

DESERT HOT SPRINGS REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 28, 2014

Robert Adams, City Manager
City of Desert Hot Springs
65-950 Pierson Boulevard
Desert Hot Springs, CA 92240

Dear Mr. Adams:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office reviewed all asset transfers made by the Desert Hot Springs Redevelopment Agency (RDA) to the City of Desert Hot Springs (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 it 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 \$20,320,283 in assets after January 1, 2011, including unallowable transfers to the City totaling \$11,759,300 or 57.87% of transferred assets. However, on November 27, 2013, the City transferred \$11,759,300 in Low- and Moderate-Income Housing funds (LMIH) to the Housing Authority.

In addition, the RDA and the City failed to transfer \$6,689,912 of real property to the Successor Agency as of February 1, 2012. However, as of June 30, 2012, \$6,297,936 in real property was transferred to the Successor Agency. The remaining \$391,976 in real property was transferred to the Successor Agency as of June 30, 2013. Therefore, no further action is necessary.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Amy Aguer, Finance Director
City of Desert Hot Springs
Linda Kelly, Program & Financial Specialist
City of Desert Hot Springs
Paulo Angulo, Auditor-Controller
County of Riverside
Russell Martin, Chair
Desert Hot Springs RDA Successor Agency Oversight Board
David Botelho, Program Budget Manager
Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
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Division of Audits, State Controller's Office

Contents

Review Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Findings and Orders of the Controller	4
Schedule 1—Unallowable RDA Asset Transfers to the Housing Authority	6
Schedule 2—Assets not Transferred to the Successor Agency	7
Attachment—City of Desert Hot Springs’ Response to Draft Review Report	

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Desert Hot Springs 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 \$20,320,283 in assets after January 1, 2011, including unallowable transfers to the City of Desert Hot Springs (City) totaling \$11,759,300 or 57.87% of transferred assets. However, on November 27, 2013, the City transferred \$11,759,300 in Low- and Moderate-Income Housing funds (LMIH) to the Housing Authority.

In addition, the RDA and the City failed to transfer \$6,689,912 of real property to the Successor Agency as of February 1, 2012. However, as of June 30, 2012, \$6,297,936 in real property was transferred to the Successor Agency. The remaining \$391,976 in real property was transferred to the Successor Agency as of June 30, 2013. Therefore, 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 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 RDA, the City, the Housing Authority, 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 Desert Hot Springs Redevelopment Agency (RDA) transferred \$20,320,283 in assets after January 1, 2011, including unallowable transfers to the City of Desert Hot Springs (City) totaling \$11,759,300 or 57.87% of transferred assets. However, on November 27, 2013, the City transferred \$11,759,300 in Low- and Moderate-Income Housing funds (LMIH) to the Housing Authority.

In addition, the RDA and the City failed to transfer \$6,689,912 of real property to the Successor Agency as of February 1, 2012. However, as of June 30, 2012, \$6,297,936 in real property was transferred to the Successor Agency. The remaining \$391,976 in real property was transferred to the Successor Agency as of June 30, 2013. Therefore, no further action is necessary.

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 November 6, 2013. Linda Kelly, Program and Financial Specialist, responded by letter dated November 27, 2013, disagreeing with the review results. The City of Desert Hot Springs' 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 Desert Hot Springs, the Housing Authority, 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

April 28, 2014

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the Housing Authority

On February 21, 2012, the City of Desert Hot Springs (City), in its capacity as the Successor Agency, passed and approved Resolution No. 2012-005, which transferred the housing assets and functions of the Desert Hot Springs Redevelopment Agency (RDA) to the Housing Authority. Based on the reconciliation of the Low- and Moderate-Income Housing Fund's ending balance as of January 31, 2012, per general ledger reports, the Fund had \$11,759,300 in total assets including cash, receivables, and real properties. This amount was then traced to Housing Authority Fund 700. While the Successor Agency passed and approved the transfer of assets and functions, no Oversight Board approval was provided (see Schedule 1).

Pursuant to Health and Safety (H&S) Code section 34181(c), the Oversight Board shall direct the Successor Agency to transfer housing assets pursuant to H&S Code section 34176, and that this action be approved by resolution of the Oversight Board at a public meeting after at least 10 days' notice to the public of the specific proposed actions.

