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CA Controller Finds Pervasive Deficiencies in City of Industry Accounting Practices

SACRAMENTO—State Controller Betty T. Yee today announced that her team's detailed review of the City of Industry's accounting controls found pervasive and serious deficiencies, with 85 percent of internal control elements deemed inadequate.

"This is the most recent in a series of reviews performed by my auditors showing a disturbing pattern of weak fiscal controls in a handful of cities," said Controller Yee, the state's chief fiscal officer. "The good news is that we are offering guidelines and training to help all local governments abide by the rules and protect taxpayer dollars."

Controller Yee announced in May that her team would review the city's finances over two fiscal years after an outside, limited-scope audit raised questions about \$326 million in payments to businesses owned by a former mayor and his family. The City of Industry, in the San Gabriel Valley in Los Angeles County, is home to more than 2,500 businesses but only about 200 residents.

Among the State Controller's most significant findings:

- 1 Sixty-seven of 79 internal control elements were inadequate, rendering accounting controls effectively non-existent.
- 1 The city paid \$14.7 million to a contractor, the Industry Manufacturers Council, for advertising and promotion despite the lack of proper supporting documentation, making it impossible for reviewers to determine what services were provided.
- 1 The city paid \$12.3 million to Zerep Management Corp. for maintenance and miscellaneous services even though invoices consistently lacked detailed descriptions of the services provided. Several invoices were paid without proper authorization from the finance department or the city manager, as called for in departmental procedures. Some of the work may have been outside the scope of the contract.
- 1 The City Council failed to exercise sufficient oversight of the city's finances and operations, approving contracts without detailed reviews and failing to analyze measures it approved. Over eight years, all resolutions and ordinances but one were passed unanimously, and the average City Council meeting (excluding closed sessions) lasted a little more than 18 minutes. The City Council approved contract extensions without considering other options or seeking bids from other companies.
- 1 The city failed to exercise adequate control over city-issued credit cards. Of \$235,189 in credit card charges over five years, 83 percent were found to be questionable, including expensive meals and hotel rooms charged by managers, elected officials, and other employees. One meal charged by a manager in 2014 cost \$560. A former manager charged travel expenses of \$4,636 on one day in 2012, including \$253 for alcoholic beverages and \$661 for massage services. Other questionable charges included \$796 for an iPad that went to an elected official, \$4,142 for flowers, \$446 for a wine-tasting, and \$2,185 for a 65-inch television.
- 1 Some employees may have been paid twice for the same work.
- 1 The city did not maintain timesheets and did not provide documentation of performing annual employee reviews.

The city has taken several steps already to address the shortcomings, including reviewing all of its contracts, giving closer scrutiny to invoices, destroying most of its city-issued credit cards, and implementing a timesheet requirement. The city disagreed with some of the [review's findings](#).

Several reviews over the past year, since Controller Yee took office, have shown a lack of internal controls in cities and other government entities. Among the recurring problems:

- 1 Failure to adhere to competitive bidding requirements and violations of municipal codes
- 1 Lack of documentation for invoices
- 1 Inadequate control of government-issued credit cards
- 1 Conflicts of interest
- 1 Failure to segregate staff duties to assure that one employee cannot both authorize spending and process the related paperwork
- 1 Administrative policies and procedures that are missing, incomplete, or outdated
- 1 Inadequate City Council oversight of payments
- 1 Lack of timely bank reconciliations

The State Controller's audits and reviews of local governments can be accessed .

In an effort to help local agencies strengthen internal controls, Controller Yee last year published [guidelines](#) to safeguard assets and prevent and detect financial errors and fraud. The Controller also offers her team's expertise for webinars and other training on internal

controls.

As the chief fiscal officer of California, Controller Yee is responsible for accountability and disbursement of the state's financial resources. The Controller also safeguards many types of property until claimed by the rightful owners, and has independent auditing authority over government agencies that spend state funds. She is a member of numerous financing authorities, and fiscal and financial oversight entities including the Franchise Tax Board. She also serves on the boards for the nation's two largest public pension funds. Elected in 2014, Controller Yee is the tenth woman elected to a statewide office in California's history. Follow the Controller on Twitter at [@CACController](#) and on Facebook at [California State Controller's Office](#).

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