly installment payments.

We have reviewed the project file and found inadequate information or documentation for a transaction of this magnitude. For example, the project file contains no documentation regarding what the property was to be used for, how many properties were considered, and how this particular property was selected. The project file includes only one appraisal report. That report shows the property was appraised at \$4.8 million. However, in absence of other cost analyses, the one appraisal report by itself does not appear to be sufficient to justify a transaction of this magnitude.

Most discussions about this purchase occurred during closed sessions of the Bell City Council meeting as the Bell Community Redevelopment Agency. Therefore, we have no basis upon which to assess the necessity or reasonableness of this property acquisition. However, the store on the acquired site has been vacated and there has not been any activity on this site. This matter merits further scrutiny which is beyond the scope of an internal control audit.

**FINDING 2—
*The city mismanaged its
voter-approved
Measure A bond funds,
which resulted in its
citizens absorbing
unnecessary interest
charges and/or lost
interest incomes.***

In the November 2003 election, the voters of the City of Bell approved Measure A, authorizing issuance of \$70 million in general obligation bonds. According to the ballot measure, the fund was to be used to “develop the Bell Sports Complex to include a gymnasium for indoor soccer, basketball, cheerleading and the baseball facility; expand the Bell Community center and other parks, recreational and cultural facilities; construct a new full service Bell Community Library, Performing Arts Theatre, public safety and civic facilities.”

To date, the city has issued \$50 million in bonds under Measure A in two series—the first issuance of \$15 million in 2004 and the second bond issuance of \$35 million in 2007. Approximately \$27 million of the bond proceeds had been spent as of August 31, 2010, and approximately \$23.5 million is currently on deposit in a non-interest bearing commercial checking account at Wells Fargo Bank. In addition, approximately \$5.0 million of the \$27 million was used to pay interest on the bonds. Appendix 3 provides a schedule of expenditures incurred as of August 31, 2010, on the various projects. Our review of controls and transactions related to Measure A funds identified the following concerns:

- For the first issuance, the bond proceeds were deposited in an outside account maintained with Citigroup. Thus, expenditures were—at least on a cursory level—subjected to an outside review before they were reimbursed. However, the CAO assumed the role of fiscal agent for the second issuance of \$35 million. The removal of the outside account provided the former CAO with total discretion over how bond funds were to be used. The Director of Administrative Services authorized purchase requisitions for reimbursement of project expenditures from Measure A funds. When questioned, the Director of Administrative Services told the auditors that she had a limited role with bond expenditures as the former CAO “controlled everything.”
- We could not find any plans or documentation identifying what projects were to be funded through Measure A funds, the budget for each project, milestones and timeframes for completion, and periodic assessments of the status of the projects. The election authorizing the bond measure was held in November 2003. However, our review of the City Council meeting minutes noted that the first time the possibility of putting this measure before the public was not discussed until a meeting in June 2003. As a result, there has been little discussion or deliberation of project priorities before or after the election, and funding decisions essentially were deferred to the former CAO who also acted as the fiscal agent for the second issuance of \$35 million in 2007.
- The city did not establish separate accounts in accordance with its paying agent agreement with the U.S. Bank National Association, which maintains trust accounts on behalf of the bondholders. The paying agent agreement specifically requires a Debt Service Account held in trust solely for payment of principal and interest on bonds. The city did not increase property taxes to pay for bond indebtedness until FY 2009-10, but the increased property tax proceeds were deposited in the General Fund instead of a Debt Service Fund, which

inflated the General Fund cash balance. Under the former CAO's employment agreement with the city, his salary increases were contingent on positive cash position in the city's General Fund.

- We could not find the rationale why the city issued a second bond issuance of \$35 million. The total proceeds were deposited in August 2007 in the Wells Fargo checking account. That account still had a cash balance of approximately \$23.5 million as of August 31, 2010. Of the \$11.5 million expended for the 2007 issuance, approximately \$5 million was spent on bond interest, with only \$6.5 million spent on projects. The issuance of bonds exceeding the amount actually needed resulted in the citizens of the city incurring unnecessary interest expenses at approximately 5% annually. The city could have mitigated the interest expenses to some extent by depositing the funds in an interest-bearing account, which is a customary practice for handling bond proceeds. Inexplicably, the \$35 million was deposited in a non-interest-bearing account which resulted in losses of interest income. Assuming an interest factor of 2% per annum, the interest losses would be approximately \$1.7 million as of August 31, 2010.
- There appears to be little activity on the Bell Sports Complex which, according to various city officials, was the primary thrust of Measure A. In six years, it is unclear what has been accomplished except for acquiring a site that consists of a dirt lot with a masonry wall around it and a water pumping station in the middle. We did not find any documentation regarding plans for completion of this project.

FINDING 3—
The city engaged in questionable practices of raising assessments/taxes without voter approval; a significant portion of the increased assessments were used to increase compensation for two of the city's senior management staff members.

The SCO found that the Bell City Council exceeded its legal authority in increasing the direct assessment for the Sanitation and Sewerage System District without obtaining voter approval. A portion of the assessments, along with proceeds from other increases in assessments that the Bell City Council has the legal authority to impose, was used to significantly increase the compensation of the former CAO and the Assistant CAO.

In 2007, the Bell City Council adopted a series of resolutions that, in total, nearly doubled the assessments for the Sanitation and Sewerage System District, the Refuse Collection District, the Recycling and Integrated Waste Management District, and the Landscape and Lighting District starting in Fiscal Year (FY) 2007-08. The increase in rates cumulatively resulted in approximately \$4,742,340—from a total of \$4,957,805 to a total of \$9,700,145—in additional assessments for the four districts for FY 2007-08 through FY 2009-10. These increases coincided with significant increases in the compensation of the former CAO and the Assistant CAO who, collectively, over the same three-year period, received additional compensation totaling \$1,143,618 from the accounts of the four districts. In essence, the city used approximately 24% of the increased assessment funded by the ratepayers for sanitation, refuse, recycling, and lighting services to enhance the compensation of the former CAO and the Assistant CAO. The SCO audit identified the following concerns:

- **The Bell City Council had no legal authority to increase the assessment of the Sanitation and Sewerage System District without voter approval.**

At the request of the auditors, the SCO Legal Office reviewed the resolutions that authorized the increases and opined that the Bell City Council had legal authority to increase the assessment rates for the Refuse Collection District, the Recycling and Integrated Waste Management District, and the Landscape and Lighting District. However, the SCO Legal Counsel concluded that the increase in assessment of the Sanitation and Sewerage System District, referred to in the original authorizing resolution as a “standby” charge, is in violation of the California Constitution, Article XIII D, section 6, subsection (b)(4). That provision stipulates that sewer “standby” charges, be classified as assessments and shall not be imposed without complying with the California Constitution, Article XIII D, section 4, which requires a vote of the property owners who would be affected by the assessment. The estimated amount of charges related to the Sanitation and Sewerage System increase for FY 2007-08 through FY 2009-10 is \$621,737.

In a letter dated September 9, 2010, a law firm representing the city disagreed with our conclusion that the increase was for sewer standby charges and thus required voter approval. Through its legal representative, the city asserted that the amount imposed is a “new” sewer fee that did not require voter approval. We reviewed the rationale and basis for this assertion and find it to be non-persuasive. Thus, our finding remains unchanged. The legal representative’s letter and our response is included as Attachment A.

- **The total of \$1,143,618 used to fund portions of payments to the former CAO and the Assistant CAO for regular and holiday pay, and pay in lieu of vacation was inappropriately charged against four districts for FY 2007-08 through FY 2009-10.**

In general, compensation for the former CAO and the Assistant CAO's are costs of carrying out the operations of the city government and thus are to be charged against the city's General Fund. The California Constitution, Article XIII D, section 4(a), provides, "An agency which proposes to levy an assessment shall identify all parcels which will have a special benefit upon them and upon which an assessment will be imposed. . . ." The California Constitution, Article XIII D, section 6(b)(4), provides, "No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question." Thus, these charges are inappropriate unless it is clearly demonstrated (and documented) that they are directly related to providing services to the districts funded through assessments. City staff members said that compensation for the former CAO and the Assistant CAO was charged to the districts on a percentage basis. There is apparently no relation to services provided.

- **There may be other questionable charges against the districts funded through direct assessments.**

Given the lack of internal controls noted in previous sections of this audit report, there is a high probability that there may have been other inappropriate charges against the increased assessments. As the scope of the SCO audit focused on the city's internal controls, we did not conduct a detailed examination of the charges against the funds of the districts funded through direct assessments.

In addition to the findings regarding programs funded through direct assessments, the SCO identified questionable practices related to pension assessment and business license taxes where the Bell City Council or city management may have inappropriately increased tax levies. These increases either increased the city's General Fund revenues or reduced the General Fund burden to fund pension obligations, which in turn increased the amount available to fund increase in compensation of the city managers and staff members. Specifically, the audit found:

- *Pension Assessment*

On July 23, 2007, the Bell City Council adopted Resolution No. 2007-42 to increase the tax levy related to the payment of the city's pension obligation, from 0.187554% in FY 2006-07 to 0.237554% in FY 2007-08, 0.257554% in FY 2008-09, and 0.277554% in FY 2009-10—an increase of approximately 48% over a three-year period. The increased rates resulted in \$2,934,144 in additional taxes over a three-year period, and reduced the city's General Fund burden to fund pension obligations by the same amount.

The SCO found the increased tax levy to be unallowable under Revenue and Taxation Code section 96.31(b). Under this section, the City of Bell had no authority to levy a property tax rate greater than the rate imposed in FY 1982-83 or FY 1983-84. Thus, the \$2,934,144 in additional tax levies is unallowable. In a letter dated August 13, 2010, to the Los Angeles County Auditor–Controller, the State Controller identified this issue and requested immediate action to reduce the property tax levy that ultimately was applied toward the city’s pension obligation during FY 2010-11, and to repay the excess amounts collected in accordance with applicable statutory provisions.

○ *Business License Taxes*

The city increased the amount for business license taxes, which includes rental business license taxes, by more than 50% for more than 1,000 business owners in the city since the 2000 calendar year. The increase was made without voter approval. In addition, there is no evidence to suggest that the Bell City Council had approved the increases.

The passage of Proposition 218 in 1996 added Articles XIII C to the California Constitution which specifies, “No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote.” With respect to business licenses, the SCO found that the cities and counties levy business license fees and taxes for different purposes. In general, when a fee is levied for regulatory purposes, voter approval is not required. If the tax is levied for revenue generating purposes, then voter approval is required.

The Bell Municipal Code clearly states that business license taxes are taxes for revenue generating purposes. Bell Municipal Code section 5.04.020 states, “The purpose of the provisions of this division is to prescribe a schedule of business license taxes, **for revenue purposes only** [emphasis added], for all businesses located within the city, in the amounts and manner as set forth hereinafter.”

In addition, revenue collected from business license taxes is deposited in the city’s General Fund and are available at the discretion of the city’s management, subject to the approval of the City Council, to fund any operation or activity within the city government. Therefore, we believe the increases were general tax increases and subject to voter approval.

In addition, we found the city’s method of calculating increases to be in conflict with Bell Municipal Code section 5.08.030 which states:

No cost of living increase or decrease, in any calendar year, shall exceed the principal amount of the business license tax imposed during the preceding calendar year, by more than five percent.

The city increased the business license tax by approximately 20% for the 2000 calendar year and by approximately 19% for the 2005 calendar year. The justification was that the city did not impose cost of living increases in prior years and thus it was applying the increases retroactively. The municipal code section cited above contains no provision to allow the city to apply cost of living increases retroactively.

It is not possible to quantify the specific amount of additional business license taxes collected as a result of the increase imposed without voter approval because more than 1,000 businesses, with varying rates, are involved. However, based on annual collection figures, we estimate the total to be more than \$2.1 million for calendar years 2000 to 2010.

RECOMMENDATIONS

The SCO recommends that the City of Bell take the following actions:

1. Retain the services of an outside firm to develop new business policies, processes, and procedures as well as institute sound administrative and accounting internal controls. The current system does not have the capacity to implement needed changes with the current management structure and staff. To ensure independence, selection of the outside firm should be made using a sound request-for-proposal system and final selection should be made openly and competitively with citizen participation.
2. As an alternative to the above recommendation, the city should contact the League of California Cities and seek assistance to install a new internal control system from a panel of its peers.
3. Assess the status of the current projects funded through Measure A bond funds and develop a plan for completion that includes budgets, milestones, status, and completion date. Prior to adoption, the plan should be present to the City Council in open sessions and public input should be carefully considered. Once the plan is adopted, monthly updates of the status of implementation and costs incurred on the projects should be made to the City Council in open sessions. The services of outside contractors needed to complete the projects should be acquired through open, competitive bids.
4. Immediately refund the unallowable excess amounts of taxes (pension levy and business license) collected.
5. Immediately refund or offset future Sanitation and Sewerage System District assessments that were collected without voter approval.
6. Comply with its paying agent agreement with the U.S. Bank National Association by establishing separate trust accounts for Measure A funding in accordance with the provisions of the agreement.
7. Reverse the salary charges that were incorrectly charged to four districts and allocate the amounts to the appropriate funds.
8. Seek repayment as soon as legally possible on all outstanding "administrative agreement" loans as well as the \$300,000 business loan.
9. Make the Director of Planning Services a city employee to avoid conflicts of interest and save the city money.

