

CITY OF INDUSTRY

Review Report

INTERNAL CONTROL SYSTEM

January 29, 2016, through April 12, 2018



BETTY T. YEE
California State Controller

January 2019



BETTY T. YEE
California State Controller

January 23, 2019

Troy Helling, City Manager
City of Industry
15625 Stafford Street
City of Industry, CA 91744

Dear Mr. Helling:

The State Controller's Office conducted a review of the City of Industry's internal control system to determine the adequacy of the city's efforts to implement the recommendations and responses to the findings noted in our prior review report for the period of July 1, 2012, through June 30, 2014, issued on January 28, 2016; and to evaluate the adequacy of the city's existing internal control system for conducting its operations, preparing financial reports, safeguarding assets, and ensuring proper use of public funds.

Our review found that the city did not satisfactorily resolve all of the findings noted in our prior review report (Appendix A). Specifically, the city did not fully implement our recommendations in all of its operations, as indicated by its lack of controls over the Expo Center and the city's rental properties. In addition, the city's current internal control system is mostly inadequate, as described in the Findings and Recommendations section of our report.

The results of our review and evaluation of the city's internal control system are included in this report as Appendix B. Our evaluation of the internal control attributes was based on conditions that existed during the review period of January 29, 2016, through April 12, 2018.

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office, to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of an effective internal control system. Of the 48 control attributes evaluated, we found that 36, or 75%, were not present. Only 12, or 25%, were present and functioning.

If you have any questions, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: The Honorable Mark D. Radecki, Mayor
City of Industry
Cory C. Moss, Mayor Pro Tem
City of Industry
Abraham N. Cruz, Councilmember
City of Industry
Catherine Marcucci, Councilmember
City of Industry
Newell W. Ruggles, Councilmember
City of Industry
Yamini Pathak, Director of Finance
City of Industry

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Review Report

Introduction

The State Controller's Office (SCO) conducted a follow-up review to determine the adequacy of the City of Industry's efforts to implement the recommendations and responses to the findings noted in our prior internal control system review report for the period of July 1, 2012, through June 30, 2014, issued on January 28, 2016. In addition, we reviewed the city's existing internal control system. This review report covers the period of January 29, 2016, through April 12, 2018. We expanded our testing as necessary to include prior and current transactions to follow up on issues identified by interviewing city officials, and reviewing other audit reports and work done by independent auditors.

We conducted this review pursuant to Government Code (GC) section 12422.5, which authorizes the Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office (GAO), to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of an effective internal control system. This assessment is intended to help management evaluate how well the city's internal control system is designed and implemented, and determine where improvements can be made.

This report presents the findings and conclusions that we reached in our review of the city's internal control system.

Background

City of Industry

The City of Industry is an industrial suburb of Los Angeles in the San Gabriel Valley region of Los Angeles County. The city is home to over 2,500 businesses and 80,000 jobs but only 219 residents at the 2010 census—down from 777 residents in 2000. The city is almost entirely industrial. The city has a total area of 12.1 square miles, 11.8 square miles of which is land and 0.3 square miles of which is water. The city was incorporated on June 18, 1957.

The City Council is composed of five members elected at large by the city's citizens to serve for four-year overlapping terms. As the city's legislative body, the City Council acts upon city laws and is bound to uphold State and Federal laws; the city adopted its own charter on June 8, 1976. The city sets its own laws and policies by ordinance, resolution, and minute action.

The City Council appoints members to the various city boards, commissions, and committees, including the Civic-Recreational-Industrial Authority (CRIA). The CRIA was originally established in 1972 by a joint exercise of powers agreement between the City of Industry and its redevelopment agency, the Industry Urban-Development Agency (IUDA).

The IUDA was dissolved as a legal entity on February 1, 2012; therefore, it is no longer a member of the CRIA. On May 24, 2012, the city adopted Resolution No. CC 2012-10, amending and restating the existing joint exercise of powers agreement and admitted the City of La Puente as a member of the CRIA. The purpose of this agreement is to provide for management, maintenance, operation, and oversight of property, including the Industry Hills Expo Center (Expo Center).

The City Council also appoints members to the Industry Property and Housing Management Authority (IPHMA). The IPHMA is a joint powers authority between the City of Industry and the CRIA; it is the governing authority that manages and maintains the city's housing assets. The IPHMA is administered by a Board of Directors consisting of three Directors—two appointed by the City Council, and one appointed by the CRIA. The Industry Property and Housing Management Authority Fund is an enterprise fund that is supported by rental income, its fund balance reserves, and subsidies from the city's General Fund.

The City Council Members also serve as Board Members/Commissioners to the Successor Agency to the Industry Urban-Development Agency, Industrial Development Authority, Industry Public Utilities Commission, and Industry Public Facilities Authority, with the Mayor serving as Chairman/President of the Board.

Administrative and Internal Accounting Controls Review Report

On January 28, 2016, the SCO issued a report for its review of the city's internal control system, which included the following findings:

- Sixty-seven of 79 internal control elements were inadequate, rendering accounting controls effectively non-existent.
- 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 SCO and other reviewers to determine what services had been provided.
- The city paid \$12.3 million to Zerep Management Corporation for maintenance and miscellaneous services although 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.
- 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 that it had approved. Over eight years, all resolutions and ordinances but one were passed unanimously, and the average City Council meeting (excluding closed sessions) lasted approximately 18 minutes. The City Council approved contract extensions without considering other options or seeking bids from other companies.

- The city failed to exercise adequate control over city-issued credit cards. Of \$235,189 in credit card charges over five years, 83% were found to be questionable, including 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 for an elected official, \$4,142 for flowers, \$446 for a wine-tasting, and \$2,185 for a 65-inch television.
- Some employees may have been paid twice for the same work.
- The city did not maintain timesheets or provide documentation for annual employee reviews.