Order of the Controller

Pursuant to H&S Code section 34167.5, the Housing Authority is ordered to turn over the assets valued at \$11,759,300 to the Successor Agency for proper disposition in accordance with H&S Code sections 34177(d) and (e) and 34181(c).

City's Response

The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB1484 (that among other things, added H&S Code section 34176 and 34181 (c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency's LMIHF Due Diligence Review ("DDR"). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR was approved by DOF as submitted. Given the Department of Finance's approval of the LMIHF DDR and the Successor Agency's payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.

SCO's Comment

The State Controller's Office (SCO) acknowledges the receipt of information pertaining to validation of Low- and Moderate-Income Housing Fund assets transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency. The Order of the Controller section for Finding 1 – Unallowable asset transfers to the Housing Authority, has been adjusted. No further action is necessary.

**FINDING 2—
Assets not
transferred to the
Successor Agency**

Our review found that the RDA and the City failed to transfer \$6,689,912 in land and land held for resale to the Successor Agency by February 1, 2012.

The SCO determined the following:

- Real property (land) owned by the RDA, with a book value of \$404,045, was recorded in the City's financial records;
- Real property (land) held for resale owned by the RDA, with a book value of \$6,285,867, was not recorded in the RDA's financial statements as of January 31, 2012.
- The Successor Agency received a partial transfer of assets in the amount of \$6,297,936 as of June 30, 2012 (see Schedule 2).

As a result, there remains \$391,976 in land that was not transferred to the Successor Agency.

Pursuant to H&S Code section 34175(b), all assets, properties, leases, books and records, buildings and equipment of RDA are to be transferred by February 1, 2012 to the control of the Successor Agency for administration.

Order of the Controller

Pursuant to H&S Code section 34167.5, \$6,689,912 in assets is ordered to be turned over to the Successor Agency. However, the City transferred \$6,297,936 in assets to the Successor Agency as of June 30, 2012. Therefore, the remaining \$391,976 in land must be turned over to the Successor Agency for proper disposition in accordance with H&S Code section 34177(d) and (e).

City's Response

Of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency's financial records, \$6,297,936 in real property assets were recorded in the Successor Agency's financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency's financial records as of June 30, 2013.

SCO's Comment

The SCO acknowledges the receipt of information regarding the adjustment made on June 30, 2013, in the amount of \$391,976. The Order of the Controller section for Finding 2 – Assets not transferred to the Successor Agency, has been adjusted. No further action is necessary.

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

Unallowable assets transferred to the Housing Authority	
Cash and Investments	\$ 2,553,289
Restricted Cash and Investments:	
Fiscal Agent	1
Receivables:	
Accounts	337
Notes	3,486,203
Interest	967
Due from Other Funds	—
Advance to Other Funds	3,442,921
Property Held for Resale	1,272,364
NSP Property Held for Resale	<u>1,003,218</u>
Unallowable assets transferred	11,759,300
Less adjustment per City's letter dated November 27, 2013	<u>(11,759,300)</u>
Total unallowable asset transfers	<u><u>\$ —</u></u> ¹

¹ See the Findings and Orders of the Controller section.

**Schedule 2—
Assets not Transferred to the Successor Agency
January 1, 2011, through January 31, 2012**

Land per Capital Asset Schedule

Housing Properties

APN 641-191-008/09	110,500
APN 639-221-017	9,959
APN 641-092-034	6,037
APN 667-120-018	1,508
APN 667-120-020	1,508
APN 667-120-021	1,508
APN 667-120-022	1,508
	<u>1,508</u>

Total Housing Properties 132,528

Non-Housing Properties

APN 639-093-065	9,583
APN 663-320-009	71,235
APN 663-320-011	71,235
APN 641-041-049/50	119,464
	<u>119,464</u>

Total Non-Housing Properties 271,517

Land not transferred 404,045^a

Land Held for Resale per Land Capital Asset Schedule 9,460,761

Less transfers per General Ledger as of January 31, 2012

Successor Agency	(1,902,530)
Housing Authority	<u>(1,272,364)</u>

Total Land Held for Resale transfers as of January 31, 2012 (3,174,894)

Land Held for Resale not transferred 6,285,867^b

Assets not transferred to the Successor Agency's financial records as of February 1, 2012 6,689,912

Less adjustments made on June 30, 2012 fiscal year end (6,297,936)

Less adjustments made on June 30, 2013 fiscal year end (391,976)

Total assets to be transferred to the Successor Agency —¹

Notes:

a) Land assets not recorded in RDA's financial records as of January 31, 2012

b) Land Held for Resale not recorded in RDA's financial records as of January 31, 2012

¹ See the Findings and Orders of the Controller section.