In addition, as certain matters disclosed in this report suggest possible intentional misuse of public funds that may involve collusive practices, the Controller's Office is providing copies of this report to the appropriate law enforcement agencies for consideration of additional investigation and possible legal action.

Appendix 1— Evaluation of Elements of Internal Control

Management Oversight & Control (Control Environment)		Comments	
A1.	Integrity and Ethical Values	Yes	No
	a. Are code of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards to ethical and moral behavior in existence and communicated to all city management and employees?	✓	<p>Non-existent and it appears that lack of communication exists. Events or transactions that occurred are as follows:</p> <ul style="list-style-type: none"> Salaries of the City Council and management are disproportionate when compared with salaries in other cities. We noted that the average annual salary of 4 of 5 City Council members was \$97,372, while annual salaries of City Council members around the Los Angeles area average \$13,977. In addition, the City of Bell's Chief Administrative Officer's (CAO) annual salary was \$666,733 and the Assistant CAO's was \$325,180. The average salaries for the same position around the Los Angeles area are \$209,050, and \$165,277, respectively. Contracts for several vendors were missing or non-existent. For Fiscal Year (FY) 2008-09 and FY 2009-10, \$841,766 and \$110,000 were paid to D & J Engineering and to Urban & Associates, Inc. The contract agreement between the city and D & J Engineering expired in June 30, 1996. The folder file for Urban & Associates did not contain any contract agreement. Some purchases of capital assets are questionable. For example, the city purchased properties from the Pete Werrlein Children's Private Annuity Trust for \$4.8 million. From the file that was provided to us, we cannot determine what business benefit will be gained by the city in purchasing these properties. City Council members did not perform adequate review relating to budgets, purchases approval, and employee salaries and advancements. <ol style="list-style-type: none"> The City Council approved the Program of Service/Budget for the Fiscal Years Commencing July 1, 2008 and Ending June 30, 2011 (a revision to the five-year budget 2005-10). However, from our inquiry, a copy of this program service budget was not provided to the City Council until three days before the City Council meeting. Normally, the City Council will review the budget revenue estimates five months before the beginning of the fiscal year. The City Council was to conduct an evaluation of the performance of the CAO. There were no evaluation reports found in the CAO's personnel record. <ul style="list-style-type: none"> The city made payments on personal loans. The CAO obtained personal loans (total amount of \$100,000) from his deferred compensation plans (457 and 4019(a)). We noted that these personal loans were paid by the city. The city had unacceptable loan arrangements for several city employees. Several city officials and employees obtained a personal loan from the city and these loans were paid with accrued sick leave and vacation.

Appendix 1 (continued)

	Yes	No	Comments
b. Is reasonable management attitude "Tone at the Top" established by management and communicated to city management and staff?		✓	The former CAO had too much autonomy and no one questioned his decisions or processes to be implemented. The CAO appoints, and may promote, demote, suspend or remove, all department heads, officers, and employees of the city except elected officers and those department heads appointed by the City Council. In addition, the CAO approved purchases ranging from \$50 to \$50,000. The CAO had two personal loans of less than \$50,000 each that were paid by the city.
c. Is everyday dealing with vendors, clients, auditors and other parties based on honesty and fairness?		✓	Several vendors and service providers who were receiving payments from the city did not have contracts, or contracts are missing or expired. For FY 2008-09 and FY 2009-10, D & J Engineering was paid a total of \$841,766 without a current contract and Urban & Associates, Inc. was paid \$110,000 without a contract included in its vendor file.
d. Is appropriate remedial action taken in response to non-compliance?		✓	Per our inquiry, there were no established procedures to address non-compliance. The city staff relied on the CAO on what action(s) to do regarding non-compliance.
e. Is management intervention in overriding established controls documented?		✓	None noted.
A2. Commitment to Competence			
a. Is management analyzing tasks relative to a particular job regarding need and extent of supervision?		✓	The city does not have full staffing to perform its daily operations. The CAO, Assistant CAO, and the Director of Community and Social Services resigned from their respective positions. In addition, other city staff members were assigned to the City of Maywood to perform accounting and other administrative services for that city.
b. Is management evaluating and determining the knowledge and skills needed to perform jobs and the employees have the required knowledge and skill to perform assigned tasks?		✓	No management evaluation noted regarding employees competence during our review of personnel records. In addition, City Council is supposed evaluate the CAO's performance as condition for his salary increases but there were no evaluation reports found in the CAO's personnel file.
A3. Management and Operating Style			
a. Is management conservative in accepting risks, moves carefully, and proceeds only after careful evaluation?		✓	No. City management made various decisions that appear to be unreasonable. For example, there was an issuance of a lease revenue bond where the city is in danger of defaulting; purchase of city lots from a former mayor does not make good business sense; and increases of property taxes over the limit established by the regulation.
b. Is personnel turn-over in key functions at an acceptable level and not excessive?		✓	See A2a above.

Appendix 1 (continued)

	Yes	No	Comments
c. Is management's attitude positive towards internal control and audit function?		✓	The city management has given consideration to the adequacy of internal control (as stated in its Procedures Manual); however, adequate separation of duties is lacking due inadequate staffing, there were improper authorization of transactions and activities (see A1a above), and documents and records are inadequate to provide reasonable assurance (see A1c). The city does not have an internal audit unit and no internal auditor. The city contracted with an independent CPA firm to complete its annual financial statements.
d. Are there frequent interactions of senior management and operation management in both formal and informal settings?		✓	Per our inquiry, the Director of Administrative Services stated that there were no set formal or informal meetings between the CAO and other city management personnel.
e. Is management's attitude appropriate towards financial reporting and other operational reporting?		✓	There were errors noted in the CAO's direct labor distribution report. This is the same with other high management personnel of the city. The CAO allocated direct labor salaries to different fund accounts (e.g., 35% to the General Fund). However, there was no vacation and sick leave pay allocated to the General Fund for the same pay period.
A4. Organizational Structure			
a. Is the organization structure centralized or decentralized to facilitate flow of information?		✓	The organization structure is centralized; however, there were no procedures established on how information was disseminated to the staff and the City Council. From our observations, letters, e-mail and direct oral communication were the medium of communication.
b. Are key managers' responsibilities adequately defined and communicated?		✓	Key managers' responsibilities were defined; however, incompatible functions were performed by these managers due to inadequate staffing. Most of the time, daily operation functions were performed by "whoever is available."
c. Do managers in charge have the required knowledge, experience, and training?		✓	Some of the managers that we have inquired with appear to have the required knowledge to perform their primary responsibilities; however, these managers will follow orders and instructions from the CAO without question. For example, the payments of the CAO's personal loans were never questioned.
d. Does the city's established reporting relationship ensure effective communication between employees, supervisors, managers, and officers?		✓	To a limited extent. There is a serious crossover of employees performing different functions due to inadequate staffing. For example, if the accounts payable clerk is absent from work, whoever is available from the staff will perform her work. It appears from our observation, that almost all of the management and employees of the administrative services receive cash payments from the public.
A5. Assignment of Authority and Responsibility			
a. Is proper information considered in determining the level of authority and scope of responsibility to an employee?	✓		Proper information was considered in determining level of authority and scope of responsibility; however, the CAO had the ability to do whatever he wanted. For example, a document needed for the CAO personal loan application was signed by the Assistant CAO. This document should have been approved by a higher authority.

Appendix 1 (continued)

		Yes	No	Comments
	b. Are responsibilities for decisions related to assignment of authority and responsibility?		✓	Based upon our inquiry, most of the decisions are referred to the CAO. For example, significant revision of revenue items that were included in the budget was up to the CAO. Additional engineering services between D & J Engineering were discussed with the CAO.
	c. Are employees at the right level empowered to correct problems or implement improvements?		✓	Yes, but only to a certain extent. Processing of payroll and correction of errors were made by either the treasurer or the accounting manager. Most city staff members follow orders and instructions from the CAO.
	d. Do job descriptions exist and contain specific references to control-related responsibilities?	✓		Job descriptions exist and contain specific references to control-related responsibilities; however, staff members perform incompatible duties due to inadequate staffing.
A6.	Human Resources Policies and Practices			
	a. Are policies and procedures established for hiring, training, and promoting employees and management particularly in hiring and training?		✓	The CAO is responsible for hiring, firing, and promoting city staff (see A1b. above).
	b. Are employees made aware of their responsibilities and expectations of them?	✓		Employees are made aware of their responsibilities and expectations of them during the hiring process. There was no follow-up after an employee is hired. There were no evaluation report noted in the personnel file that we reviewed.
	c. Is management's response to failure to carry out assigned responsibilities appropriate?		✓	This is the sole responsibility of the CAO. There was no documentation questioning the CAO's decisions.
	Risk Analysis			
B1.	Goals and Objectives			
	a. Are there entity-wide objectives that were established by management?	✓		Goals were established by management within the administrative services unit but not city-wide objectives. The City of Bell's procedures manual that was provided to the auditors was only for the administrative services unit.
	b. Does information relating to objectives disseminated to all city employees?		✓	There was no documented procedural process of relaying information among city staff except that employees are notified either by co-workers or their superiors about new information.
	c. Are goals (with specific targets and deadlines) established and relate to objectives?		✓	No. Staff's goals are limited to their roles and responsibilities in performing their assigned tasks. The staff's attitude is that the goals and objectives are up to management, mostly to the CAO.
	d. Are measurement data included in the objectives?		✓	We were not able to obtain any measurement data.
	e. Are plans reviewed annually to ensure consistency (strategic plans, bus plans, budget, etc)?		✓	We were not able to obtain any annual reviews.
	f. Are managers involved in establishing objectives for which they are responsible?		✓	It appears that managers are isolated to their departmental goals and objectives.

Appendix 1 (continued)

		Yes	No	Comments
B2. Risk				
	a. Does the risk-assessment process in place consider the extent and internal factors affecting objectives?		✓	There was no documented assessment process relative to risk. The Risk Assessment Officer (Assistant Chief Administrator) no longer works for the city. The Director of Administrative Services temporarily took over this position.
	b. Does the risk assessment process include estimated significance of risks, assessing likelihood of occurrence, and determining the needed actions to prevent risks?		✓	Staff members were neither concerned nor did they have a clear understanding at the relevance of risk assessment. We were not able to obtain any documentation in support of a risk assessment.
	c. Is management considering the risks related to Human Resources, budgeting, labor relations, and Information Systems?		✓	There was no documentation, and both staff members and management stated that they were not involved in risk assessment.
B3. Managing Change				
	a. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives?		✓	There was no documentation—written or verbal—relative to addressing routine events or acts that may affect objectives.
	b. Are there mechanisms in place to identify and react to changes that can have dramatic and pervasive effect on the City?		✓	No. The CAO will address all changes and will make recommendations to the City Council for approval.
Control Activities				
C1. Management Reviews				
	a. Controls are performed and checked for reasonableness, allowability and validity of transactions?		✓	It appears that some controls are performed and checked for reasonableness, allowability, and validity of transactions; however, there were unreasonable and unallowable transactions that were processed. For example, personal loans by the CAO were paid through the city's accounting system.
	b. Are controlled items counted check periodically?		✓	Records were kept for some controlled items; however, these records were incomplete.
	c. Does management compare different sets of data and investigate variances?	✓		Yes, variances relating to staff payroll records were investigated and corrected. We did not note if management performs these comparisons on other areas of the accounting transaction cycles.
	d. Are duties properly segregated?		✓	See A2b above.
	e. Are administrative and operation policies in writing, current, and do they set clear procedures for compliance?	✓		The City of Bell has a procedures manual. This manual was last updated in August 2007.