Objectives, Scope, and Methodology

The objectives of our review were to:

- Determine the adequacy of the city's efforts to implement the recommendations and responses to the findings noted in our prior review report for the period of July 1, 2012, through June 30, 2014, issued on January 28, 2016; and
- Evaluate the city's internal control system for the period of January 29, 2016, through April 12, 2018, to ensure the:
 - Effectiveness and efficiency of operations;
 - Reliability of financial reporting;
 - Compliance with applicable laws and regulations; and
 - Adequate safeguarding of public resources.

To achieve our objectives, we:

- Identified what actions, if any, the city has taken in response to our prior findings and recommendations;
- Identified recommendations from our prior review report that have not yet been implemented;
- Evaluated the city's formal internal policies and procedures;
- Conducted interviews with city employees and observed the city's business operations to evaluate the city's internal control system;
- Reviewed the city's supporting documentation, including financial records;
- Performed tests of transactions on a non-statistical sample basis to ensure adherence with prescribed policies and procedures, and to test and validate the effectiveness of controls; and
- Evaluated various aspects of the city's internal control system in accordance with the Green Book.

Conclusion

Our review found that:

- The city did not satisfactorily resolve all of the findings noted in our prior review report for the period of July 1, 2012, through June 30, 2014, issued on January 28, 2016. Specifically, it did not fully implement our recommendations in all of its operations, as indicated by its lack of controls over the Expo Center and the city's rental properties. The results of our follow-up on the prior review findings are described in Appendix A of this report.
- The city's internal control system appears to be mostly inadequate, as described in the Findings and Recommendations section. These findings include:
 - Insufficient oversight of the Expo Center (Finding 1);
 - Insufficient oversight of rental properties (Finding 2);
 - Lack of controls over equipment and vehicle usage (Finding 3);
 - Lack of controls for a loan to the Industry Convalescent Hospital (Finding 4);
 - Lack of an audit committee (Finding 5); and
 - Lack of approved meeting minutes (Finding 6).

Of the 48 control attributes evaluated pertaining to internal control components and principles, we found that 36, or 75%, were not present. Only 12, or 25%, were present and functioning. The results of our review and evaluation of the city's internal control system are included in this report as Appendix B.

Follow-up on Prior Review Findings

The city did not satisfactorily resolve all of the findings noted in our prior review report for the period of July 1, 2012, through June 30, 2014, issued on January 28, 2016. The results of our follow-up on the prior review findings are described in Appendix A of this report.

Views of Responsible Officials

We issued a draft report on November 28, 2018. Troy Helling, City Manager, responded by email on December 14, 2018, and in a letter postmarked December 14, 2018. The city stated that it has taken steps to address the issues noted in our findings and will continue to make efforts to enhance its internal control system. The city's response is included in this final review report as an Attachment.

Restricted Use

This review report is solely for the information and use of the City of Industry and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this review report, which is a matter of public record.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

January 23, 2019

Findings and Recommendations

FINDING 1— Insufficient oversight of the Expo Center

The city, as a member of the CRIA, did not exercise sufficient oversight of the financial and operational activities of the Expo Center. As a result, the Expo Center, which the CRIA oversees, incurred average annual losses of \$1.53 million dollars from fiscal year (FY) 2011-12 to FY 2016-17.

Civic-Recreational-Industrial Authority

The CRIA is a separate legal entity formed under a joint exercise of powers agreement. It is noted that the CRIA's financial statements are included in every fiscal year of the city's government-wide financial statements as a blended component unit. In addition, the CRIA's day-to-day operations are administered by the City Manager, and its financial affairs are the responsibility of the City Treasurer and the Director of Finance of the City of Industry.

From FY 2011-12 to FY 2016-17, the city transferred \$6.86 million to support the CRIA's operation and management, of which the CRIA transferred \$5.31 million directly to the Expo Center, as shown below:

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	Total	Average/Year
Transfers-in from City of Industry	\$ 1,332,840	\$ 1,384,382	\$ 1,325,441	\$ 1,349,473	\$ 918,268	\$ 546,799	\$ 6,857,203	\$ 1,142,867
Transfers-out to Expo Center	\$ (1,119,559)	\$ (1,232,237)	\$ (1,080,000)	\$ (849,250)	\$ (582,000)	\$ (449,906)	\$ (5,312,952)	\$ (885,492)

Industry Hills Expo Center

The CRIA's primary function is to oversee the management of the Expo Center, a multi-purpose recreational, meeting, and event facility. The CRIA has contracted with CNC Equestrian Management Services, Inc. (CNC Equestrian) to manage the daily operations of the Expo Center. A City Councilmember is also employed by CNC Equestrian to manage the Expo Center's accounting functions.

The Expo Center's operating revenue from events and rentals was not sufficient to cover its operating expenses. During the period of July 1, 2011, through June 30, 2017, the Expo Center experienced total net losses of \$9.18 million dollars, an average of \$1.53 million dollars per fiscal year, as shown below:

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	Total	Average/Year
Total Operating Revenue	\$ 1,430,399	\$ 1,535,020	\$ 1,433,242	\$ 1,290,492	\$ 1,507,883	\$ 1,552,885	\$ 8,749,921	\$ 1,458,320
General Administration	1,197,876	1,167,067	1,220,862	1,124,188	1,038,152	1,037,654	6,785,799	1,130,967
Expo Center Operation	1,178,005	1,261,214	1,185,308	901,744	1,064,418	1,127,486	6,718,175	1,119,696
Depreciation	728,828	749,372	751,458	747,153	751,277	747,916	4,476,004	746,001
Total Operating Expenses	3,104,709	3,177,653	3,157,628	2,773,085	2,853,847	2,913,056	17,979,978	2,996,663
Operating Income (Loss)	(1,674,310)	(1,642,633)	(1,724,386)	(1,482,593)	(1,345,964)	(1,360,171)	(9,230,057)	(1,538,343)
Other Income	6,164	8,373	8,232	6,532	7,384	7,932	44,617	7,436
Net Income (Loss)	\$ (1,668,146)	\$ (1,634,260)	\$ (1,716,154)	\$ (1,476,061)	\$ (1,338,580)	\$ (1,352,239)	\$ (9,185,440)	\$ (1,530,907)

The city transferred funds to the CRIA, which the CRIA subsequently transferred to the Expo Center to compensate for the losses. Between FY 2011-12 and FY 2016-17, the CRIA transferred a total of \$5.31 million to the Expo Center.

