

McFARLAND REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

December 2014



JOHN CHIANG
California State Controller

December 31, 2014

Rocio Mosqueda, Finance Director
McFarland Redevelopment/Successor Agency
401 West Kern Avenue
McFarland, CA 93250

Dear Ms. Mosqueda:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the McFarland Redevelopment Agency (RDA) to the City of McFarland (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 \$300,480 in assets after January 1, 2011, including unallowable transfers to the City totaling \$153,350, or 51.04% of transferred assets. These assets must be turned over to the Successor Agency.

If you have any questions, please contact Elizabeth González, Chief, Local Government Compliance Bureau, by telephone at (916) 324-0622, or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Mary Bedard, Auditor-Controller
Kern County
John Wooner, City Manager/Oversight Board Chair
McFarland Redevelopment/Successor Agency
Rocio Mosqueda, Finance Director
McFarland Redevelopment/Successor Agency
David Botelho, Program Budget Manager
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the McFarland 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 \$300,480 in assets after January 1, 2011, including unallowable transfers to the City of McFarland totaling \$153,350, or 51.04% of transferred assets. These assets must be turned over to the Successor Agency.

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 McFarland Redevelopment Agency transferred \$300,480 in assets after January 1, 2011, including unallowable transfers to the City of McFarland totaling \$153,350, or 51.04% of transferred assets. These assets must be turned over to the Successor Agency.

Details of our finding are described in the Finding and Order of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on September 25, 2014. On October 21, 2014, we notified Rocio Mosqueda, Finance Director, and John Wooner, City Manager, by email, that more than 10 calendar days had passed since they received a copy of the draft report and we had not received their response to the findings. We gave them until close of business on October 24, 2014, to notify us as to whether a response had been mailed out. As of October 30, 2014, no response from the auditee had been received.

Restricted Use

This report is solely for the information and use of the City of McFarland, the Successor Agency, the Oversight Board, 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

December 31, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfers to the
City of McFarland**

The McFarland Redevelopment Agency (RDA) made unallowable asset transfers of \$153,350 to the City of McFarland (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

- On March 16, 2011, the RDA repaid \$23,630 (\$20,000 in principal and \$3,630 in interest) to the City pursuant to an interfund loan agreement with the City.
- On April 12, 2011, the RDA transferred \$129,720 in real property to the City.

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) and (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers in the amount of \$153,350 and turn over the assets to the Successor Agency.

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

Current Assets	
Cash transfer – repayment of loan (principal) on March 16, 2011	\$ 20,000
Cash transfer – repayment of loan (Interest) on March 16, 2011	3,630
Real property transfer on April 12, 2011	<u>129,720</u>
Total unallowable asset transfers	<u>\$ 153,350</u>

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