**Attachment—
City of Desert Hot Springs' Response to
Draft Review Report**



City of Desert Hot Springs

65-950 Pierson Blvd. • Desert Hot Springs • CA • 92240
(760) 329-6411
www.cityofdhs.org

November 27, 2013

Mr. Steven Mar, Chief
Local Government Audits Bureau
P. O. Box 942850
Sacramento, California 94250-5874

Re: Comments on Draft Desert Hot Springs Redevelopment Agency Asset Transfer Review

Dear Mr. Mar:

This letter is a follow-up to our recent telephone conversation with respect to the November 6, 2013 draft Desert Hot Springs Redevelopment Agency Asset Transfer Review ("ATR"). Thank you for your invitation to provide comments on the draft ATR. My comments are included within the attachment to this letter. They follow the format of the ATR. I trust that you will find them easy to follow.

Once you have reviewed my comments, I would like to discuss them with you via a conference call. Please let me know a convenient time for a conference call meeting for that purpose.

In the interim, if you have any questions, please contact me at 760-329-6411 extension (289).

Sincerely,


LINDA KELLY
Program and Financial Specialist

LK:ntm

CC: Claudia Corona
Trisha Quiambao

Attachment

ATTACHMENT

FORMAL COMMENTS ON THE SCO'S DRAFT NOVEMBER 6, 2013
DESERT HOT SPRINGS REDEVELOPMENT AGENCY
ASSET TRANSFER REVIEW

ASSET TRANSFER REVIEW REPORT

In the Summary section, the first and second sentences of the second paragraph, reads as follows:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) transferred \$20,320,283 in assets after January 1, 2011, including unallowable transfers totaling \$11,759,300 or 57.87% of the transferred assets. These assets must be turned over to the Successor Agency.”

Proposed alternative language:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) did not transfer any of its assets to the City of Desert Hot Springs, and/or other public agencies, except those that already had been committed to a third party prior to June 28, 2011, during the period of January 1, 2011 through January 31, 2012. However, pursuant to H&S Code section 34175(b), on February 1, 2012 the Desert Hot Springs Successor Agency received \$20,320,283 in assets from the former redevelopment agency, including transfers totaling \$11,759,300 or 57.87% of the transferred assets with respect to the RDA’s low- and moderate-income housing fund (“LMIHF”). The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency’s LMIHF Due Diligence Review (“DDR”). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR were approved by DOF as submitted. Given the Department of Finance’s approval of the LMIHF DDR and the Successor Agency’s payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.”

In the Summary section, the third and fourth sentences of the second paragraph, reads as follows:

“In addition, the RDA and the City of Desert Hot Springs failed to transfer \$6,689,912 of real properties to the Successor Agency. However, \$6,297,936 in real property was transferred to the Successor Agency as of June 12, 2012. The remaining \$391,976 in real property must be turned over to the Successor Agency.”

Proposed alternative language:

“H&S Code section 34175(b) provides that “All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012. Therefore, all of the assets in question were by operation of law transferred to the Successor Agency on February 1, 2012. However, the Successor Agency was tardy with respect to amending its financial records to comport with H&S Code section 34175(b). Therefore, of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency’s financial records, \$6,297,936 in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2013.”

In the Background section, the sixth paragraph reads as follows:

“The SCO has identified transfers of assets that occurred after January 1, 2011, between the Desert Hot Springs Redevelopment Agency, the City of Desert Hot Springs, 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.”

Proposed alternative language:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) did not transfer any of its assets to the City of Desert Hot Springs, and/or other public agencies, except those that already had been committed to a third party prior to June 28, 2011, during the period of January 1, 2011 through January 31, 2012. However, pursuant to H&S Code section 34175(b), on February 1, 2012 the Desert Hot Springs Successor Agency received \$20,320,283 in assets from the former redevelopment agency, including transfers totaling \$11,759,300 or 57.87% of the transferred assets with respect to the RDA’s LMIHF. The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency’s LMIHF Due Diligence Review (“DDR”). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR were approved by DOF as submitted. Given the Department of Finance’s approval of the LMIHF DDR and the Successor Agency’s payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.”