Lack of internal controls over Expo Center

The Expo Center lacks internal controls, such as formal policies and procedures, supporting documentation for payments, adequate oversight of purchasing, and adequate maintenance of records.

Lack of formal policies and procedures

We attempted to assess the Expo Center's written policies and procedures regarding its operations to ensure that the control procedures were complete and sufficient to protect public resources from misuse. However, city management did not provide us with any written policies and procedures. In addition, city management was not directly involved in the Expo Center's daily operations and could not demonstrate an understanding of the internal control system over Expo Center activities.

Without written policies and procedures to evaluate, we attempted to interview Expo Center staff to gain an understanding of its operations and controls. However, we were not permitted to interview anyone because city management claimed that Expo Center staff were contractors and not employees; therefore, the city could not compel them to cooperate.

Inadequate supporting documentation for expenses

We reviewed the Expo Center's Expense Ledger Detail Listing for FY 2016-17, and requested supporting documentation, such as invoices and purchase orders, for 14 transactions to ensure that the expenses were for official business, classified correctly, recorded in a timely manner, and approved by management prior to payment. However, the city did not provide supporting documentation.

We could not verify that any Expo Center expenses were for official business.

Lack of supporting documentation for questionable transactions in Check Register Summaries

All of the Expo Center's expenses were listed in monthly Check Register Summaries and were presented to the CRIA Board for final approval. For the period of January 1, 2016, through April 30, 2018, we noted several issues in Check Register Summaries that warrant follow-up review:

- Fifty-one entries for Automated Teller Machine (ATM) replenishments totaling \$480,040 were questionable. Except for one entry of \$9,540, entries for ATM replenishment were generally in multiples of \$500 or \$1,000. For example, ATM replenishment on July 5, 2016, was \$30,000 and on July 24, 2016, was \$2,500. Normally, funds in ATMs are replenished based on the money withdrawn by users and not always perfectly rounded in multiples of \$500 or \$1,000.

Despite multiple requests, the city has not provided any documentation of its ATM replenishment process, such as activity logs or a formal internal policy and procedures.

We were unable to verify that these ATM replenishments were for official business.

- Forty-six checks were voided, for which the city has not provided any documented justification. Proper explanations for voided checks should be presented before the CRIA Board fully accepts the monthly Check Registers.

We were unable to verify that these checks were properly voided.

- Fifty-seven checks were not included in the Check Register Summaries. Check numbers were periodically skipped in the Check Register Summaries; the city did not provide any documented justification upon request. The city should cancel these checks to ensure that they are voided and cannot be used.

Inadequate oversight of purchasing

The city does not provide sufficient oversight of the Expo Center's purchasing and payment processes.

The city gave CNC Equestrian complete control and authority over the city's bank account. CNC Equestrian can authorize and make its own purchases without any oversight from city management. CNC Equestrian can also produce checks for these purchases.

The city granted this contractor almost complete control of the purchasing and payment process with minimal city management involvement, which is contrary to the city's established financial responsibilities as stated in the CRIA's joint powers agreement.

Inadequate record keeping

The City Treasurer claims that she reviewed supporting documentation, such as invoices, before she signed checks for Expo Center expenses. However, we could not confirm this, because the city did not maintain copies of these documents.

The city is responsible for maintaining supporting documentation to support that it spent public resources appropriately.

Lack of management oversight to mitigate operational losses

On June 1, 2002, the CRIA assumed control over the Expo Center's operations. Since that time, Expo Center has consistently lost money for the city. The city established the Expo Center activities as an enterprise fund; therefore, it should be fully supported by its revenue activities with minimal support from other financing sources such as transfers.

Based on the documents reviewed and interviews with city management, it appears that the city failed to:

- Address the Expo Center's operational losses;
- Develop formal policies and procedures;

- Exercise sufficient oversight of the purchasing and payment processes; and
- Maintain adequate supporting documentation relating to expenses and the handling of checks.

Recommendation

We recommend that the city, as a member of the CRIA:

- Develop a plan to address Expo Center operational losses;
- Develop formal policies and procedures;
- Exercise additional oversight for the purchasing and payment processes; and
- Maintain adequate supporting documentation relating to expenses and the handling of checks.

City's Response

The Report states that annual losses from the Expo Center result from insufficient oversight. However, the Report fails to offer any facts which support that a lack of oversight caused any losses experienced by the Expo Center. While there are certain changes that can improve daily operations and accounting, a fundamental understanding of the Expo Center's public purpose helps to clarify why the facility does not operate as a profit center....

Similar to parks and recreation departments of cities across California, this community resource is not operated purely for the purpose of generating profit for CRIA and may incur operational losses, which the City has subsidized to allow continued service....

Expo Center revenues have steadily increased by 21.6% during the past three (3) years, from \$1,295,861 in 2015, to \$1,576,126 in 2017. CRIA will continue to seek opportunities to increase facility utilization, including both revenue generating and those that benefit the City, neighboring communities and residents.

The political nature of this Report is again noted when the Controller's office states that "a City Councilmember is also employed by CNC Equestrian Management Services, Inc. ("CNC Equestrian") to manage the Expo Center's accounting functions." It is unclear how that statement is relevant to the analysis (or lack thereof) concerning the operations at the Expo Center. The notation concerning the Councilmember is likely an effort by the Controller and her cronies to intimidate an Industry Councilmember and as retaliation against that Councilmember for actions related to the Tres Hermanos project.

Inadequate oversight of purchasing/Inadequate Record Keeping:

Contrary to what is stated in the Report, the City does not give CNC Equestrian complete control and authority over the City's bank account, or purchasing and payments.