Appendix 1 (continued)

Information and Communication		Yes	No	Comments
D1. Information				
	a. Are mechanisms in place to obtain relevant information on program, legislative or regulatory developments, budget, or economic changes?		✓	Information relative to some programs and budgets were not available and information regarding legislative or regulatory development or economic changes is not in place to readily access information. There was no staff or management assigned to perform such functions.
	b. Have long range information technology plans been developed and linked with strategic initiatives?		✓	None noted.
D2. Communications				
	a. Are communication vehicles sufficient in effecting communications?	✓		E-mails and updates from co-workers and supervisors.
	b. Do employees know the objectives of their own activity and how their duties contribute to achieving objectives and others goals?	✓		Employees know the objectives of their own activity, but not how their duties contribute to achieving objectives and others goals. From our inquiries, staff knew of their specific job objectives but not how they contributed to other staff's objectives and goals.
	c. Are communications channeled to people to report suspected act, permits anonymity, and feedbacks are provided?		✓	We were not able to obtain any documentation.
	d. Does adequate communication exist across the organization? Is information complete, timely, and sufficient?		✓	We were unable to document communication flowing from management to staff and staff to management.
	e. Are feedback mechanism for external parties (suggestions, input, complaints) directed to relevant internal parties?		✓	From our observation and inquiry, all complaints and suggestions were taken at the office counter.
	f. Are staff and other personnel receptive to report problems from external parties?	✓		Staff members at the office counter will address problems from external parties and will get supervisors involved if needed.
	g. Is top management aware of the nature and volume of complaints?		✓	Complaint log is not maintained.
Monitoring				
E1. Ongoing Monitoring				
	a. Are operational information integrated or reconciled with data generated by the administrative services?	✓		Information is included in the city's procedures manual.
	b. Are operation personnel required to "sign off" on the accuracy of their unit's records?		✓	Staff will perform their assigned tasks but confirmation on the accuracy of their work is not a procedure that is in place.

Appendix 1 (continued)

		Yes	No	Comments
	c. Are communications from outside parties and monthly statements of accounts payable used as control monitoring technique?		✓	From our inquiry, the accounts payable clerk or her supervisor does not use inquiry and questions of external parties for monitoring technique.
	d. Are periodic comparisons of amounts recorded by accounting system compared with physical assets?	✓		Records were kept for some physical assets; however, these records were incomplete and not reconciled to physical assets.
	e. Does City management have proper authority to decide which of the auditors' recommendations are to be implemented?			N/A. The city does not have an internal audit unit. Recommendations from external CPA were addressed by the CAO.
	f. Are employees' suggestions communicated and acted on as appropriate?		✓	From our inquiry, there were no formal processes of addressing employee or external parties' suggestions.
	g. Does a policy exist to adopt an Incompatible Activities Statement of Conduct?	✓		This is stated in the City of Bell procedural manual. However, the city was inadequately staffed to perform in incompatible duties.
E2.	Separate Evaluation			
	a. Do employees with appropriate skills evaluate portions of the internal control?		✓	From our inquiry and observation, the staff and management did not evaluate internal controls.
	b. Do city staff members gain sufficient understanding of internal controls?		✓	No internal control reviews employed by the city with the exception of the annual financial audits.
	c. Are policy manuals, organization charts, and operational instructions available for review?	✓		Only the City Bell procedures manual, City Charter Provision, and City Ordinance.
E3.	Reporting Deficiencies			
	a. Are means of obtaining reports of deficiencies from both internal and external sources exist?		✓	Report of deficiencies is not maintained.
	b. Is there ongoing monitoring of internal controls?		✓	Although procedures for monitoring internal control is stated in the procedures manual, from our observation and inquiry, monitoring of internal control has not been performed by city staff.
	c. Are deficiencies directly reported to the person directly responsible for the act and to a person at least one level higher?			N/A, see comment above, E3b.
	d. Are the transactions or event identified investigated, causes determined, and problem corrected We were not able to obtain any measurement data.?			N/A, see comment above, E3b.

Appendix 2— Summary of Annual Compensation For Selected City Officers For the Fiscal Years 2008-09 and 2009-10

	Fiscal Year		Total
	2008-09	2009-10	
Mayor:			
Community Redevelopment Agency—Regular Salary	\$ 722.71	\$ 722.71	\$ 1,445.42
Life Insurance	396.00	396.00	792.00
Deferred Compensation		16,500.00	16,500.00
Regular Salary	73,665.42	77,019.36	150,684.78
Retro Pay—Regular Salary		826.95	826.95
Regular Salary—Surplus Prop. Auth.	17,964.63	18,803.06	36,767.69
Total	<u>\$ 92,748.76</u>	<u>\$ 114,268.08</u>	<u>\$ 207,016.84</u>
City Council Member A:			
Community Redevelopment Agency—Regular Salary	\$ 722.71	\$ 722.71	\$ 1,445.42
Life Insurance	258.00	258.00	516.00
Deferred Compensation	—	16,500.00	16,500.00
Regular Salary	73,665.42	77,019.36	150,684.78
Retro Pay—Regular Salary	—	826.95	826.95
Regular Salary - Surplus Prop. Auth.	—	18,803.06	18,803.06
Total	<u>\$ 74,646.13</u>	<u>\$ 114,130.08</u>	<u>\$ 188,776.21</u>
City Council Member B:			
Community Redevelopment Agency—Regular Salary	\$ 647.95	\$ 722.71	\$ 1,370.66
Life Insurance	258.00	396.00	654.00
Deferred Compensation	—	16,500.00	16,500.00
Regular Salary	73,665.42	77,019.36	150,684.78
Retro Pay—Regular Salary		826.95	826.95
Regular Salary - Surplus Prop. Auth.	17,964.63	18,803.06	36,767.69
Total	<u>\$ 92,536.00</u>	<u>\$ 114,268.08</u>	<u>\$ 206,804.08</u>
City Council Member C:			
Community Redevelopment Agency—Regular Salary	\$ 545.49	\$ 722.71	\$ 1,268.20
Life Insurance	11.50	90.00	101.50
Deferred Compensation		16,500.00	16,500.00
Regular Salary	55,601.87	77,019.36	132,621.23
Retro Pay - regular salary		826.95	826.95
Regular Salary— Surplus Prop. Auth.	13,559.51	18,803.06	32,362.57
Total	<u>\$ 69,718.37</u>	<u>\$ 113,962.08</u>	<u>\$ 183,680.45</u>
City Council Member D ¹ :			
Community Redevelopment Agency—Regular Salary	\$ —	\$ 520.57	\$ 520.57
Life Insurance	—	46.00	46.00
Deferred Compensation	—	—	—
Regular Salary	—	4,515.56	4,515.56
Retro Pay—Regular Salary	—	—	—
Regular Salary—Surplus Prop. Auth.	—	803.51	803.51
Total	<u>\$ —</u>	<u>\$ 5,885.64</u>	<u>\$ 5,885.64</u>

Appendix 2 (continued)

	Fiscal Year		Total
	2008-09	2009-10	
Chief Administrative Officer ² :			
401(a)	\$ 48,000.00	\$ 48,000.00	\$ 96,000.00
Auto Allowance	4,320.11	4,818.59	9,138.70
Float Holiday	2,415.00		2,415.00
Holiday	19,205.00	26,758.20	45,963.20
Life Insurance	138.00	258.00	396.00
Miscellaneous	47,563.09	45,877.47	93,440.56
OT-Deferred Comp 457	22,000.00	22,000.00	44,000.00
Regular Pay ²	538,430.00	666,733.20	1,205,163.20
Retroactive Pay		12,461.40	
Sick Paid	80,059.41	96,057.52	176,116.93
Vacation Paid	237,994.30	286,518.75	524,513.05
Regular Salary-Surplus Prop. Auth.	—	—	—
Total	<u>\$ 1,001,124.91</u>	<u>\$ 1,210,483.13</u>	<u>\$ 2,210,608.04</u>
Assistant Chief Administrative Officer:			
401(a)	\$ 48,000.00	\$ 48,000.00	\$ 96,000.00
Float Holiday	1,177.85	—	1,177.85
Holiday	11,582.19	13,050.56	24,632.75
Life Insurance	138.00	138.00	276.00
Miscellaneous	1,000.00	1,000.00	2,000.00
Regular Pay	286,020.73	325,180.34	611,201.07
Retroactive Pay		6,077.69	
Sick Paid	41,010.00	46,524.91	87,534.91
Vacation Paid	122,023.88	138,231.65	260,255.53
Regular Salary-Surplus Prop. Auth.	—	—	—
Total	<u>\$ 510,952.65</u>	<u>\$ 578,203.15</u>	<u>\$ 1,089,155.80</u>
Director of Administrative Services:			
401(a)	\$ —	\$ —	\$ —
Float Holiday	3,273.08	—	3,273.08
Holiday	7,005.38	8,795.84	15,801.22
Life Insurance	60.00	60.00	120.00
OT-Deferred Comp 457	16,500.00	16,500.00	
Regular Pay	188,804.77	219,165.13	407,969.90
Retroactive pay	—	4,096.22	
Sick Paid	1,190.77	6,570.48	7,761.25
Vacation	793.85	—	—
Vacation Paid	27,487.11	17,506.56	44,993.67
Regular Salary-Surplus Prop. Auth.	—	—	—
Total	<u>\$ 245,114.96</u>	<u>\$ 272,694.23</u>	<u>\$ 517,809.19</u>
Director of Community Services and Social Services:			
401(a)			
Float Holiday			
Holiday	\$ 6,161.54	\$ 6,161.52	\$ 12,323.06
Life Insurance	138.00	138.00	276.00
OT-Deferred Comp 457	4,000.11	4,207.65	—
Regular Pay	154,038.53	154,670.56	308,709.09
Vacation	616.15	—	—
Vacation Paid	19,704.62	19,723.10	39,427.72
Regular Salary-Surplus Prop. Auth.	—	—	—
Total	<u>\$ 184,658.95</u>	<u>\$ 184,900.83</u>	<u>\$ 369,559.78</u>

Appendix 2 (continued)

	Fiscal Year		Total
	2008-09	2009-10	
Director of General Services:			
401(a)	\$ —	\$ —	\$ —
Float Holiday	3,969.23		3,969.23
Holiday	7,895.40	8,795.83	16,691.23
Life Insurance	60.00	60.00	120.00
OT-Deferred Comp 457	16,500.00	16,500.00	
Regular Pay	193,434.06	219,165.13	412,599.19
Retroactive pay	—	4,096.22	4,096.22
Total	<u>\$ 221,858.69</u>	<u>\$ 248,617.18</u>	<u>\$ 470,475.87</u>
Chief of Police ³ :			
Holiday		\$ 15,819.30	\$ 15,819.30
Regular Pay		411,301.64	411,301.64
Uniform	—	1,250.00	1,250.00
Total	<u>—</u>	<u>\$ 428,370.94</u>	<u>\$ 428,370.94</u>

¹ Appointed as City Council Member on October 12, 2009.

² Regular pay includes compensation for performing duties as the City's CAO as well as the Executive Director of the following authorities effective September 1, 2008: Bell Surplus Property, Bell Solid Waste and Recycling, Bell Community Housing, Bell Public Financing, Bell Community Redevelopment.

³ Employed as Chief of Police on April 28, 2009.

Appendix 3— Uses of General Obligation Bond—Measure A (2003 Election) Proceeds ¹

Use of Proceeds	2004 Issuance	2007 Issuance	Total
Little Bear Park	\$ 6,199,210.90	\$ 2,487,886.45	\$ 8,687,097.35
Bell Sports Complex	3,100,083.83	3,004,238.86	6,104,322.69
Bond Interest	—	4,987,697.92	4,987,697.92
Deb's Park	1,533,081.78	—	1,533,081.78
Veteran's Clubhouse	1,507,093.52	—	1,507,093.52
Skate Park	1,224,401.09	18,860.00	1,243,261.09
Nueva Vista Park	1,223,209.41	4,550.00	1,227,759.41
Cost of Issuance	255,855.48	162,745.05	418,600.53
Veteran's Park	16,941.14	545,635.69	562,576.83
Civic Center	398,822.16	—	398,822.16
City Hall/Police Department	—	265,257.60	265,257.60
Treder Park	50,371.41	15,297.98	65,669.39
Election Costs	28,701.37	—	28,701.37
Miscellaneous	8,736.46	8,474.55	17,211.01
City Monument	2,877.00	—	2,877.00
Total	<u>\$ 15,549,385.55</u>	<u>\$ 11,500,644.10</u>	<u>\$ 27,050,029.65</u>

¹ The amounts presented on this Appendix are based on city-prepared, unaudited documents.