In the Conclusion section, the first paragraph reads as follows:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) transferred \$20,320,283 in assets after January 1, 2011, including unallowable transfers totaling \$11,759,300 or 57.87% of the transferred assets. These assets must be turned over to the Successor Agency. In addition, the RDA and the City of Desert Hot Springs failed to transfer \$6,689,912 of real properties to the Successor Agency. However, \$6,297,936 in real property was transferred to the Successor Agency as of June 30, 2012. The remaining \$391,976 in real property must be turned over to the Successor Agency.”

Proposed alternative language:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) did not transfer any of its assets to the City of Desert Hot Springs, and/or other public agencies, except those that already had been committed to a third party prior to June 28, 2011, during the period of January 1, 2011 through January 31, 2012. However, pursuant to H&S Code section 34175(b), on February 1, 2012 the Desert Hot Springs Successor Agency received \$20,320,283 in assets from the former redevelopment agency, including transfers totaling \$11,759,300 or 57.87% of the transferred assets with respect to the RDA’s LMIHF. H&S Code section 34175(b) provides that “All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012.

The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency’s LMIHF Due Diligence Review (“DDR”). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR were approved by DOF as submitted. Given the Department of Finance’s approval of the LMIHF DDR and the Successor Agency’s payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.

In addition, the Successor Agency was tardy with respect to amending its financial records to comport with H&S Code section 34175(b). Therefore, of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency’s financial records, \$6,297,936 in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2013.”

FINDINGS AND ORDERS OF THE CONTROLLER

Finding 1, first paragraph, the fourth sentence reads as follows:

“While the Successor Agency passed and approved the transfer of assets and functions, there was no Oversight Board approval provided (see Schedule 1).”

Proposed alternative language:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) did not transfer any of its assets to the City of Desert Hot Springs, and/or other public agencies, except those that already had been committed to a third party prior to June 28, 2011, during the period of January 1, 2011 through January 31, 2012. However, pursuant to H&S Code section 34175(b), on February 1, 2012 the Desert Hot Springs Successor Agency received \$20,320,283 in assets from the former redevelopment agency, including transfers totaling \$11,759,300 or 57.87% of the transferred assets with respect to the RDA’s low- and moderate-income housing fund (“LMIHF”). H&S Code section 34175(b) provides that “All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012.

The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency’s LMIHF Due Diligence Review (“DDR”). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR were approved by DOF as submitted. Given the Department of Finance’s approval of the LMIHF DDR and the Successor Agency’s payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.”

Finding 1, second paragraph reads as follows:

“Pursuant to H&S Code section 34182(c), the oversight board shall direct the Successor Agency to transfer housing assets pursuant to H&S Code section 34176 and that this action be approved by resolution of the oversight board at a public meeting after at least 10 days’ notice to the public of the specific proposed actions.”

Proposed action:

Since the transfer of the LMIHF assets occurred prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board, the above finding is unnecessary and should be deleted.

Finding 1, third paragraph, Order of the Controller, reads as follows:

“Pursuant to H&S Code Section 34167.5, the Housing Authority is ordered to turn over the assets valued at \$11,759,300, to the Successor Agency for proper distribution in accordance with H&S Code Sections 34177 (d) and (e) and 34181 (c).”

Proposed action:

Since the transfer of the LMIHF assets occurred prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board, the order of the Controller is unnecessary and should be deleted.

Finding 2, first paragraph, reads as follows:

“Our review found that the RDA and the City of Desert Hot Springs failed to transfer \$6,689,912 in land and land held for resale to the Successor Agency by February 1, 2012.”

Proposed alternative language:

“Our review found that the Desert Hot Springs Redevelopment Agency (RDA) did not transfer any of its assets to the City of Desert Hot Springs, and/or other public agencies, except those that already had been committed to a third party prior to June 28, 2011, during the period of January 1, 2011 through January 31, 2012. However, pursuant to H&S Code section 34175(b), on February 1, 2012 the Desert Hot Springs Successor Agency received \$20,320,283 in assets from the former redevelopment agency, including transfers totaling \$11,759,300 or 57.87% of the transferred assets with respect to the RDA’s low- and moderate-income housing fund (“LMIHF”). H&S Code section 34175(b) provides that “All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012.