Presently, CRIA contracts with CNC Equestrian to manage all day-to-day operations, including operation of the facility, staffing, and bookkeeping. All invoices are reviewed by CNC Equestrian, then a check is prepared and submitted for authorization and payment by CRIA. Payment authorization requires dual signatures by City administrators. Thereafter, month end closing and reconciliation is prepared by Rogers, Clem & Company, an accounting firm, and reviewed by CRIA, at a public meeting, and audited by The Pun Group, another accounting firm. With respect to the issue of voided checks, those checks are included in the warrant register for CRIA's review. It is also the City's understanding that CNC Equestrian has plans to contract out the ATM replenishment process.

There are also instances where the Controller indicates that it was "unable to verify that checks were properly voided" or that it could "not verify that any Expo Center expenses were for official business," yet the Report does not demonstrate that the checks were *not* properly voided, or that expenses were *not* for official business. These remarks are used to make the reader believe that the City or CNC Equestrian are somehow engaged in illicit activities, however there is nothing to substantiate these allegations.

To address other concerns identified in the Report, formal policies and procedures to define appropriate operations and expenditures will be drafted, submitted for CRIA's consideration, and implemented consistent with the City Resolution 2013-12. For example, both CRIA and the City will further outline the purchasing and payment process, as well as ensure preservation of supporting documentation in accordance with a records retention schedule.

SCO Comment

Our finding and recommendations remain unchanged.

As presented in the report, the Expo Center experienced annual losses of \$1.53 million during the last six fiscal years that we reviewed. Although the city did not make individuals who were knowledgeable about the Expo Center operation available for our inquiry and provided only limited documentation for our review, the finding identified several internal control weaknesses that may contribute to the Expo Center's operating losses. The prevention and control of weaknesses in internal control is a responsibility of the city, as a member of CRIA, and its management.

The Expo Center is accounted for in the city's basic financial statements as an enterprise fund. In accordance with standards that the city claims it adheres to, the Government Finance Officers Association (GFOA) advises that "It is essential that a government maintain adequate levels of working capital in its enterprise funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees."

We were unable to analyze the Councilmember's role regarding the Expo Center's operations because the city did not provide substantive documentation or make knowledgeable individuals available for inquiry. Similarly, we were unable to determine if there were any conflicts of interest related to the Councilmember's role of approving Expo Center purchases and payments to CNC Equestrian. We did not identify the Councilmember in the report.

The city states that “the Report does not demonstrate that the checks were *not* properly voided, or that expenses were *not* for official business.” As previously stated, SCO auditors were unable to analyze the voided checks, supporting documentation, or expenses because, despite repeated requests, the city did not provide substantive documentation or make knowledgeable individuals available for inquiry. We did not make any statement regarding whether the city or CNC Equestrian were engaged in illicit activities.

We would welcome the city’s response to our repeated requests for additional information and substantive documentation to support the city’s assertion that public funds were spent appropriately.

The purpose of the finding was to encourage the city to develop and implement formal policies and procedures to ensure that public funds are properly accounted for and spent appropriately. The finding presented in this report is based on inquiry with city management and personnel, and evaluation of documentation provided during our review.

**FINDING 2—
Insufficient
oversight of rental
properties**

The city, as a member of the IPHMA, incurred significant losses due to insufficient oversight of its rental properties. The IPHMA incurred losses in its yearly operations of \$169,705 in FY 2014-15, \$683,277 in FY 2015-16, and \$340,425 in FY 2016-17.

The city’s rental properties are managed by the IPHMA, which is a joint powers authority between the City of Industry and the CRIA; it is the governing authority that manages and maintains the city’s 29 rental properties. The IPHMA is administered by a Board of Directors (IPHMA Board) consisting of three Directors—two appointed by the City Council and one appointed by the CRIA. The Industry Property and Housing Management Authority Fund is an enterprise fund supported by rental income, fund balance reserves, and subsidies from the city’s General Fund. The IPHMA is a separate legal entity under the joint powers act; however, the IPHMA’s day-to-day operations are administered by the City Manager, and its financial affairs are the responsibility of the City Treasurer of the City of Industry.

We identified several issues that may have contributed to the operating losses of the rental properties.

Lack of a clear objective

The city does not have a clear objective for the IPHMA, or a strategic plan for its operations.

The Basic Financial Statements for FY 2016-17 mention that the IPHMA was established “to manage the property and housing rental activity within the City.” We spoke with city management on several occasions in an attempt to understand the objective of the IPHMA; however, city management could not explain the IPHMA’s purpose beyond managing the city’s properties and rental activity.

City management was unclear about whether the city's housing properties are for low-income residents, city representatives and their family members, or city contractors. Without a clear purpose, it is difficult to determine whether the IPHMA's operations are aligned with its objective.

Lack of formal policies and procedures

The city lacks formal policies and procedures for its rental housing operation, such as the housing application process, the methodology for determining rents charged to tenants, and the house remodeling process.

Lack of a formal application process

According to the city, the informal application process is initiated by a prospective tenant, who submits a letter describing his or her hardships and need for housing in the city. The IPHMA Board reviews the letters and approves new tenants at its sole discretion, without any documented justification. The vacancies are usually not advertised. The IPHMA Board's methodology and criteria for selecting tenants is questionable.

For example, a Councilmember's spouse expressed difficulties with climbing stairs while living in a city rental house and requested tenancy in a single-story house. The IPHMA Board allowed the Councilmember and family to move to a newly-renovated house that had been remodeled for \$528,028.

The IPHMA Board's methodology in tenant selection is not transparent and appears questionable. To improve the process, the city should establish a formal application process based on a priority list, with a documented methodology to ensure that public funds are not misused.

Lack of rent calculation methodology

On September 20, 2018, the price range to rent a house in the city area is \$2,200 to \$3,250 per month. The city charges rental rates of \$600 to \$700 per month for houses which vary in size and number of bedrooms and bathrooms. These rates are significantly below the market rate. The city lacks a documented methodology to substantiate how it determines the below-market rental rate for its tenants.

As stated in Note 17 of the Basic Financial Statements for FY 2016-17, the city's housing properties are occupied by current and former City Council members, current Commissioners, and current Boards members.