**Attachment 2—
Redevelopment Agency Review, dated October 20, 2010**

BELL COMMUNITY REDEVELOPMENT AGENCY

Review Report

SELECTED TRANSACTIONS

July 1, 2000, through June 30, 2010



JOHN CHIANG
California State Controller

October 2010



JOHN CHIANG
California State Controller

October 20, 2010

Pedro Carrillo
Interim City Administrator
City of Bell
6330 Pine Avenue
Bell, CA 90201

Dear Mr. Carrillo:

Enclosed is the report of the State Controller's Office review of selected transactions of the Bell Community Redevelopment Agency for the period July 1, 2000 through June 30, 2010 (ten fiscal years). The review was conducted at your request for an assessment of the adequacy of the city's control to safeguard public assets and to ensure proper use of public funds. On September 22, 2010, we released an audit report containing findings and conclusions concerning the city's administrative and internal accounting control system. In that report, we stated that we would release a separate report of the City of Bell's redevelopment agency. This report presents our findings and conclusions of the Bell Community Redevelopment Agency review.

We concluded that the redevelopment agency failed to comply with Health and Safety Code requirements in numerous areas. Similar to the pattern identified in the internal control audit, we found apparent misuse of redevelopment funds for personal gain by the former Chief Administrator and other senior officials. There is no evidence to suggest that the redevelopment agency governing board, comprised entirely of the members of the Bell City Council, engaged in any meaningful oversight of the Redevelopment Agency activities. Specifically, our review has identified the following concerns:

- The redevelopment agency used \$244,850 in tax increment of its Low and Moderate Income Housing Fund to fund administrative costs without an annual determination by the redevelopment agency governing board as required by Health and Safety Code section 33334.3(d). Of this amount, \$66,100 (27%) and \$24,856 (10.15%), respectively, were used to fund a portion of the former CAO and the Director of Administrative Services' (DAS) compensation. There is no evidence that the former CAO and the DAS engaged in activities specifically related to the Low and Moderate Income Housing Fund.
- The redevelopment agency used another \$242,268 in the redevelopment agency's Capital Project Fund to fund a portion of the former CAO, former Assistant Chief Administrative Officer (CAAO), and DAS's salaries. The charges appeared to be arbitrary and there is no evidence that these officials engaged in activities that benefit the Capital Project Fund.

- For a two-year period as members of the redevelopment agency governing board, each member of the Bell City Council received \$55.38 for every two-week pay period. After that, they received \$27.69 for every two-week pay period. The majority of the meetings—conducted as a part of Bell City Council meetings—lasted three minutes or less, and in some months not at all.
- The redevelopment agency used its Low and Moderate Income Housing Fund for other questionable charges. Examples include automotive charges, uniform allowance, and table refinishing expenses.
- The redevelopment agency governing board did not adopt an annual budget in each of the ten-year period of this review. Health and Safety Code section 33606 requires every redevelopment agency to adopt an annual budget. All budgets were adopted by the Bell City Council while convened as the Bell City Council rather than as the redevelopment agency governing board. Similarly, because of the commingling of Bell City Council and Bell Community Redevelopment Agency governing board meetings, the redevelopment agency meeting minutes and expenses were not approved by its governing board. Instead, they were approved by council members acting in the capacity of the Bell City Council.
- Redevelopment agency staff members stated that they were unaware of Health and Safety Code section 33080.1, which requires every redevelopment agency to submit an annual report to its governing board detailing its activities and the status of its projects. They could not produce such a report during any of the ten-year review period.
- The 20% set aside deposit for the Low and Moderate Income Housing Fund were not deposited directly into that fund as required by the Health and Safety Code section 33334.2(a). This resulted in a loss of interest earnings by that fund.
- The redevelopment agency overstated the amount of outstanding debt on its statement of indebtedness, which may in turn overstate the amount of tax increment it is eligible to receive.
- The adoption of the redevelopment agency's last five-year implementation plan is nearly a year late.

The above findings were discussed with the City of Bell management during a review exit conference on September 30, 2010.

Pedro Carrillo
October 20, 2010
Page 3

If you have any questions, please contact Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

cc: The Honorable Edmund G. Brown, California Attorney General
The Honorable Steve Cooley, Los Angeles County District Attorney
André Birotte Jr., U.S. Attorney, Central District of California
Lourdes Garcia, Director of Administrative Services
City of Bell

Contents

Review Report

Introduction 1

Background 1

Objectives, Scope, and Methodology 2

Conclusion 3

Views of Responsible Officials 3

Restricted Use 3

Findings and Recommendations 4

Review Report

Introduction

The State Controller's Office (SCO) reviewed selected transactions of the Bell Community Redevelopment Agency for the period July 1, 2000, through June 30, 2010 (10 fiscal years). The basis for the review was the independent audit reports issued for fiscal years starting July 1, 2000, and ending June 30, 2009. We extended our review to include selected transactions for Fiscal Year (FY) 2009-10.

On July 28, 2010, the newly appointed interim Chief Administrative Officer (CAO) of the City of Bell requested the State Controller perform an audit of the city to address numerous disclosures made in the news media suggesting possible misuse of public funds by senior management staff. In response, the State Controller agreed to perform an audit of the city's system of internal controls, property and business license tax revenues, and state and federal funding.

On September 22, 2010, the SCO released its audit report containing findings and conclusions reached concerning the city's administrative and internal accounting controls system.

The audit report also stated that the SCO would release a separate report on the City of Bell's redevelopment agency. This report presents our findings and conclusions reached in the SCO review of the Bell Community Redevelopment Agency.

Background

The City of Bell is located in Los Angeles County, California. The population was 36,664 in the 2000 census; at 2.5 square miles, it is 13th among the 25 geographically smallest cities in the United States with a population of at least 25,000.

The Bell Community Redevelopment Agency was established on March 19, 1973, upon the adoption of Ordinance 741 by the Bell City Council, with a stated purpose of improving, rehabilitating, and developing blighted areas within the City of Bell. The governing body of the agency comprises five members of the City Council. The City Council also is referred to as a redevelopment agency's legislative body.

From an accounting perspective, the agency is a component unit of the city. However, for other purposes, the agency is a completely independent entity. For example, the city has no responsibility to repay debt incurred by the agency.

The Bell Redevelopment Project Area was adopted by the City Council on June 21, 1976, by Ordinance 783. The project has been amended twice and currently consists of approximately 670 acres of primarily commercial and industrial land uses.

The general purpose of redevelopment is to eliminate “blight.” Health and Safety Code section 33020 states:

“Redevelopment” means the planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation, or any combination of these . . . and the provision of those residential, commercial, industrial, public, or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational and other facilities incidental or appurtenant to them.

A redevelopment agency cannot levy a tax rate. Instead, a redevelopment agency receives its funding from tax increment revenues. Tax increment revenues are revenues generated by the increase in value of the property within the redevelopment project over the value of the property when the project was established (base value). The California Supreme Court described the process as follows:

Under tax increment financing, “[a]ll taxable property within the area to be redeveloped is subject to ad valorem taxes. The properties lying within a redevelopment area have a certain assessed value as of the date a redevelopment plan is adopted. A local taxing agency, such as a city or county, continues in future years to receive property taxes on the redevelopment area properties, but may only claim the taxes allocable to the base year value. If the taxable properties within the redevelopment area increase in value after the base year, the taxes on the increment of value over and above the base year value are assigned to a special fund for the redevelopment agency.

Once the redevelopment plan is adopted, the redevelopment agency may issue bonds to raise funds for the project. As the renewal and redevelopment is completed, the property values in the redevelopment area are expected to rise. The taxes attributable to the increase in assessed value above the base year value are assigned to the redevelopment agency, which then uses the funds to retire the bonds. The local taxing agencies still receive taxes attributable to the base year assessed value of the properties within the redevelopment area. This way, the redevelopment project in effect pays for itself.

Redevelopment agencies are subject to a number of accounting and reporting requirements as well as administrative requirements. These specific requirements are discussed in the Findings and Recommendations section of this report.

Objectives, Scope, and Methodology

The objective of the review was to ascertain the agency’s degree of compliance with Health and Safety Code requirements.

To accomplish our objectives, we performed the following procedures:

- Reviewed the independent auditor’s working papers for the audit of the agency’s financial statements for FY 2008-09.
- Made inquiries of city employees regarding agency operations and reports.

- Reviewed agency general ledger detail trial balance reports for all fiscal years.
- Selectively analyzed accounts from the above ledgers.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our objectives.

Conclusion

We found that the Bell Community Redevelopment Agency failed to comply with Health and Safety Code requirements in several areas.

The Legislature may wish to consider remedies to clarify Health and Safety Code sections and ensure the consequences for noncompliance are enforced.

Views of Responsible Officials

We issued a draft review report on October 13, 2010. We contacted the city's interim administrator and left messages on October 18 and 19, 2010, inquiring about the response to the draft review report. We did not receive a verbal or written response to the draft review report from the City of Bell.

Restricted Use

This report is intended for the information and use of the City of Bell 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 this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

October 20, 2010

Findings and Recommendations

**FINDING 1—
Administrative costs
charged to the Low and
Moderate Income
Housing Fund (Fund
22) were unallowable.**

A redevelopment agency is generally required by Health and Safety Code section 33334.2 to deposit not less than 20% of the tax increment allocated to it into a Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund is used by the agency “for the purposes of increasing, improving, and preserving the community’s supply of low- and moderate-income housing” available at affordable housing costs, to persons and families of very low, lower, low, or moderate income.

Health and Safety Code section 33334.3(d) requires an annual determination by the governing board “that the planning and administrative expenses are necessary for the production, improvement, or preservation of low- and moderate-income housing” before these costs can be charged. City of Bell staff members were unable to provide a copy of any resolution or other determination and stated they were unaware of any such resolution or determination. Without such a determination, the following charges are ineligible expenditures:

- The Agency charged \$244,850 in salaries, 457 contributions, vacation, holiday time, and sick time for administrative purposes to the Low and Moderate Income Housing Fund for the ten-year period under review. Of the amounts charged, \$66,100 or 27% of the total, was attributable to the former CAO and another \$24,856, or 10.15% of the total, was charged to the Director of Administrative Services (DAS) even though the former CAO only charged for two years and the DAS only charged for one year. City of Bell staff members could not provide any evidence or documentation that the former CAO and the DAS engaged in activities specifically related to the Low and Moderate Income Housing Fund.
- The agency charged various insurance costs to fund expenses such as life, health, and dental insurance. The amount allocable to the planning and administration is not readily quantifiable because there were also eligible labor charges for housing preservation co-mingled with the costs.

Also included in the ineligible charges was \$14,661 which was described as payroll for an individual because his labor costs exceeded the 20% administrative costs for a community development block grant. This was charged as part of the labor charges.

Recommendation

The City of Bell should refund the \$244,850 ineligible labor charged to the low and moderate income housing fund. In addition, the city should determine the amount of insurance attributable to the ineligible labor charges and refund that amount also. The agency should institute procedures to ensure that proper procedures have been followed prior to charging administration and planning to the Low and Moderate Income Housing Fund. The agency should institute procedures to ensure that only labor that benefits the Low and Moderate Income Housing Fund is charged to the fund.

Additionally, the Legislature may wish to consider legislative remedies to specify the permissible uses of low- and moderate-income housing funds and to clarify the consequences for misuse of those funds.

**FINDING 2—
Ineligible labor costs
charged to Fund 20—
Capital Projects**

We found some of the labor charges to Capital Project Fund did not provide benefit to the fund and apparently were arbitrarily charged based on a percentage of available work hours. In addition, there is no evidence that the agency attempted to recoup overpayment from its board members. Specifically, our review identified that the former CAO and the DAS charged a portion of their salary to the Agency Capital Projects Fund for five years during the review period. A review of the labor charges disclosed that in nearly every instance, the amount charged was proportionate to the work hours available in the pay period.

- The former CAO and the DAS charged a portion of their salary to the Agency Capital Projects. For example, if there were 80 work hours in the pay period, the CAO would charge 8 hours and the DAS would charge 4 hours. However, if there were 72 work hours in the pay period because of a holiday, the CAO would charge 7.2 hours and the DAS would charge 3.6 hours. The former Assistant CAO charged labor for two years during the review period on the same basis. Labor charges for two other employees also were charged on a similar basis. During the review period, while only charging for five years, the former CAO's charges totaled \$171,444, or 60.1% of the total direct charges. The DAS's charges totaled \$27,066, or 9.49% of the total direct charges. The former Assistant CAO's charges for two years were \$38,117, or 13.36% of the total. The City of Bell staff members could not produce any evidence or documentation to demonstrate a correlation between the hours charged by these city officials and benefit to the agency's fund.
- Members of the Bell City Council also serve as members of the Agency's governing board. It is our understanding that the governing board members may charge \$60 per month for service on the governing board. For two years of the review period, the members were receiving \$55.38 every two-week pay period. We noted that the majority of the agency meetings lasted three minutes or less and in some months the agency board did not meet at all.
- For three payroll periods during the review period, we found two former board members received the stipend of \$27.69 even though they were no longer members of the board. We could not find evidence that the city or the agency attempted to recover the overpayments.