The LMIHF assets were subsequently transferred to the Desert Hot Springs Housing Authority, as Successor Housing Agency, on February 21, 2012, which is prior to the adoption of AB 1484 (that among other things, added H&S Code sections 34176 and 34181(c)) and prior to the formation of the Oversight Board. Further, all of the LMIHF assets were reported in the Successor Agency’s LMIHF Due Diligence Review (“DDR”). Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the cash and investments portion of the assets were clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities. The balance of the assets described within the LMIHF DDR were approved by DOF as submitted. Given the Department of Finance’s approval of the LMIHF DDR and the Successor Agency’s payment of the clawed-back funds, no further action is necessary with respect to the LMIHF assets.

In addition, the Successor Agency was tardy with respect to amending its financial records to comport with H&S Code section 34175(b). Therefore, of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency's financial records, \$6,297,936 in real property assets were recorded in the Successor Agency's financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency's financial records as of June 30, 2013."

Finding 2, second paragraph, first bullet point, reads as follows:

"Real Property (land) owned by the RDA, with a book value of \$404,045 was recorded in error in the City of Desert Hot Springs financial records;"

Proposed alternative language:

"Real Property (land) owned by the RDA, with a book value of \$404,045 was recorded in the City of Desert Hot Springs financial records, as of June 30, 2011 and corrected in the financial records, as of June 30, 2013."

Finding 2, second paragraph, second bullet point, reads as follows:

"Real property (land) held for resale owned by the RDA, with a book value of \$6,285,867, was not recorded in the RDA's financial statements as of January 31, 2012."

Proposed alternative language:

"Real property (land) held for resale owned by the RDA, with a book value of \$6,285,867, was not recorded in the RDA's financial statements as of January 31, 2012. The Successor Agency was tardy with respect to amending its financial records to comport with H&S Code section 34175(b). Therefore, of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency's financial records, \$6,297,936 in real property assets were recorded in the Successor Agency's financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency's financial records as of June 30, 2013."

Finding 2, second paragraph, third bullet point, reads as follows:

"The Successor Agency received a partial transfer of assets in the amount of \$6,297,936 as of June 30, 2012 (see schedule 2)."

Proposed alternative language:

"The Successor Agency received a partial transfer of assets in the amount of \$6,297,936 as of June 30, 2012 (see schedule 2). The Successor Agency was tardy with respect to amending its financial records to comport with H&S Code section 34175(b). Therefore, of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency's financial records, \$6,297,936 in real property assets were recorded in the Successor Agency's financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency's financial records as of June 30, 2013."

Finding 2, third paragraph, first sentence, reads as follows:

“As a result, there remains \$391,976 in land that was not transferred to the Successor Agency.”

Proposed action:

Given the above, the above sentence is no longer necessary and should be deleted.

The Order of the Controller reads as follows:

“Pursuant to H&S Code Section 64167.5, \$6,689,912 in assets is ordered to be turned over to the Successor Agency. However, the City of Desert Hot Springs had transferred \$6,297,936 in assets to the Successor Agency as of June 30, 2012. Therefore, the remaining \$391,976 in land must be turned over to the Successor Agency for proper disposition in accordance with H&S Code section 34177(d) and (e).”

Proposed alternative language:

“Of the \$6,689,912 of real properties that needed to be recorded in the Successor Agency’s financial records, \$6,297,936 in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2012 and the remaining \$391,976 balance in real property assets were recorded in the Successor Agency’s financial records as of June 30, 2013. Therefore, no further action is required by the Successor Agency.”

Schedule 1 – Unallowable RDA Asset Transfers to Housing Authority

The title of Schedule 1 should be changed to:

“RDA Asset Transfers to Housing Authority on February 21, 2012”

The first item on the schedule reads as follows:

Cash and Investments	\$2,553,289
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Proposed alternative language:

‘Cash and Investments ¹	\$2,553,289
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I. The amount shown as cash and investments was reported in the Successor Agency’s LMIHF Due Diligence Review. Per the June 20, 2013 directive issued by the California Department of Finance, \$402,434 of the amount shown was clawed-back, paid to the County Auditor-Controller and distributed to the taxing entities.’

The last item on the schedule reads as follows:

NSP Property Held for Resale	\$1,003,218
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**State Controller's Office
Division of Audits
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