GC section 8314 provides in relevant part:

- (a) It is unlawful for any elected state or local officer, including any state or local appointee, employee, or consultant, to use or permit others to use public resources for...personal or other purposes which are not authorized by law.
- (b) For purposes of this section:
 - (1) 'Personal purpose' means those activities the purpose of which is for personal enjoyment, private gain or advantage, or an outside endeavor not related to state business...

- (3) 'Public resources' means any property or asset owned by the state or any local agency, including, but not limited to, land, buildings, facilities, funds, equipment, supplies, telephones, computers, vehicles, travel, and state-compensated time.

The city does not consider the difference between the city's rental rate and market rate as a form of compensation for city representatives. Without policies and procedures, it is unclear whether this dollar amount is a form of taxable compensation or a gift of public funds.

Based on our review of the IPHMA Board meeting minutes, housing rental rates have not been adjusted since September 2012. Additionally, other documents that were made available for our review did not show whether rent was ever adjusted for city housing.

The city's failure to adjust housing rental rates contributed to a loss of additional city revenue.

No policy and procedures for the remodeling process

The city does not have a policy or procedures for the remodeling process. Normally, remodeling is approved by the IPHMA Board; however, we were not able to verify the approval for the remodeling of the house in which a Councilmember's spouse currently resides, which cost approximately \$528,028, because the city did not provide the auditors with complete IPHMA Board or City Council meeting minutes.

Without established formal policies and procedures, the city is at risk of being unable to prevent and detect abuse of public funds.

Demand for payments lacked proper analysis and review

Payments for goods and services were approved by the city without adequate review. From January 2015 to July 2017, demand for payments amounted to \$1.88 million dollars. The city approved these payments without question or scrutiny. We noted the following questionable payments:

- \$418,000 for CNC Engineering's professional services costs relating to house remodeling were paid without an IPHMA Board-approved contract agreement. We reviewed the meeting minutes between September 2014 and November 2016, and found no approval of CNC Engineering's contract agreement.
- Material variances in monthly maintenance costs for Satsuma, maintenance contractor for the city, were neither reviewed nor questioned. The billing invoices fluctuated between \$9,000 and \$17,000 a month, but the city did not justify these variances.

Lack of controls for remodeling expenses

On January 6, 2015, the City Engineer solicited bids for Project IPHMA-001 with estimated project costs of \$525,000. The project was for the remodeling of houses located at 15714 and 15722 Nelson Avenue, City of Industry.

On February 8, 2015, the IPHMA Board reduced the scope of improvements to only the house at 15722 Nelson Avenue, and revised the remodeling cost estimate to \$175,000.

This property features two bedrooms and two bathrooms with 1,044 square feet of living space. At that time, a city employee was renting this property for \$700 per month.

Several instances demonstrate that the city failed to exercise sufficient oversight of the project. Based on our review of available documents, we noted that:

- The city selected a bid for \$373,577 although the revised scope's estimated cost was \$175,000; and
- The total costs incurred for the remodeling project grew to over \$788,000.

The total costs included construction and other professional services. Some of the professional services provided by CNC Engineering and Kleinfelder were incurred without contracts approved by the IPHMA Board. We also noted that the approved construction contract agreement for remodeling is contradictory.

Article 1 of the contract between the IPHMA and CNC Engineering states that IPHMA will provide the contractor with the materials for the work to be performed. However, Article 3 states that the contractor will provide the materials, contrary to Article 1.

There were no contract amendments to correct this misstatement regarding who should provide materials. Additionally, the agreement did not include the maximum billable amount, which should have been included to help control costs.

IPHMA's operating losses

The city established the IPHMA activities as an enterprise fund; therefore, it should be fully supported by its revenue activities with minimal support from other financing sources.

However, as a result of the city's lack of oversight, formal policies and procedures, and rental calculation methodology; and severe deficiencies in controls over the handling of renovations, the IPHMA operated at a loss for FY 2014-15 through FY 2016-17, averaging approximately \$398,000 annually per fiscal year, as shown below:

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>Total</u>	<u>Average</u>
Operating Revenue:					
Rental Income	\$ 219,700	\$ 175,007	\$ 191,300	\$ 586,007	
Total Operating Revenue	<u>219,700</u>	<u>175,007</u>	<u>191,300</u>	<u>586,007</u>	<u>\$ 195,336</u>
Operating Expenses:					
Personnel Services	-	-	23,245	23,245	
Cost of housing authority operations	291,866	759,130	396,205	1,447,201	
Depreciation	97,539	99,154	112,275	308,968	
Total Operating Expenses	<u>389,405</u>	<u>858,284</u>	<u>531,725</u>	<u>1,779,414</u>	<u>593,138</u>
INCOME (LOSS) FROM OPERATIONS	<u>\$ (169,705)</u>	<u>\$ (683,277)</u>	<u>\$ (340,425)</u>	<u>\$ (1,193,407)</u>	<u>\$ (397,802)</u>

Recommendation

We recommend that the city, as a member of the IPHMA:

- Establish a clear objective and strategic plan for the IPHMA, to align with its operating activities;
- Establish formal policies and procedures for the application process;
- Advertise vacancies to create a fair opportunity to receive housing; and
- Develop a methodology to determine fair market value for its rental properties to offset operating losses and remodeling expenses.

City's Response

Lack of clear objective:

... Per the JPA [Joint Powers Agreement], the purpose of the IPHMA is to manage City and CRIA owned residential properties

Lack of formal policies and procedures:

The IPHMA Board has directed staff to prepare standard applications, lease agreements, and a methodology for rent determinations to comply with best practices. To provide a comprehensive set of policies and procedures, staff is preparing a Request for Qualifications to retain a consultant, with public housing expertise, to advise and assist with standardization of practices, commensurate with a housing objective to be defined by IPHMA and, as the matter relates to land use and development, the City Council. Once these policies and procedures are completed, concerns listed in the Report will be fully resolved.