Recommendation

We recommend the city refund \$242,268 to the Agency Capital Projects Fund as well as refund the overpayments made to the board members. We recommend that the agency determine if it is proper to charge the fund when meetings are not held or when meetings last for a very short period of time. We recommend the agency establish procedures to ensure that benefits received by the agency are commensurate with costs incurred.

**FINDING 3—
Other charges to the
Low and Moderate
Income Housing Fund
did not serve to increase
the supply of low and
moderate housing.**

In addition to the labor charges discussed in Finding 1, there were other charges to the Low and Moderate Income Housing Fund that did not serve to increase or preserve the supply of low and moderate income housing in the city. These charges totaled \$177,716 and are detailed below. As the agency was not consistent in the accounts where it charged some of the items it was necessary to carefully review account charges.

20% of county administration fee	\$ 101,192
Pager and cellular fees	10,798
Automotive	4,240
Uniforms	139
Management fees	2,378
Landscaping	621
Vacation paid in lieu	33,744
Concession to Bell Housing Partners	15,768
Table refinish	350
Audit services	8,486

The County Auditor-Controller is allowed to charge a fee for services rendered in allocating property tax revenues. The agency allocated 20% of the fee charged by the county to the Low and Moderate Income Housing Fund. The fee should have been charged against the Capital Projects Fund as the Low and Moderate Income Housing Fund is restricted for specific purposes.

With the possible exception of Concession to Bell Housing Partners, none of the other charges (automotive, table refinish, vacation paid in lieu) would increase or preserve the low- and moderate-income housing supply.

Recommendation

The audit fee and the 20% administration fee should be reimbursed to the Low and Moderate Income Housing Fund from the Capital Projects Fund. All other items should be refunded by the city to the Low and Moderate Income Housing Fund. The agency should establish procedures to ensure that only costs that increase or preserve the low- and moderate-income housing supply are charged to the fund. The agency should investigate the concession to Bell Housing Partners to determine if the charge increased or preserved the low and moderate income housing supply.

Additionally, the Legislature may wish to consider legislative remedies to specify the permissible uses of low- and moderate-income housing funds and to clarify the consequences for misuse of those funds.

**FINDING 4—
The agency did not
adopt a budget during
the ten-year review
period; all budgets were
adopted by the City
Council while convened
as the City Council
rather than as the
Redevelopment Agency
Board.**

Health and Safety Code section 33606 requires every agency to adopt an annual budget.

An agency shall adopt an annual budget containing all of the following specific information, including all activities to be financed by the Low and Moderate Income Housing Fund established pursuant to Section 33334.3:

- (a) The proposed expenditures of the agency.
- (b) The proposed indebtedness to be incurred by the agency.
- (c) The anticipated revenues of the agency.
- (d) The work program for the coming year, including goals.
- (e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program.

The annual budget may be amended from time to time as determined by the agency. All expenditures and indebtedness of the agency shall be in conformity with the adopted or amended budget.

When the legislative body is not the redevelopment agency, the legislative body shall approve the annual budget and amendments of the annual budget of the agency.

From an accounting perspective, the agency is a component unit of the city. However, for other purposes, the agency is a completely independent entity. For example, the city has no responsibility to repay debt incurred by the agency.

During the review period, we could not find in the minutes of the agency's meetings, that the agency had ever adopted a budget. We did find that the City Council convened as the City Council had adopted an agency budget for a period of one-to-five years. We also found that the City Council convened as a "committee of the whole" to discuss and hear presentations on the proposed budget. We could not find that the City Council even convened as a "committee of the whole" to pass the budget. In addition, the portion of the budget passed for the agency did not conform to the requirements of the Health and Safety Code section noted above. Most specifically, it lacked items (d) and (e).

Recommendation

The agency should implement procedures to ensure that it passes a redevelopment agency budget in conformity with the Health and Safety Code.

**FINDING 5—
There was no evidence to suggest that the agency had presented the annual report required by Health and Safety Code section 33080.1 during the ten-year period under review.**

Health and Safety Code section 33080.1 requires every redevelopment agency to submit an annual report to its legislative body within six months of the end of the agency's fiscal year. The annual report is required to contain all of the following:

- An independent audit report for the prior fiscal year.
- A financial statement for the prior fiscal year that contains all of the information required pursuant to section 33080.5.
- A description of the agency's activities in the prior fiscal year affecting housing and displacement that contains the information required by sections 33080.4 and 33080.7.
- A description of the agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year.
- A list of, and status report on, specified loans that were in default or otherwise not in compliance with approved terms.
- A description of the total number and nature of the properties that the agency owns and those properties the agency has acquired in the previous fiscal year.
- A list of the fiscal years that the agency expects various project time limits to expire.

We asked city staff members for copies of the annual reports submitted by the agency to the legislative body for the review period. The staff members stated that they were unaware of any such reports. A review of City Council meeting minutes and agency meeting minutes disclosed that neither minutes acknowledged submission or receipt of the annual report.

Recommendation

The agency should institute procedures to ensure that the annual report is submitted promptly and contains all information required by the Health and Safety Code.

**FINDING 6—
The 20% set aside deposit for the Low and Moderate Income Housing Fund was not deposited directly into the fund as required by the Health and Safety Code.**

Health and Safety Code section 33334.2(a) states, in part:

Except as provided in subdivision (k), not less than 20 percent of all taxes that are allocated to the agency pursuant to Section 33670 shall be used by the agency for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing available at affordable housing cost, . . .

Health and Safety Code section 33334.3(a) and (b) state:

(a) The funds that are required by Section 33334.2 or 33334.6 to be used for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing shall be held in a separate Low and Moderate Income Housing Fund until used.

(b) Any interest earned by the Low and Moderate Income Housing Fund and any repayments or other income to the agency for loans, advances, or grants, of any kind from the Low and Moderate Income

Housing Fund, shall accrue to and be deposited in, the fund and may only be used in the manner prescribed for the Low and Moderate Income Housing Fund.

The agency's practice is to transfer 20% of the tax increment received by the agency from the receiving fund, Fund 20, to the Low and Moderate Income Housing Fund, Fund 22. This transfer usually occurs within 10 to 14 days after the tax increment is received.

Upon receipt of the tax increment by the agency, 20% of the receipt is assumed to be low- and moderate-income housing monies regardless of where it is deposited. The Health and Safety Code requires that any interest earned by the low and moderate income housing monies be deposited in the fund. While we were able to observe that the Low and Moderate Income Housing Fund was earning interest on balances in the fund, we were not able to observe that when the 20% of the receipts were transferred into the Low and Moderate Income Housing Fund, an appropriate amount of interest also was transferred. This resulted in an overstatement of the interest earned by Fund 20 and an understatement of the interest earned by Fund 22.

Recommendation

We recommend that the agency transfer 20% of the tax increment received into the Low and Moderate Income Housing Fund on the same day the tax increment is received. If the agency cannot make the transfer on the same day, then when the transfer is made, an appropriate amount of interest also should be transferred.

Additionally, the Legislature may wish to consider legislative remedies to specify the permissible uses of low- and moderate-income housing funds and to clarify the consequences for misuse of those funds.

**FINDING 7—
The agency statement of
indebtedness overstated
the amount of
outstanding debt.**

Health and Safety Code section 33675 requires every redevelopment agency that receives tax increment financing to submit a statement of indebtedness (SOI) to the county auditor by October 1 of each year. Subsection f states, in part:

For the purposes of this section, the amount an agency will deposit in its Low and Moderate Income Housing Fund established pursuant to Section 33334.3 shall constitute an indebtedness of the agency. For the purposes of this section, no loan, advance, or indebtedness that an agency intends to pay from its Low and Moderate Income Housing Fund established pursuant to Section 33334.3 shall be listed on a statement of indebtedness or reconciliation statement as a loan, advance, or indebtedness of the agency. . . .

The agency allocated a portion of the debt service and principal repayment to the Low and Moderate Income Housing Fund. However, on the SOI, the agency reported the entire amount of the outstanding bonded indebtedness, including the amount to be repaid from the Low and Moderate Income Housing Fund. This has the potential to overstate the amount of tax increment the agency is eligible to receive.

Recommendation

The agency should revise its procedures for preparing the SOI to ensure that only the portion of the indebtedness that is not being paid from the Low and Moderate Income Housing Fund is reported.

**FINDING 8—
Five-year
implementation plan
was not prepared in a
timely manner.**

While researching this item, we noted that there was no authorizing action either by the agency or the Bell City Council to enter into a contract for the plan preparation. The agreement apparently was authorized and signed solely by the former CAO. We understand that the former CAO had broad discretionary powers to enter into contracts below certain fiscal limits without formal Bell City Council approval. The agency is a separate entity from the city. We did not find any authorizing action by the agency that gave the former CAO similar powers for the agency.

We did not review the implementation plan for compliance with the Health and Safety Code requirements. Our review in this area was limited to the process for updating the current plan.

The last five-year implementation plan dated December 5, 2005, covered FY 2004-05 through FY 2008-09. The next plan should have been adopted by the end of 2009. However, it is nearly a year late.

Documentation provided by the DAS indicates that the next five-year implementation plan is currently in draft form and still needs to be reviewed and approved by agency personnel.

Health and Safety Code section 33490 states, in part

a) (1) (A) On or before December 31, 1994, and each five years thereafter, each agency that has adopted a redevelopment plan prior to December 31, 1993, shall adopt, after a public hearing, an implementation plan that shall contain the specific goals and objectives of the agency for the project area, the specific programs, including potential projects, and estimated expenditures proposed to be made during the next five years, and an explanation of how the goals and objectives, programs, and expenditures will eliminate blight within the project area and implement the requirements of Section 33333.10, if applicable, and Sections 33334.2, 33334.4, 33334.6, and 33413. After adoption of the first implementation plan, the parts of the implementation plan that address Section 33333.10, if applicable, and Sections 33334.2, 33334.4, 33334.6, and 33413 shall be adopted every five years either in conjunction with the housing element cycle or the implementation plan cycle.

Recommendation

We recommend that the agency move expeditiously to review the plan and take all necessary actions for its approval. We recommend that the agency institute procedures to ensure that contracts entered into by or for the agency have agency review and approval.

**FINDING 9—
Meeting minutes and
agency expenses were
not approved by the
agency.**

It was noted that, especially in calendar years starting with 2008, the City Council minutes would state that the council members were there in their capacities such as council person, agency board member, etc. The City Council would then convene as the City Council. The minutes did not indicate that the City Council and agency were holding a joint meeting for the conduct of business.

After convening as the City Council, the council would then approve agency warrants and the minutes of the prior agency meeting even if the agency board had never convened. On some occasions, after approving the agency warrants and meeting minutes, the City Council would then adjourn, re-convene as the agency, conduct other agency business, adjourn as the agency, and then re-convene as the council.

Recently, the city has started posting a separate agency meeting agenda.

Recommendation

We have previously noted that the agency and the city are two separate entities. As such, we recommend the City Council convene as the agency board prior to conducting agency business.

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

<http://www.sco.ca.gov>

**Attachment 3—
Gas Tax Fund, dated October 20, 2010**

CITY OF BELL

Audit Report

GAS TAX FUND

July 1, 2007, through June 30, 2010



JOHN CHIANG
California State Controller

October 2010



JOHN CHIANG
California State Controller

October 20, 2010

Pedro Carrillo
Interim City Administrator
City of Bell
6330 Pine Avenue
Bell, CA 90201

Dear Mr. Carrillo:

The State Controller's Office audited the City of Bell's Gas Tax Fund—highway users tax, Proposition 1B, and Traffic Congestion Relief Fund (TCRF) allocations—for the period of July 1, 2007, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Gas Tax Fund in compliance with requirements, except the city understated the fund balance in the Gas Tax Fund by \$521,086 as of June 30, 2010, primarily because it improperly charged the Gas Tax Fund for the following:

- Unsupported costs of \$301,810 for payment of engineering charges without a written contract.
- Unsupported general maintenance charges of \$129,600.
- Unsupported costs of \$76,992 for payment of street sweeping services without a written contract.
- Ineligible non-street-related costs of \$7,806 for painting house numbers on curbs.
- Unsupported costs of \$4,878 charged in excess of the contract amount.

Our audit also disclosed that the city did not meet its TCRF maintenance-of-effort (MOE) expenditure requirements of \$278,254 for Fiscal Year (FY) 2008-09. The city only had eligible TCRF MOE expenditures of \$136,162 for FY 2008-09. Therefore, the city's shortfall amount is \$142,092.

