

RIALTO REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

September 2014



JOHN CHIANG
California State Controller

September 30, 2014

John Dutrey, Project Manager
City of Rialto Redevelopment/Successor Agency
150 S. Palm Ave
Rialto, CA 92376

Dear Mr. Dutrey:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Rialto Redevelopment Agency (RDA) to the City of Rialto (City) or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers to the City or any other public agency have been reversed.

Our review found that the RDA transferred \$142,684,690 in assets after January 1, 2011, including unallowable transfers totaling \$14,896,794, or 10.44% of transferred assets. The unallowable transfers included \$14,360,016 to the City and \$536,778 to the Housing Authority.

However, as of June 30, 2014, all unallowable transfers were turned over to the Successor Agency. Therefore, no further action is necessary.

If you have any questions, please contact Elizabeth González, Chief, Local Government Compliance Bureau, by telephone at (916) 324-0622.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Deborah Robertson, Oversight Board Chair
City Of Rialto Redevelopment/Successor Agency
Larry Walker, Auditor-Controller
San Bernardino Auditor-Controller
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
Division of Audits, State Controller's Office
Betty Moya, Audit Manager
Division of Audits, State Controller's Office
Tuan Tran, Auditor-in-Charge
Division of Audits, State Controller's Office
Daniel Tobia, Auditor
Division of Audits, State Controller's Office

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Rialto Redevelopment Agency (RDA) after January 1, 2011. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payments of any kind from any source.

Our review found that the RDA transferred \$142,684,690 in assets after January 1, 2011, including unallowable transfers totaling \$14,896,794, or 10.44% of transferred assets. The unallowable transfers included \$14,360,016 to the City of Rialto (City) and \$536,778 to the Housing Authority.

However, as of June 30, 2014, all unallowable transfers were turned over to the Successor Agency. Therefore, no further action is necessary. No further action is necessary.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA successor agencies and oversight boards to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety (H&S) Code beginning with section 34161.

H&S Code section 34167.5 states in part, ". . . the Controller shall review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency."

The SCO identified asset transfers that occurred after January 1, 2011, between the RDA, the City and/or any other public agency. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal action to ensure compliance with this order.

Objective, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA, or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency's operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, the RDA, the Successor Agency, and the Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the Rialto Redevelopment Agency transferred \$142,684,690 in assets after January 1, 2011, including unallowable transfers totaling \$14,896,794, or 10.44% of transferred assets. The unallowable transfers included \$14,360,016 to the City of Rialto and \$536,778 to the Housing Authority.

However, as of June 30, 2014, all unallowable transfers were turned over to the Successor Agency. Therefore, no further action is necessary.

Details of our findings are described in the Findings and Orders of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on September 5, 2014. John Dutrey, Project Manager, responded on September 15, 2014, by email. The City's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Rialto, the Rialto Housing Authority, the Successor Agency, 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 when issued final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 30, 2014

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the City of Rialto

The Rialto Redevelopment Agency (RDA) made unallowable asset transfers of \$14,360,016 to the City of Rialto (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable asset transfers were as follows:

- On September 30, 2011, the RDA transferred \$1,230,955 in bond proceeds to the City for capital project-related expenses. However, as of January 31, 2012, the City expended \$635,353 on third-party obligations. The remaining \$595,602 in cash is unallowable.
- On January 26, 2012, the RDA transferred \$13,764,414 in capital assets to the City.

Pursuant to Health and Safety (H&S) Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d) and (e).

However, the following corrective actions have been taken:

- On June 30, 2012, the City turned over \$595,602 in cash to the Successor Agency.
- On June 30, 2012, the City turned over \$13,764,414 in capital assets to the Successor Agency.

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers, in the amount of \$14,360,016, and turn over the assets to the Successor Agency. However, on June 30, 2012, the City turned over \$14,360,016 in assets to the Successor Agency. Therefore, no further action is necessary.

FINDING 2— Unallowable asset transfer to the Housing Authority

The RDA made an unallowable asset transfer of \$2,605,000 to the Housing Authority. The transfer occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On May 31, 2011, the RDA transferred \$2,605,000 in bond proceeds to the Housing Authority per an Agenda Report at an RDA meeting held on March 22, 2011. However, as of January 31, 2012, the City expended \$2,068,222 on third-party obligations. The remaining \$536,778 in cash is unallowable.

Pursuant to H&S Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d).

Order of the Controller

Pursuant to H&S Code section 34167.5, the Housing Authority is ordered to reverse the transfer in the amount of \$536,778 and turn the assets over to the Successor Agency.

The Successor Agency is directed to properly dispose of the assets in accordance with H&S Code section 34177(d).

City Response

On 5-31-14 the \$536,778 was transferred from Fund 236 (Rialto Housing Authority) to Fund 343 (Successor Agency).

SCO's Comment

We agree with the City's response. The report's Summary and Conclusion paragraphs have been modified.

**Schedule 1—
Unallowable Asset Transfers to the City of Rialto
January 1, 2011, through January 31, 2012**

Bond proceeds transferred on September 30, 2011	\$ 1,230,955
Less allowance for third-party obligations	<u>(635,353)</u>
Unallowable cash transfer	595,602
Land transfer (January 26, 2012)	<u>13,764,414</u>
Total unallowable transfers	14,360,016
Cash turned over to the Successor Agency on June 30, 2012	(595,602)
Capital assets turned over to the Successor Agency on June 30, 2012	<u>(13,764,414)</u>
Total transfers subject to H&S Code section 34167.5	<u>\$ —</u>

**Schedule 2—
Unallowable Asset Transfer to the Housing Authority
January 1, 2011, through January 31, 2012**

Cash transfer (May 31, 2011)	\$ 2,605,000
Less allowance for third-party obligations (September 21, 2011)	<u>(2,068,222)</u>
Total unallowable transfers	<u>536,778</u>
Bond proceeds turned over Successor Agency	<u>(536,778)</u>
Total transfers subject to H&S Code section 34167.5	<u>\$ —</u>

**Attachment—
City's Response to
Draft Review Report**

Tobia, Daniel

From: John Dutrey
Sent: Monday, September 15, 2014 5:10 PM
To: Gonzalez, Elizabeth
Cc: Tran, Tuan M.; Tobia, Daniel; Moya, Betty
Subject: RE: Rialto
Attachments: SKMBT_C652D14091517050.pdf

On 5-31-14 the \$536,778 was transferred from Fund 236 (Rialto Housing Authority) to Fund 343 (Successor Agency).

Attached is a journal report for the transfer, which includes a separate transfer of \$384,672, for a total amount of \$921,450. Also attached is the Trial Balance for Fund 343 and 236 that shows the transfer of \$921,450 (\$536,778 and \$384,950).

If you have any questions, please contact me.

John Dutrey

Project Manager

City of Rialto, Development Services Department

Building Division/Housing Division/Redevelopment Successor Agency

150 S. Palm Ave., Rialto CA 92376

(909) 820-8014 – Direct



(The City of Rialto is open Monday through Thursday from 7:00 a.m. to 6:00 p.m. and closed on Fridays)

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

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