Please note that, on Page 9, under *Lack of rent calculation methodology*, the second paragraph states that "the city's housing properties are occupied by . . . current IPHMA Board members." In fact, no past or present IPHMA Board members live in any property managed by the IPHMA, and none of the IPHMA Board Members are City residents....

With respect to Satsuma, it is unclear how the Controller came to the conclusion that the monthly maintenance costs were “neither reviewed nor questioned,” and that there was nothing to justify the variances in the invoice amount. Invoices from Satsuma are processed in the same manner as all requests for payment from vendors. Once received, the invoice is submitted to Accounts Payable staff, within the Finance Department, who compare it against the Purchase Order (“PO”) terms. If the type of service, allocated time, and cost is consistent with the PO, then the invoice is transmitted to the City Manager for signature. Prior to authorizing payment, the City Manager, or his authorized designee, will verify that work performed was actually needed and ordered by the City, satisfactorily completed, and the time and materials billed are reasonable. Afterwards, all records are retained.

Concerning the variances in Satsuma’s invoices, it is only logical for invoices to vary for maintenance services based on the level of services performed each month.

Further, consistent with the tone of the Report, statements were made once again to intimidate a Councilmember and as political retribution. While repairs and renovations have been made to most of the housing managed by the IPHMA, the Controller chose to single out a Councilmember’s home to use as an example.

SCO Comment

We have updated this finding based on the city’s clarification; our recommendations remain unchanged.

The draft version of this report stated:

As stated in Note 17 of the Basic Financial Statements for FY 2016-17, the city’s housing properties are occupied by current and former City Council members, current Commissioners, and current IPHMA Board members.

This final version states:

As stated in Note 17 of the Basic Financial Statements for FY 2016-17, the city’s housing properties are occupied by current and former City Council members, current Commissioners, and current Board members.

As stated in the finding, “city management was unclear about whether the city’s housing properties are for low-income residents, city representatives and their family members or city contractors.” Without a clear objective, we could not determine how the IPHMA Board could properly and reasonably manage these city-owned properties. The city disagreed with our conclusion that the IPHMA lacked a clear objective or strategic plan for its operations, and claimed that the purpose of IPHMA is simply to manage residential properties.

However, the city stated that it plans “to retain a consultant, with *public housing expertise* [emphasis added], to advise and assist with standardization of practices, commensurate with a *housing objective to be defined by IPHMA* [emphasis added].” This statement seems to indicate that the IPHMA Board is considering updating or redefining IPHMA’s objective for a public housing-related purpose.

As noted in the report, questionable expenses were included in the list presented to the city for approval. However, for the period of January 2015 through July 2017, the city did not question or disapprove any of these expenses.

The city's response included a statement regarding the intimidation of a Councilmember. This report is not intended to single out any city officer or employee, but to present examples of circumstances that showed weaknesses in internal controls.

We could not determine whether there were any conflicts of interest, such as preferential treatment regarding the rent calculation, or approval of the rental application, because the city lacked documentation, policies, procedures, and methodologies. It is unclear whether the Councilmember was approved for housing because of the Councilmember's employment with Square Root (a city landscaping vendor) or the Councilmember's role in city governance. We did not identify the Councilmember.

**FINDING 3—
Lack of controls
over equipment
and vehicle usage**

The city lacks formal policies and procedures and active oversight of contractors' use of city-owned equipment and vehicles.

We assessed the city's policies and procedures regarding equipment and vehicle usage to ensure that the control procedures were complete and sufficient to protect public resources from misuse. We noted that the city did not have any formal policies and procedures for equipment and vehicle usage by city employees or contractors.

The city provided contractors with equipment and vehicles for use in their work on city projects. For example, two supervisors for a maintenance contractor (Square Root), were provided city-owned Ford F-150s. These supervisors are also City of Industry Councilmembers. The city did not stipulate in the contract agreement that contractors must abide by the same rules that city employees are required to follow.

The city also lacks compensating controls to prevent the personal use of equipment and vehicles by contractors for which the city incurs additional costs for maintenance and upkeep.

Without effective controls, city-owned equipment and vehicles are potentially susceptible to theft, vandalism, and misuse of public resources.

Recommendation

We recommend that the city:

- Establish formal policies and procedures for the use of authorized equipment and vehicles by city employees; and
- Establish compensating controls for contractors who use city-owned equipment and vehicles.

City's Response

Concerns of theft, vandalism, and misuse of city-owned equipment and vehicles will be addressed by preparing a policy that all publicly owned equipment and vehicles may only be used by authorized City employees to conduct official business.

Any current agreements will be evaluated for compliance and future agreements will include clear contract language to ensure that neither City owned vehicles nor equipment are used. This does not, however, preclude a contractor or consultant from requesting reimbursement for related equipment or vehicle expenses incurred from actual pre-authorized service to the City.

Once again, the Controller's office took an opportunity to make an example of Councilmembers while ignoring the greater use of City owned vehicles by other contractors. This blatant targeting of City officials further supports the City's conclusion that the purpose of this Report was nothing more than political gamesmanship by the Controller on behalf of those private parties with an interest in the Tres Hermanos project.

SCO Comment

Our finding and recommendations remain unchanged.

The city's response included a statement regarding the targeting of Councilmembers. We could not determine whether there were any conflicts of interest regarding the Councilmembers' role in the approval of the contract, because the city did not have meeting minutes. We did not identify the Councilmembers.

FINDING 4— Lack of controls for a loan to the Industry Convalescent Hospital

The city lacks policies and procedures for the collection of an outstanding loan to the Industry Convalescent Hospital (dba El Encanto Healthcare and Habilitation Center).

The balance on the loan from the city to Industry Convalescent Hospital is an estimated \$44.6 million, with a principal balance of \$20.0 million and an additional \$24.6 million balance from accrued interest, as stated in the Basic Financial Statements for FY 2016-17. According to city records, the city has received only one principal payment of \$400,000, on October 10, 2008, and one interest payment of \$100,000, on April 15, 2009, since the loan was formalized on December 6, 1990. The loan agreement states, in part:

Hospital agrees to repay the advances...at such time as hospital has surplus funds sufficient to pay some portion or all of the obligation and, in that event, upon demand by City, Hospital agrees to make such payments.