In addition, we noted significant internal control deficiencies and weaknesses related to the Gas Tax Fund and TCRF allocations. These deficiencies and weaknesses are described further in Finding 7 of this report.

Pedro Carrillo
October 20, 2010
Page 2

If you have any questions, please contact Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

cc: The Honorable Edmund G. Brown, California Attorney General
The Honorable Steve Cooley, Los Angeles County District Attorney
André Birotte Jr., U.S. Attorney, Central District of California
Lourdes Garcia, Director of Administrative Services
City of Bell

Contents

Audit Report

Summary	1
Background	2
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Findings and Recommendations	5

Audit Report

Summary

The State Controller's Office audited the City of Bell's Gas Tax Fund—highway users tax, Proposition 1B, and Traffic Congestion Relief Fund (TCRF) allocations—for the period of July 1, 2007, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Gas Tax Fund in compliance with requirements, except the city understated the fund balance in the Gas Tax Fund by \$521,086 as of June 30, 2010, primarily because it improperly charged the Gas Tax Fund for the following:

- Unsupported costs of \$301,810 for payment of engineering charges without a written contract.
- Unsupported general maintenance charges of \$129,600;
- Unsupported costs of \$76,992 for payment of street sweeping services without a written contract.
- Ineligible non-street-related costs of \$7,806 for painting house numbers on curbs.
- Unsupported costs of \$4,878 charged in excess of the contract amount.

Our audit also disclosed that the city did not meet its TCRF maintenance-of-effort (MOE) expenditure requirements of \$278,254 for Fiscal Year (FY) 2008-09. The city only had eligible TCRF MOE expenditures of \$136,162 for FY 2008-09. Therefore, the city's shortfall amount is \$142,092.

In addition, we noted significant internal control deficiencies and weaknesses related to the Gas Tax Fund and TCRF allocations. Internal control deficiencies and weaknesses noted were as follows:

- There is a potential conflict of interest because the contracted city engineer has performed all engineering services for the city including major projects. No consideration was given to other engineering firms. The lack of competitive bidding may not be cost-effective and lead to abuse.
- There is a lack of current written contracts for street services including engineering and street sweeping charges.
- There is a lack of internal administrative and accounting controls over gas tax expenditures.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Gas Tax Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Gas Tax Fund under the authority of Government Code section 12410.

Senate Bill 1266—Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006—was introduced as Proposition 1B and approved by the voters on November 7, 2006. Proposition 1B provided \$19.925 billion in bond funds for a variety of transportation priorities, including \$2 billion for cities and counties to fund the maintenance and improvement of local transportation facilities. The 2007 Budget Act and Chapter 181, Statutes of 2007, (Senate Bill 88) appropriated a total of \$950 million of Proposition 1B in the FY 2007-08. Of this amount, Chapter 313, Statutes of 2007, (Assembly Bill 196) specified that \$550 million be allocated to cities and \$400 million be allocated to counties. We conducted our audit of city's Proposition 1B funds under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Gas Tax Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Gas Tax Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments, Proposition 1B, TCRF, and other appropriate revenues in the Gas Tax Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Gas Tax Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of Bell accounted for and expended its Gas Tax Fund—highway users tax, Proposition 1B, and TCRF allocations—in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2007, through June 30, 2010, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$521,086 to the city's accounting records.

Views of Responsible Officials

We issued a draft audit report on October 13, 2010. We contacted the city's interim administrator and left messages on October 18 and 19, 2010, inquiring about the response to the draft audit report. We did not receive a verbal or written response to the draft audit report from the City of Bell.

Restricted Use

This report is intended for the information and use of the City of Bell 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 this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

October 20, 2010

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2009, through June 30, 2010**

	Gas Tax Fund			
	Highway Users Tax Allocation ¹	Prop 1B Allocation ²	TCRF Allocation ³	Totals
Beginning fund balance per city	\$ 574,914	\$ 577,424	\$ —	\$ 1,152,338
Revenues	572,117	—	253,437	825,554
Total funds available	1,147,031	577,424	253,437	1,977,892
Expenditures	(730,597)	—	—	(730,597)
Ending fund balance per city	416,434	577,424	253,437	1,247,295
Timing adjustment:				
Accrual of June 2010 highway users tax and TCRF apportionment (Governmental Accounting Standards Board Statement No. 34)	60,426	—	97,335	157,761
SCO adjustments ⁴ :				
Finding 1—Unsupported engineering charges	301,810	—	—	301,810
Finding 2—Unsupported general maintenance charges	129,600	—	—	129,600
Finding 3—Unsupported street sweeping services	76,992	—	—	76,992
Finding 4—Ineligible house number painting charges	7,806	—	—	7,806
Finding 5—Unsupported excess contract charges	4,878	—	—	4,878
Total SCO adjustments	521,086	—	—	521,086
Ending fund balance per audit	\$ 997,946	\$ 577,424	\$ 350,772	\$ 1,926,142

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for Sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² The 2007 Budget Act and Chapter 181, Statutes of 2007, (Senate Bill 88) appropriated a total of \$950 million of Proposition 1B in the FY 2007-08. Of this amount, Chapter 313, Statutes of 2007, (Assembly Bill 196), specified that \$550 million be allocated to cities and \$400 million be allocated to counties. The Proposition 1B funds were recorded in the Gas Tax Fund. The city did not receive or expend any Proposition 1B funds during the FY 2009-10.

³ Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Gas Tax Fund.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported costs— Payment for engineering charges without a written contract

For more than 12 years, the City of Bell has been making payments to D&J Engineering for engineering services charged to the Gas Tax Fund without a written contract. D&J Engineering, owned by an individual who served as the city's Director of Planning Services during our audit period, subcontracts with RSCC Engineering Inc., whose principal serves as the contracted "city engineer" for all engineering services including city streets. The City of Bell pays D&J Engineering for work performed by RSCC Engineering, Inc. D&J Engineering retains a 10% overhead charge as its profit billed to the city.

The contract between the City of Bell and D&J Engineering was only in effect for the period from January 8, 1996, through June 30, 1997. The city did not negotiate a new contract or amend the existing contract. Without a valid contract, all engineering services charged to the Gas Tax Fund are ineligible to be paid with gas tax funds. Moreover, other than being a conduit between the city and RSCC Engineering Inc. for processing of invoices and payments, there is no evidence that D&J Engineering provided any services to justify the 10% overhead charge.

The unallowable charges for the audit period are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007-08	\$ 71,465
2008-09	149,925
2009-10	80,420
Total	<u>\$ 301,810</u>

California Streets and Highways Code section 2101 specifies that highway users tax apportionments are to be expended only for the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred for the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse \$301,810 to the Gas Tax Fund for payments for engineering services without a written contract. Additionally, the city should ensure that it has written contracts for engineering services charged to the Gas Tax Fund.

**FINDING 2—
Unsupported costs—
General maintenance
charges**

The City of Bell has a written contract with Medina Construction for general maintenance services including streets and was billed \$18,000 a month for the audit period of July 1, 2007, through June 30, 2010. The city allocated 90% or \$16,200 of the monthly billings to the Gas Tax Fund. However, based on our review, of the written contract as well as our discussion with the principal of Medina Construction, only 70% or \$12,600 was street related. Therefore, the Gas Tax Fund was overcharged by 20% or \$3,600 a month over the three-year period, totaling \$129,600.

The California Streets and Highways Code, section 2101, specifies that Highway Users Tax apportionments are to be expended only for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse the Gas Tax Fund \$129,600 for costs charged in excess of general maintenance services relating to streets. Additionally, the city should ensure that only street-related costs are charged to the Gas Tax Fund.

**FINDING 3—
Unsupported costs—
Payment for street
sweeping services
without a written
contract**

Since January 2009, the City of Bell has been making payments for street sweeping services without a written contract. The city had a written contract with Graffiti Protective Coatings that expired on December 31, 2008. This contract was for \$10,000 a month of which 33.33% was charged to the Gas Tax Fund. Starting in February 2009, Graffiti Protective Coatings billed the city \$13,000 a month, 33.33% of which was charged to the Gas Tax Fund. The monthly fee was increased without entering into a new contract or amending the expired contract. Without a valid contract, all payments are ineligible charges against the Gas Tax Fund. For the audit period, the ineligible amount is \$76,992 (1 mo. @ \$10,000 × 33.33% = \$3,333 + 17 mos. @ \$13,000 × 33.33% = \$73,659).

California Streets and Highways Code section 2101 specifies that Highway Users Tax apportionments are to be expended only for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse the Gas Tax Fund \$76,992 for payments for street sweeping services without a written contract. Additionally, the city should ensure that expired contracts are renewed and/or amended.

**FINDING 4—
Ineligible non-street
related expenditures—
Painting of house
numbers on curb**

In Fiscal Year (FY) 2008-09, the city improperly charged \$7,806 to its Gas Tax Fund for painting house numbers on curbs. The painting of house numbers is a non-street-related expenditure and benefits the property owner and not the general public.

California Streets and Highways Code section 2101 specifies that highway users tax apportionments are to be expended only for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse the Gas Tax Fund for non-street-related expenditures totaling \$7,806. Additionally, the city should ensure that all costs charged to the Gas Tax Fund are street-related.

**FINDING 5—
Unsupported costs—
Amounts charged in
excess of contract
amount**

The City of Bell had a written contract with All American Asphalt in the amount of \$229,229 for a street overlay project during FY 2008-09. However, the city was billed and paid All American Asphalt \$234,107 without a change-order to increase the contract amount. This resulted in an overcharge of \$4,878 to the Gas Tax Fund.

The California Streets and Highways Code, section 2101, specifies that Highway Users Tax apportionments are to be expended only for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse the Gas Tax Fund \$4,878 for charges in excess of the written contract amount for the street overlay project. Additionally, the city should ensure that payments do not exceed the contract amount without an approved change-order.

**FINDING 6—
Traffic Congestion
Relief Fund (TCRF)—
Shortfall in the
maintenance-of-effort
requirements**

The city did not meet its TCRF maintenance-of-effort (MOE) requirements of \$278,254 for FY 2008-09. The city only had eligible TCRF MOE expenditures of \$136,162 for FY 2008-09. Therefore, the city's shortfall amount is \$142,092. The city received \$327,968 in TCRF allocations in FY 2008-09.

Pursuant to California Revenue and Taxation Code section 7104, if a city or county fails to comply with the Three-Year Average (MOE) requirement in a particular fiscal year, the city or county must expend in the following fiscal year, an amount that is not less than twice the three-year average, less the previous year's expenditures combined, in order to meet the requirement.

If the city fails to meet the MOE expenditure requirement for FY 2008-09 it must return \$327,968 of TCRF moneys received to the State Controller's Office for reallocation to other cities and counties whose expenditures are in compliance.

Recommendation

The city must meet the MOE expenditure requirement for FY 2008-09 or return the TCRF allocations received in FY 2008-09 in the amount of \$327,968. In order to meet the MOE expenditure requirement, the city must transfer \$142,092 of discretionary funds to the Gas Tax Fund to make up for the shortfall amount. Additionally, the city should review future discretionary street-related expenditures to ensure that the MOE expenditure requirements are met.

**FINDING 7—
Internal control
deficiencies**

We noted significant internal control deficiencies and weaknesses related to the Gas Tax Fund and the TCRF. Therefore, we did not place any reliance on the city's internal controls, systems, and processes. We performed substantive tests as necessary to determine compliance with Gas Tax Fund and TCRF program requirements. Internal control deficiencies and weaknesses noted were as follows:

1. Potential conflict of interest—For over 12 years, the contracted city engineer has performed all street-related engineering services for the city including major projects. No consideration has been given to other engineering firms. The lack of competition may not be cost-effective and may lead to abuse.
2. There is a lack of current written contracts for street services, including engineering and street sweeping, charged to the Gas Tax Fund.
3. There is a lack of internal administrative and accounting controls over gas tax expenditures. For example:
 - The Department of Administrative Services-Procedures Manual was not approved by the city council.

- The requirement of a written contract and/or a purchase order for payments was not followed.
 - Invoices were paid solely with an approval signature, no matching of invoices to the supporting contracts and/or purchase order.
 - Some invoices lack sufficient detail and description for services provided.
 - The requisition process for materials and supplies was not consistently followed.
4. There is a lack of monitoring discretionary street-related expenditures to ensure compliance with MOE expenditure requirements relating to the TCRF.

