

COMPTON COMMUNITY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

January 2014



JOHN CHIANG
California State Controller

January 16, 2014

G. Harold Duffey, City Manager
City of Compton/Successor Agency
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Compton Community Redevelopment Agency (RDA) to the City of Compton (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 of assets to the City or any other public agencies have been reversed.

Our review found that the RDA transferred \$209,744,165 in assets after January 1, 2011, including unallowable transfers totaling \$4,105,700, or 1.96% of transferred assets to the City of Compton that must be turned over to the Successor Agency.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Dr. Kofi Sefa-Boakye, Director of Redevelopment
City of Compton
Stephen Ajobiewe, Controller
City of Compton
Jessina Sanchez, Chairman
Oversight Board
City of Compton
David Botelho, Program Budget Manager
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Richard J. Chivaro, Chief Legal Counsel
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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 Compton Community 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 \$209,744,165 in assets after January 1, 2011, including unallowable transfers totaling \$4,105,700 to the City of Compton (City), or 1.96% of transferred assets that 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 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 Code (H&S Code) beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of RDAs, "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," and the date on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred after January 1, 2011, between the RDA, the City, and/or other public agencies. 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 order 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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City Council, RDA, Successor Agency, and 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 RDA transferred \$209,744,165 in assets after January 1, 2011, including unallowable transfers totaling \$4,105,700 to the City, or 1.96% of transferred assets that must be turned over to the Successor Agency.

Details of our findings are in the Findings and Orders of the Controller section of this report. We also have included a detailed schedule of assets to be turned over to, or transferred to, the Successor Agency.

**Views of
Responsible
Official**

We issued a draft review report on September 10, 2013. G. Harold Duffey, City Manager, responded by letter dated October 18, 2013, agreeing with the review results. 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, 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

January 16, 2014

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Compton

During the period January 1, 2011 through January 31, 2012, the Compton Community Redevelopment Agency (RDA) performed 13 transfers of cash totaling \$4,105,700 to the City of Compton (City). The transfers were made in order to cover the RDA's proportionate share of a deficit within the City's Self Insurance/General Liability fund. The agency executed the transfers based on City resolution 16,651, which required the RDA to reimburse the City equal to 40% of the costs related to General Liability and Self-Insurance. Per resolution 23,327, the deficit in the Self Insurance/General Liability fund was \$19,383,513 as of May 24, 2011. The RDA's 40% share of the deficit equaled \$7,753,406. As of January 31, 2012, the RDA transferred \$4,105,700 of the total \$7,753,406 deficit. However, it was noted that the first reimbursements were not performed until 2011, approximately twenty years after the resolution was ratified back in July 1991.

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. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177 (d) and (e).

Order of the Controller

Based on H&S Code section 34167.5, the City is ordered to turn over to the Successor Agency the above assets, described in Schedule 1, in the amount of \$4,105,700. The Successor Agency is directed to properly dispose of the assets in accordance with H&S Code section 34177 (d) and (e).

City's Response

To resolve the issue cited in the Review Report, the City will turn over the amount of the part payment of \$4,105,700 to the Successor Agency and request that the Successor Agency pay to the City the Agency's liability of \$7,753,406 due to the City's General Liability Fund.

SCO's Comment

The finding and order will remain as stated. The City is ordered to transfer the assets to the Successor Agency pursuant to H&S Code section 34167.5 and to dispose of the assets in accordance with H&S Code section 34177(d).

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

Unallowable transfers to the City of Compton

Cash transfers

March 4, 2011	\$ 900,000
May 31, 2011	32,500
June 30, 2011	32,500
July 28, 2011	65,700
July 31, 2011	32,500
July 31, 2011	130,000
August 29, 2011	1,000,000
September 8, 2011	500,000
September 30, 2011	350,000
October 3, 2011	700,000
November 30, 2011	130,000
December 31, 2011	32,500
January 31, 2012	<u>200,000</u>
Total unallowable transfers	<u>\$ 4,105,700</u> ¹

¹ See the Finding and Order of the Controller section.

**Attachment—
Auditee’s Response to
Draft Review Report**



City of Compton
OFFICE OF THE CITY MANAGER

G. HAROLD DUFFEY
City Manager

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October 18, 2013

Jeffrey V. Brownfield
Chief, Division of Audits
California State Controller's Office
P. O. Box 942850
Sacramento, CA 94250

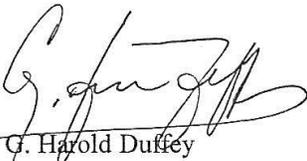
Dear Mr. Brownfield:

This is in response to your report regarding the Asset Transfer Review of the Compton Community Redevelopment Agency for the review period from January 1, 2011 through January 31, 2012 and the discussions that we had with you and your team concerning the report.

As also noted in the Review Report, the liability for which the Agency partly repaid to the City occurred over a period of several past years starting from 1991. The Agency delayed payment of the debt to the City until when the Agency had enough funds to make the payment. The Agency made part payments totaling \$4,105,700 out of the total liability of \$7,753,406 before the dissolution of the Agency. The liability and the part repayments were approved by the City Council via approved council resolutions.

To resolve the issue cited in the Review Report, the City will turn over the amount of the part payment of \$4,105,700 to the Successor Agency and request that the Successor Agency pay to the City the Agency's liability of \$7,753,406 due to the City's General Liability Fund.

Sincerely,



G. Harold Duffey



COMPTON CITY HALL
205 South Willowbrook Avenue Compton, California 90220

Jeffrey V. Brownfield
October 18, 2013

cc: Richard J. Chivaro, Chief legal Counsel
State Controller's Office

Steve Mar, Bureau Chief
Division of Audits, State Controller's Office

Scott Freesmeier, Audit Manager
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