The city stated that it does not have policies and procedures in place to collect on the loan to the hospital, nor has it attempted to collect on the loan. According to the Basic Financial Statements for FY 2015-16, 100% of the outstanding balance was offset by an allowance for doubtful account, which means that the city does not think it will be able to collect the full loan amount.

The city did not regularly invoice the hospital for loan payments. Given the size of this loan and the city's failure to make any collections, the city has not demonstrated an intent to adequately safeguard public resources.

Recommendation

We recommend that the city:

- Establish formal policies and procedures for the collection of loan payments. This should include the timely issuance of invoices to request payment; and
- Regularly evaluate the collectability of loans.

City's Response

[O]n August 9, 2018, the City Council directed staff to begin negotiating a restructuring of the loan to recover the principal balance....The City commits to working with the facility operator to develop an agreeable and realistic repayment process and, upon establishment of a payment schedule, will establish a clear invoice system.

**FINDING 5—
Lack of an audit
committee**

The city lacks an audit committee to advise the City Council.

On June 30, 2012, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2011-12. In its report, the Grand Jury recommended to 24 charter cities within Los Angeles County—City of Industry included—that they establish formal audit committees to provide independent review and oversight for the cities' financial reporting processes, internal control system, and independent auditors.

Furthermore, the GFOA recommends that every state and local government establish an audit committee as a way of implementing best practices. As stated on the GFOA website:

An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, its internal controls, and its independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.

The City Council does not perform the aforementioned functions, and is therefore not considered an audit committee.

As noted previously in this report, the city:

- Lacks formal policies and procedures for various processes;
- Lacks oversight of operations throughout the city; and
- Failed to adequately resolve all findings from the prior report.

The City Council failed to develop and adhere to a robust internal control system, especially concerning its component units, the CRIA and the IPHMA. This can be attributed to the lack of an audit committee. The purpose of an audit committee is to advise and provide recommendations regarding financial reporting, internal control functions, risk management systems, and audit findings. If the city had an independent audit committee, or if the City Council acted as one, then city management would have ensured that policies and procedures were in place to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguarding of public resources.

Recommendation

We recommend that the city establish an audit committee to ensure that proper internal controls are in place to help the city operate efficiently and effectively. To maintain its independence, the audit committee should not include members of city management.

City's Response

Enclosed herewith, please find a copy of RESOLUTION NO. CC 2013-18, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF INDUSTRY, CALIFORNIA, ESTABLISHING AN AUDIT COMMITTEE AND DESIGNATING ITS FUNCTIONS, adopted on September 26, 2013. The committee membership does not include members of City Management. Section 5.A of Resolution No. CC 2013-18 provides, in part, that the Audit Committee will: "Hold an annual meeting at least once each fiscal year." For the audited time period, there are no records of convened meetings. Staff will schedule an agenda item for the City Council to appoint members and establish a regular meeting schedule. A copy of the Resolution is attached hereto as Exhibit C.

FINDING 6— Lack of approved meeting minutes

The city lacks a substantial amount of approved meeting minutes for its governing bodies including the City Council, Industry Public Utilities Commission, CRIA, IPHMA, Planning Commission, Industry Public Facilities Authority, the Successor Agency to the Industry Urban-Development Agency, and the Oversight Board of the Successor Agency to the Industry Urban-Development Agency.

We reviewed the minutes posted to the city's website for meetings held between January 1, 2016, and October 1, 2018, and noted that many minutes were missing.

A summary of the missing meeting minutes as of October 1, 2018, is as follows:

<u>Calendar Year</u>	<u>Agendas</u>	<u>Available Meeting Minutes</u>	<u>Missing Meeting Minutes</u>	<u>Percentage of Missing Meeting Minutes</u>
2016	105	65	40	38.1%
2017	104	6	98	94.2%
Jan. 1 to Oct. 1, 2018	88	2	86	97.7%
Total	297	73	224	75.4%

The city is missing 224 of 297, or 75.4%, completed minutes for meetings held between January 1, 2016, and October 1, 2018. By not posting meeting minutes to the city’s website, the city’s operations lack transparency.

Meeting minutes of the city’s various governing bodies should be transcribed, reviewed, approved, and posted to the city’s website in a timely manner. The lack of timely approved meeting minutes is troubling, as city citizens and other interested parties are left unaware of the governing bodies’ actions and their direction for the city.

Recommendation

We recommend that the city establish policies and procedures to ensure that meeting minutes for the city’s governing bodies are promptly transcribed, reviewed, approved, and posted to the city’s website.

City’s Response

Transparency and accountability are high priorities of this City Council and administration. Accordingly, timely adoption of Board/ Commission and/ or City Council meeting minutes has been addressed. Since September 2018, minutes for all City Council meetings have been completed and scheduled for City Council adoption by the next regularly scheduled meeting. In addition, a formal policy, to standardize content, form, timeliness, and public availability of minutes, is being prepared for City Council adoption.

Given the substantial number of past Board/Commission and/ or City Council meeting minutes that have neither been prepared nor adopted, staff is also developing a plan to ensure steady progress toward bringing all minutes up-to-date.

**OTHER ISSUE 1—
Review Period**

The city’s response included a statement indicating confusion about the review period.

City’s Response

In 2015, your office conducted a prior review of the City for the period of July 1, 2012 through June 30, 2014. It is unclear why any subsequent review does not cover the period beginning July 1, 2015 to ensure a complete review of the City’s internal financial controls.

SCO Comment

Although the prior SCO review covered the period of July 1, 2012, through June 30, 2014, as stated in the January 28, 2016 review report, the review included testing of pertinent transactions and an evaluation of the city's responses through January 28, 2016. Hence, the follow-up review was conducted for a period subsequent to issuance of the prior review report. Additionally, as previously stated in this report, we expanded our testing as necessary to include prior and current transactions, outside of the stated review period, to follow up on issues identified.