Recommendation

The city should immediately implement the following:

1. Consider other contractors and the competitive bidding process for all street-related engineering services, especially when undertaking major projects. This will ensure competition, lower costs, and will minimize potential conflicts of interest.
2. Obtain written contracts for all the street-related services it receives from outside contractors/vendors. Ensure that contracts are updated or amended when necessary.
3. Improve internal administrative and accounting controls over gas tax expenditures by:
 - Updating the Department of Administrative Services-Procedures Manual and obtaining approval by the city council.
 - When appropriate, obtaining written contracts and/or a purchase order.
 - Invoices should be matched against supporting contracts and/or purchase orders, prior to making payments.
 - The requisition process for materials and supplies should be consistently followed.
4. Establish a process for monitoring discretionary street-related expenditures to ensure compliance with MOE expenditure requirements relating to the TCRF.

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

<http://www.sco.ca.gov>

**Attachment 4—
State and Federal Expenditures,
dated November 18, 2010**

CITY OF BELL

Audit Report

STATE AND FEDERAL EXPENDITURES

July 1, 2008, through August 31, 2010



JOHN CHIANG
California State Controller

November 2010



JOHN CHIANG
California State Controller

November 18, 2010

Pedro Carrillo
Interim City Administrator
City of Bell
6330 Pine Avenue
Bell, CA 902010

Dear Mr. Carrillo:

The State Controller's Office (SCO) audited federal and state funding expended by the City of Bell for the period of July 1, 2008 through August 31, 2010.

The City of Bell reported \$2,356,018 for state and federal expenditures (excluding Fund 04—Gas Tax Fund) for contracts and purchases. Of this amount, we reviewed \$1,944,085 (82.52%) and determined that \$710,459 was questionable. The questioned amount represents 36.54% of the total amount reviewed. We questioned the payments because they were made without a valid contract or were outside the scope of the contract. In addition, none of the goods or services was procured through competitive bids.

The findings identified in this audit report follow the same pattern of findings disclosed in three separate audit reports that were recently released by the SCO (in September and October 2010). Essentially, the city's former Chief Administrative Officer was able to select vendors without approval and without competitive bidding, which raises serious questions about possible conflicts of interest, favoritism, and other improprieties.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, Division of Audits, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB:wm

Pedro Carrillo

-2-

November 18, 2010

cc: Lourdes Garcia, Director of Administrative Services

City of Bell

Oscar Hernandez

Mayor of the City of Bell

Teresa Jacobo

Vice Mayor of the City of Bell

George Mirabal, Councilman

Bell City Council

Lorenzo S. Valez, Councilman

Bell City Council

James M. Casso, Interim City Attorney

City of Bell

Ruth Coleman, Director

California Department of Parks and Recreation

Margo Reig Brown, Director

California Waste Integrated Management Board

Terry Gonzalez, Director

Community Development Commission of the County of Los Angeles

Bernard K. Melekian, Director

Office of Community Oriented Policing Services

U.S. Department of Justice

The Honorable Edmund G. Brown

California Attorney General

The Honorable Steve Cooley

Los Angeles County District Attorney

André Birotte Jr., U.S. Attorney

Central District of California

Contents

Audit Report

Introduction	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Official	3
Restricted Use	4
Schedule 1—Schedule of State and Federal Expenditures by Funding Source	5
Schedule 1A—Schedule of State Funds Audited.....	6
Schedule 1B—Schedule of Federal Funds Audited	7
Findings and Recommendations	8

Audit Report

Introduction

The State Controller's Office (SCO) audited the City of Bell's state and federal funding for the period of July 1, 2008, through August 31, 2010. On July 28, 2010, the newly appointed interim Chief Administrative Officer (CAO) of the City of Bell made a request with the SCO to perform an audit of the city to address numerous disclosures made in the news media suggesting possible misuse of public funds by senior management staff. In response, the State Controller agreed to perform an audit of the city's system of internal controls, property tax revenues, and state and federal funding.

This report presents the results of findings and conclusions reached in the SCO audit of the city's expenditures of state and federal funds (excluding Fund 04—Gas Tax Fund).

Three separate reports already have been issued for our audits of the Administrative and Internal Accounting Controls, Special Gas Tax Street Improvement Fund, and Bell Community Redevelopment Agency. In addition, we issued three separate letters concerning the City of Bell's Pension Assessment Fund, the Sanitation and Sewerage System District Assessment, and the Business License Taxes.

Background

The City of Bell is located in Los Angeles County, California. The population was 36,664 in the 2000 census. At 2.5 square miles, it is 13th among the 25 geographically smallest cities in the United States with a population of at least 25,000.

City residents voted to become a charter city in a special municipal election on November 29, 2005. Fewer than 400 residents, representing approximately 1.1% of the city's total population, turned out for the special election. The charter provided more autonomy to city management and exempted the city from needing to follow state contracting procedures or complying with a state law that limits council members' salaries.

News media reports in July 2010 revealed that some City of Bell administrators and council members were receiving disproportionately high salaries.

Many Bell citizens became outraged and called for the suspension of the salaries of these officials, and later, the resignation of several council and staff members. On July 23, 2010, some administrative officers resigned their positions with the city, while the mayor and the city council continued to govern the city until September 21, 2010, when the mayor and three of four Bell City Council members were indicted on felony charges.

City of Bell

State and Federal Expenditures

On July 24, 2010, the Bell City Council hired Pedro Carrillo, a partner of Urban & Associates, Inc., as the Interim CAO. The newly-appointed interim CAO requested that the SCO audit the City of Bell. In response to this request, the SCO agreed to perform a series of audits including one to review the expenditures of state and federal funding the city received.

For accountability and transparency, it should be noted that the issues identified in this audit report also exist in payments made to the interim CAO's firm, Urban & Associates, Inc. From August 25, 2008, to June 28, 2010, the city made payments totaling \$222,000 to Urban & Associates, Inc. based on approval by the former CAO. Despite making repeated requests, neither city staff nor the interim CAO could provide the SCO auditors with a valid contract to identify the scope of services to be performed by Urban & Associates, Inc. and conditions and terms of payment. We reviewed Bell City Council minutes and city resolutions and found no evidence suggesting that the Bell City Council had approved a contract for Urban & Associates, Inc.

Objectives, Scope, and Methodology

The objective of this performance audit was to evaluate the expenditures of the City of Bell's state and federal funding by:

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

During our previous audit of the City of Bell's system of administrative and internal accounting controls, dated September 22, 2010, we became aware of poorly designed and ineffective controls. The scope of our audit was state and federal funding, and our audit focused on expenditures of these funds that we believed to have the greatest risk to city operations.

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

- Evaluated the city's formal written internal policies and procedures necessary to perform the stated objectives.
- Reviewed the independent auditor's working papers for the audit of the city's financial statements for fiscal year 2008-09.

City of Bell

State and Federal Expenditures

- 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 objectives.
- Reviewed the city's documentation and supporting financial records.
- Performed tests of transactions on a risk-based approach to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Under the former CAO, the City of Bell management ignored and circumvented internal controls and the Bell City Council failed to exercise proper oversight governing the city's procurement activities. For the period of July 1, 2008, through August 31, 2010, the City of Bell reported total state and federal expenditures (excluding Fund 04—Gas Tax Fund) for contracts and purchases in amount of \$2,356,018. Of this amount, we reviewed \$1,944,085 (82.52%) and determined that \$710,459 was questionable. The questioned amount represents 36.54% of the total amount reviewed. We question the payments because they were made without a valid contract or outside the scope of the contract. In addition, none of the goods or services was procured through competitive bids.

In previously issued SCO reports, we found evidence suggesting that the former CAO may have used public funds for personal gain. The fact that the former CAO was able to select vendors without proper approval and without competitive bid raises serious questions about possible conflicts of interest, favoritism, and other improprieties.

**Views of
Responsible
Official**

We issued a draft audit report on November 4, 2010, and requested the city representatives to respond by November 12, 2010. James M. Casso, Interim City Attorney, responded by telephone on November 15, 2010, stating that the city understands the findings in the SCO's audit report with regard to contracts and best practices, and that the current administration is working on best practices so that they will be followed.

City of Bell

State and Federal Expenditures

Restricted Use

This report is solely for the information and use of the City of Bell 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 this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 18, 2010

City of Bell

State and Federal Expenditures

**Schedule 1—
Schedule of State and Federal Expenditures
by Funding Source
July 1, 2008, through August 31, 2010**

<u>Funding Source</u>	<u>Reported Expenditures¹</u>	<u>Tested Expenditures</u>	<u>Amount Questioned</u>	<u>Reference</u>
State	\$ 596,997	\$ 417,060	\$ 417,060	Schedule 1A
Federal	1,759,021	1,527,025	293,399	Schedule 1B
Totals	<u>\$ 2,356,018</u>	<u>\$ 1,944,085</u>	<u>\$ 710,459</u>	

¹ Excluding expenditures incurred under Fund 04-Gas Tax Fund.

City of Bell

State and Federal Expenditures

**Schedule 1A—
Schedule of State Funds Audited
July 1, 2008, through August 31, 2010**

General Ledger (G/L) Account	Contractor	State Tested Expenditures	Amount Questioned	Reference ¹
3252510020925	Great Western Park and Playground	\$ 199,528	\$ 199,528	Finding 1
3252510030235	MBH Architects	64,264	64,264	Finding 2
3252510000925	Medina Construction	37,164	37,164	Finding 3
3252510030235	SMS Architects	116,104	116,104	Finding 2
Totals		<u>\$ 417,060</u>	<u>\$ 417,060</u>	

¹ See the Findings and Recommendations section.

City of Bell

State and Federal Expenditures

**Schedule 1B—
Schedule of Federal Funds Audited
July 1, 2008, through August 31, 2010**

General Ledger (G/L) Account	Contractor	Federal Tested Expenditures	Amount Questioned	Reference ¹
3252560040911	Creative Bus Sales	\$ 90,000	\$ —	
3252570120235	D&J Engineering	99,882	99,882	Finding 4
3052500640235	Diana Y. Cho & Associates, Inc.	97,382	—	
3252570120925	E.C. Construction Co.	465,817	—	
3052500650235	Graffiti Protective Coatings, Inc.	199,084	99,542	Finding 5
3252530610920	J.A.R. General Construction	14,550	—	
3052500610920	Lares and Son Construction	69,535	—	
3052500690260	Medina Construction	19,690	19,690	Finding 3
7452321010320	Relia-Tech	84,412	74,285	Finding 6
3252570110925	Sully-Miller Contracting Co.	382,673	—	
Totals		<u>\$ 1,527,025</u>	<u>\$ 293,399</u>	

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Use of purchase
requisitions to
circumvent the contract
process**

We questioned \$199,528 in reported expenditures for park improvements funded under California State Department of Parks and Recreation Contract No. RZ-19-250 (Roberti-Z'Berg-Harris) and Contract No. 02-19-156 (Bond Act of 2000—Parks and Water Per Capita Grant). The amount was incurred for purchase of equipment from Great Western Park and Playground. According to the Bell City Charter, the Chief Administrative Officer (CAO) can authorize purchases up to \$50,000, but any purchases greater than \$50,000 need Bell City Council approval. The city's former CAO circumvented the contracting requirement by using a purchase requisition (No. 1000) for site work, surfacing, and installation of outdoor fitness equipment and shade covering at Debs Park.

In addition, section 1111 of the Bell City Charter states, in part, "Every contract involving an expenditure of more than \$25,000 for the construction of improvement (excluding maintenance and repair) of public buildings, works, streets, drains... where the expenditure required for such purchase shall exceed the sum of \$25,000, shall be let to the lowest responsible bidder."

City staff members could not provide any documentation to show that the services from Great Western Park and Playground were acquired through competitive bids. Without competitive bids, there is a question of possible favoritism or other improprieties. In light of repeated disclosures in other recent SCO reports that suggest the former CAO may have used public funds for personal gain, and the circumvention of contracting requirements, the potential for impropriety is very high.

We question the legality and propriety of the \$199,528 in payments to Great Western Park and Playground as they were made in violation of the city's contracting requirements and without complying with the city's competitive bid requirements.

Recommendation

The city should contact the California Department of Parks and Recreation to resolve the \$199,528 in questioned costs identified in this finding.

