

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 90210

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

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.

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.

- 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.

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

**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	<u>1,759,021</u>	<u>1,527,025</u>	<u>293,399</u>	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.

**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	<u>116,104</u>	<u>116,104</u>	Finding 2
Totals		<u>\$ 417,060</u>	<u>\$ 417,060</u>	

¹ See the Findings and Recommendations section.

**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.

**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.

**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.

**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>