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PR13:33
For Immediate Release:
10/16/2013

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Controller Gives Final Notice to Delinquent Local Governments

State to Audit Cities and Special Districts that fail to file financial records

SACRAMENTO – State Controller John Chiang today sent letters to 126 local governments that have failed to file financial and accounting reports required under State law. The letters went to nine cities and 117 special districts, giving each entity the deadline of December 31, 2013, to file the delinquent documents.

"Transparency in financial reporting – including public salaries – is necessary to protect communities against the misuse of taxpayer dollars and other abuses of public trust," said Controller Chiang.

Under Government Code section 53891, local governments are required to file a report of financial transactions with the State Controller's Office, which include figures on revenues, expenditures, and long-term debt, within 90-110 days of the end of the fiscal year. Each report noted in the Controller's letter is more than a year overdue, during which time the agencies ignored a penalty-free grace period, as well as written notification – delivered via certified mail – warning that assessment of monetary penalties is forthcoming.

The Controller publishes financial reporting instructions on his website annually. Following the 2010 scandal in the City of Bell, he amended the filing instructions to include detailed reports of employee wages and benefit costs. That data is now used to support the Controller's website dedicated to employee compensation – publicpay.ca.gov.

In his letter, Chiang noted that repeated failures to file may indicate serious internal control problems at the local level. In many of the Controller's recent audits, internal control deficiencies either caused or were symptoms of serious fiscal distress for local governments. Internal controls include separation of powers between budgeting and check-writing, avoiding potential conflicts of interest in hiring or contracting, and other measures designed to protect the integrity of a local government's finances.

The letter urges non-compliant cities and special districts to file their delinquent reports by December 31, 2013, or be subject to an audit to obtain the missing data. Public agencies which have demonstrated a chronic inability to file their financial reports may be subject to an additional audit of their internal controls and other fiscal management practices.

"My office's audits of Bell, Stockton and other fiscally-distressed public agencies have highlighted how weak accounting and reporting practices deny local leaders the opportunity to fix problems before they deteriorate into crisis and scandal," said Chiang. "The lack of transparency provides a breeding ground for unchecked spending, corruption, and fiscal mismanagement."

Last month, Governor Jerry Brown signed AB 1248, a bill sponsored by Controller Chiang and authored by Assemblyman Ken Cooley (D-Rancho Cordova), which calls for the Controller's Office to work with local governments to develop statewide internal control guidelines.

A copy of the letter, along with a list of all non-compliant cities and special districts can be found . All 58 counties are current on their reporting requirements, therefore none were included in today's mailing.

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