City of Bell

State and Federal Expenditures

**FINDING 2—
Questionable contracting
practices**

We question \$180,368 in expenditures for professional services, engineering and construction management services for the Bell Community Health and Wellness Center. These expenditures were funded under the California State Department of Parks and Recreation, 2002 Resources Bond Urban Park Act Grant (Project No. UP-19-018, Contract No. C0201054). Our review disclosed the following:

- The city and MBH Architects entered into a contract on October 20, 2008, in the amount of \$185,000, for professional services, engineering and construction management services for the Bell Community Health and Wellness Center. There is no evidence that the contract had been approved by the Bell City Council as required in the Bell City Charter. Nevertheless, the city made payments totaling \$64,264 to MBH Architects. The city, on May 5, 2009, sent a letter to MBH Architects to terminate its contract effective June 5, 2009.
- Payments were made through use of a purchase order to circumvent the city's contracting requirements. The city, in May 2009, entered into a contract for the same services for the health and wellness center with SMS Architects in the amount to \$124,000. The Bell City Council did not approve this contract. Instead, the city, on January 13, 2010, issued Purchase Order No. 12694 to authorize \$124,000 for these same services for the center. The purchase order was authorized by the former CAO, who did not have the authority to make purchases of \$50,000 or more without the Bell City Council's approval. The city made payments totaling \$116,104 to SMS Architects.
- Decisions regarding selection of contractors appear to have been made based on retaining a certain individual rather than obtaining the best value. Both the contract with MBH Architects and the signed contract with SMS Architects identified the same individual as the signatory principal. As the city could not provide any evidence suggesting the services were acquired through competitive bidding processes in accordance with the Bell City Charter requirements, this practice raises questions about possible favoritism to one individual. We question the legality and propriety of the \$180,368 in combined payments to MBH Architects and SMS Architects as they were made without a valid contract, in violation of the city's contracting requirements, and without complying with the city's competitive bid requirements.

Recommendation

The city should contact the California Department of Parks and Recreation to resolve the \$180,368 in questioned costs identified in this finding.

*City of Bell**State and Federal Expenditures***FINDING 3—
Costs outside the scope
of the contract**

We questioned \$56,854 in reported expenditures for Medina Construction. Our review of expenditures noted that Medina Construction billed for the following:

- \$37,164 for Debs Park under the Bond Act of 2000—Parks and Water Per Capita Grant for removal and replacement of wrought iron gates as well as the demolition, disposal, and preparation of fitness equipment and shade coverings.
- \$19,690 for services under the Community Development Block Grant (federal grant) for various repairs of residential homes under this program.

On June 18, 2001, the City of Bell contracted with Medina Construction to provide labor and supervision to perform public works and general maintenance services for the city. The latest amendment to this contract was executed on July 18, 2005, to extend the contract time through June 30, 2010.

The current contract between the city and Medina Construction is for public works and general maintenance services; however, it does not provide authorization to perform the above services. In addition, we could not find documentation showing that the Bell City Council approved these services. Consequently, the city was paying these costs without any contract or authorization from the Bell City Council.

In addition, the Bell City Charter, section 519, states, in part, “The City shall not be bound by any contract, except as hereinafter provided unless the same shall be made in writing approved by the City Council and signed on behalf of the City by the Mayor. . . .”

Furthermore, section 1111 of the Bell City Charter states, in part, “Every contract involving an expenditure of more than \$25,000 for the construction of improvement (excluding maintenance and repair) of public buildings, works, streets, drains . . . where the expenditure required for such purchase shall exceed the sum of \$25,000, shall be let to the lowest responsible bidder.”

Recommendation

The city should contact the Department of Parks and Recreation and Los Angeles County to resolve the \$37,164 and \$19,690, respectively, in questioned costs identified in this finding.

**FINDING 4—
Payment for professional
services without a
contract**

We questioned \$99,882 in reported expenditures for the California Integrated Waste Management Board's (CIWMB) used oil recycling grant. The services supposedly were provided by D&J Engineering whose owner also serves as the city's Director of Planning Services. In support of these reported costs, the city provided two contract agreements with D&J Engineering but neither contract pertains to the used oil recycling grant. One of the contracts was for engineering services for the development of the plans and specifications for the Florence Avenue Traffic Circulation and Safety Improvement project which expired on June 30, 1996. The other contract, which expired on July 31, 1997, was to prepare and administer benefits assessment for Fiscal Year (FY) 1997-98.

The Bell City Charter, section 519, states, in part, "The City shall not be bound by any contract, except as hereinafter provided unless the same shall be made in writing approved by the City Council and signed on behalf of the City by the Mayor. . . ." We reviewed City Council minutes and city resolutions and could not find any evidence of approval for a contract with D&J Engineering to provide services for the CIWMB's used oil recycling grant.

In addition, section 1111 of the Bell City Charter states, in part, "Every contract involving an expenditure of more than \$25,000 for the construction of improvement (excluding maintenance and repair) of public buildings, works, streets, drains . . . where the expenditure required for such purchase shall exceed the sum of \$25,000, shall be let to the lowest responsible bidder."

City staff members could not provide any documentation to show that the services from D&J Engineering were acquired through competitive bids. The owner of D&J Engineering also serves as the city's Director of Planning Services. This arrangement, at least in appearance, raises the question of possible conflicts of interest.

We question the legality and propriety of the \$99,882 in payments to D&J Engineering as they were made without a valid contract and without complying with the city's competitive bid requirements.

Recommendation

The city should contact the California Integrated Waste Management Board to resolve the \$99,882 in questioned costs identified in this finding.

*City of Bell**State and Federal Expenditures***FINDING 5—
Payment for services after
contract had expired**

We questioned \$99,542 in reported expenditures for the city's Graffiti Removal Program—Community Development Block Grant, which is funded through federal funds. The grant is administered by Los Angeles County. The city had a valid contract, dated July 21, 2008, with Graffiti Protective Coatings, Inc. for graffiti removal services through June 30, 2009. City staff members could not provide any documentation to demonstrate that the contract had been extended or a new contract had been issued. Nevertheless, Graffiti Protective Coatings, Inc. continued to perform services and the city continued to pay for such services after the expiration of the contract. The total amount paid after the expiration of the contract was \$99,542.

The Bell City Charter, section 519, states, in part, "The City shall not be bound by any contract, except as hereinafter provided unless the same shall be made in writing approved by the City Council and signed on behalf of the City by the Mayor. . . ." We reviewed the City Council minutes and city resolutions and could not find any evidence suggesting approval by the City Council to extend or renew the contract with Graffiti Removal Services.

In addition, section 1111 of the Bell City Charter states, in part, "Every contract involving an expenditure of more than \$25,000 for the construction of improvement (excluding maintenance and repair) of public buildings, works, streets, drains . . . where the expenditure required for such purchase shall exceed the sum of \$25,000, shall be let to the lowest responsible bidder."

City staff members could not provide any documentation to show that the services from Graffiti Protective Coatings, Inc. were acquired through competitive bids. Without competitive bids, there is a question of possible favoritism or other improprieties.

We question the legality and propriety of the \$99,542 in payments to Graffiti Protective Coatings, Inc. as they were made without a valid contract and without complying with the city's competitive bid requirements.

Recommendation

The city should contact Los Angeles County, the administrative agency over the Community Development Block Grant, to resolve the \$99,542 in questioned costs identified in this finding.

**FINDING 6—
Unauthorized
purchases—equipment
servers**

A review of the expenditures funded under the COPS Technology Grant included the purchase of five computer servers, including parts and labor, amounting to \$74,285 from Relia-Tech.

We could not find any purchase order or any approval from Bell City Council minutes or authorization from a city resolution for the equipment costs. The only document the city could provide to authorize this purchase, beyond a \$74,285 invoice, was a Computer Network Maintenance Contract between the city and Relia-Tech. This contract was for maintenance of servers and included no provision for purchase and/or installation.

The Bell City Charter allows the CAO to only authorize purchases up to \$50,000 and any purchases greater than \$50,000 needs the Bell City Council's approval.

Furthermore, Title 28 of the *Code of Federal Regulations*, section 66.36 (b)(1)—Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments—states, “Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.”

As the city cannot provide a valid purchase authorization relating to these computer servers, we cannot ascertain that these purchases were legal and proper. Accordingly, we question \$74,285 of reported costs for federal funding under the COPS Technology Grant.

Recommendation

The city should contact U.S. Department of Justice relative to its COPS Technology Grant to resolve the \$74,285 in questioned costs identified in this finding.

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

<http://www.sco.ca.gov>

**Attachment 5—
City's Response to the
Follow-up Review**

City of Bell
6330 Pine Avenue
Bell, California 90201
383-588-6211
383-771-9473 (fax)



Violeta Alvarez, Mayor
Ana Maria Quintana, Mayor Pro Tem
Alicia Romero, Council Member
Ali Saleh, Council Member
Nestor E. Valencia, Council Member

May 20, 2013

Mr. Andrew Finlayson, Chief
State of California
State Agency Audits Bureau
3301 C Street, Suite 705
Sacramento CA 95816

Mr. Finlayson:

In October of 2012, the Bell City Council completed the installation of its permanent executive management team following the 2010 scandal and a lengthy period of interim staffing. The new City of Bell desires to make this local government a model California community in every respect. Toward this end, we have come to value our partnership with the California State Controller's Office. The CSO's reports have been a valuable blueprint for action.

While the City does not have the financial resources to marshal additional staffing or assistance in order to meet the all of the appropriate outside review and recommendations, we have, as just one example, been able to correct or begin correcting 67% of the SCO's internal control recommendations.

In a relatively short time we have made hard-fought advances in every area of governance, internal management, and program provision, but not all of these advancements find origination in the SCO's recommendations. For example, our commitment to transparency has found expression in a completely new City website, an accomplishment that earned an "A-" grade from the Sunshine Review.

During the current fiscal year, the City will have completed three annual financial audits and three Single audits, in addition to preparing an annual budget. I can't think of any other municipality that could claim that level of progress in its fiscal affairs.

As you know, we have many other pressing legal and regulatory matters and investigations which the SCO never addressed and yet which are as important, and in many ways more important than the issues that the SCO has reported on. For example, over two years ago, when the SCO originally came to Bell at the request of its interim City Manager, the City was in default on \$35M of bonds to Dexia Credit. The potential deficiency judgment from those bonds would have likely been close to \$15M, if a foreclosure

and deficiency action had not been defended. After hundreds of hours of work, the City has successfully negotiated a "short-sale" agreement with Dexia which will essentially eliminate the up to \$15M contingent liability that the City was under. That is significant progress that greatly improves the City's financial condition. And, it's just one of many items like it that the City has advanced that aren't necessarily part of the SCO report. As you know, it is our job to prioritize the legal and regulatory needs of our City as directed to us by other regulatory and legal agencies with jurisdiction over the City, and by our City Council and by our City Attorney.

We remain committed to being a government, an administration, and a financial operation that exemplifies industry best practices. I think that commitment is represented by the steady progress that we have made.

Throughout the course of your extensive visit, we believe it has become abundantly clear to you that the City of Bell has considerably advanced, not only in the adequacy of controls to safeguard public assets, but also in terms of re-creating itself as a municipal service provider in many qualitative ways.

It is likely equally clear, however, that the City has advanced using measurements that often do not correlate to the 2010 recommendations of the SCO. It is thus the case that the City has been forced to respond "no action taken" to certain questions posed to us. This is unfortunate, but, by virtue of the explanation provided above, not entirely unexpected.

I therefore offer below a summary of the City of Bell's significant financial accomplishments over the past seven months for your consideration as you finalize your follow up report. My expectation is that this will color between the lines of your efforts.

General Administration

- Hired permanent executive management staff;
- Hired interim Human Resources Director;
- Hired Interim Risk Manager;
- Researched entry into insurance JPA, proposal from CJPIA pending acceptance;
- Revised City website, earning A- grade from Sunshine Review;
- Live streaming of all City Council meetings
- New up to date and transparent purchasing ordinance that provides more effective controls than previous outdated purchasing ordinance
- Adopted first ever transparent City budget with detailed program descriptions, and in the process of adopting a second with even more transparency.

Finance Administration

- Completed 2010 City audit;
- Completed 2010 Single Audit;
- Commenced monthly financial reporting to the City Council;
- Commenced monthly financial reporting to internal departments;
- Received vendor demonstrations and vendor proposals for replacement finance and accounting system, purchase pending in June, 2013;
- Established working routine for Finance Department's daily transaction environment, now up to date staying current with revenue and expenditure postings;
- Bank reconciliations being brought current through June 30, 2012.

Community Services

- Issued RFP and resulting new transparent contract for transportation services in City – replacing previous contractor with ties to the old administration;
- Adopted revised animal control ordinance consistent with LA County standards.

Community Development

- Lowered residential trash pick-up fee via privatization by 48%;
- Reduced plan check and building permit fees by 23% to as much as 58%;

We appreciate the time, research, insight, and advice that the SCO has given the City, and we fully intend to implement most of the recommendations. Moving forward while also attempting to clean up scandal-related lawsuits and issues is challenging indeed, and we appreciate your assistance. We welcome your continued interest and look forward to providing you with updates of our continued progress.

Sincerely,



Doug Willmore
City Manager

Cc Kennth Ramos, Auditor, Division of Audits
 Bell City Council
 Bell Department Heads