OTHER ISSUE 2— Follow-up Review

The city's response included a statement indicating objections to the follow-up review.

City's Response

Curiously, during the City's entrance conference with staff from your office, it was communicated that the Controller had not engaged in any subsequent review of any other agency throughout the State, and that the Controller's first follow-up review was being conducted in Industry. Based on documents obtained through a request to your office under the California Public Records Act [Exhibit A of the Attachment], it appears that this subsequent review is nothing more than a politically motivated attack on the City and its elected and appointed officials, and an attempt by your office to assist private individuals with whom your office maintains personal and political relationships.

SCO Comment

Contrary to the city's statement, the follow-up review of the City of Industry is not the first follow-up engagement performed by the SCO. During the follow-up review entrance conference on April 12, 2018, the city asked if the SCO had performed a follow-up review with any other agencies. The SCO advised the city that, for its internal control review program, the SCO had previously performed a follow-up review of the City of Bell and issued a report on May 22, 2013, subsequent to its initial audit report issued on September 22, 2010.

The SCO performed this follow-up review to evaluate the city's implementation of the recommendations identified in the January 28, 2016 review report.

The findings and recommendations made in this report are for purposes of detecting and recommending solutions to internal control weaknesses that make the city vulnerable to fraud and abuse. As a local agency, the city is responsible for establishing an internal control system to deter and detect fraudulent behavior and errors, and for retaining adequate supporting documentation to demonstrate that public monies were spent appropriately.

The documents contained in Exhibit A of the city’s response are not relevant to the findings and recommendations. It is unclear how Exhibit A shows that this review of the city’s internal control system was a “politically motivated attack on the city and its elected and appointed officials.” Exhibit A does not mention any elected or appointed officials, nor does our report identify any elected or appointed officials.

**OTHER ISSUE 3—
Project Selection –
Review Scope**

The city’s response included a statement objecting to the review scope.

City’s Response

[Y]our staff indicated that much of what is reviewed is precipitated by newspaper articles, whistleblowers or comments by staff members with the targeted agency. For at least the past year, there have been countless articles written about the City’s purchase of the property known as Tres Hermanos, and the transaction is currently subject to seven lawsuits. Despite the high profile nature of this transaction, the fact that \$20 million in public funds were spent on the project, and that the party with whom the City contracted has failed to provide any substantive documents which support its use of the \$20 million, the Controller’s office failed to review the Tres Hermanos project. This failure exists despite my request for a review of the transaction by the Controller.

SCO Comment

We discussed the project during a meeting with city officials on July 19, 2018, and continued that conversation via emails on July 24, August 6, and August 20. We did not receive responses regarding Tres Hermanos.

In a telephone conversation on August 29, 2018, a city official informed us that the city would not be responding to our inquiries.

**OTHER ISSUE 4—
Bill Lockyer, City’s
Former
Independent
Reform Advisor’s
Reports**

The city’s response included a statement expressing the opinion that SCO did not review all relevant reports.

City’s Response

[T]he Controller should have reviewed Mr. Lockyer’s reports, as they routinely discussed the City’s compliance with the Controller’s recommendations, and lauded the City, its elected and appointed officials, for its/their progress.

SCO Comment

SCO auditors reviewed Mr. Lockyer’s reports during fieldwork. We requested an additional report that had not been included in the first set of reports that the city provided; however, we could not review it, because the city did not respond to that request.

Our request for additional information is still active, and we would welcome the city’s input.

**OTHER ISSUE 5—
Standards for
Internal Control in
the Federal
Government**

The city's response included a statement indicating confusion about the internal control standards used to conduct our review.

City's Response

It has also been noted that your office used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office (GAO), for your assessment of the City's internal control system. What was not explained to the City is why those standards are used, and whether those standards are used by the majority of cities in California.

SCO Comment

In compliance with GC section 12422.5, the State Controller developed and published the *2015 Internal Control Guidelines for California Local Agencies*. This publication incorporates various standards, including the Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control Standards and the Green Book, published by the GAO. The SCO uses the Green Book for its assessment of a state or local agency's internal control system. The Green Book adapts the COSO 2013 internal control guidance for a government environment.

Appendix A— Follow-up on Prior Review Findings

City's Overall Response to Prior Findings

In response to our prior review report, issued on January 28, 2016, the City Council approved a contract agreement for independent reform advisory consulting services on May 26, 2016, to make independent assessments of the city's efforts to address administrative, managerial, and governing deficiencies.

The City Council terminated the Reform Advisor's work engagement on January 11, 2018. On February 27, 2018, the City Council voted to terminate the employment of the City Manager. The Director of Development Services and the Director of Finance tendered their resignations on March 15, 2018, and May 21, 2018.

We noted that the city did not satisfactorily resolve all of the findings noted in our prior review report. Specifically, it did not fully implement our recommendations in all of its operations, as indicated by its lack of controls over the Expo Center and the city's rental properties. The results of our follow-up on the prior review findings are noted below.

PRIOR FINDING 1— Questionable payments of \$14.7 million paid to a contractor

SCO Recommendation

The City should develop and implement policies and procedures to ensure that responsible city officials perform a detailed review and gain full understanding of the professional services to be provided before entering into a contractual agreement. Contractual agreements should be presented to the City Council with full explanation of the services to be provided and benefits to the City prior to approval and before formal execution. The contractual agreements should specify services to be delivered and such services should be definitive and measurable. Finally, proper oversight should be provided by the City to ensure that services are delivered as required and payments should only be authorized and made after detailed review and confirmation that services were actually performed.

The City should also revisit this contractual agreement and all of the billings to ensure that payments were made for services performed and not just based on the City's budget and quarterly allocation basis. If the City determines that the payments to the IMC [Industry Manufacturers Council] were made for services not delivered, it should seek monetary recourse to recover these funds.

City's Response Regarding Corrective Action Taken or Planned

The City is currently in the process of reviewing all of its professional services agreements. Once this review is complete, Staff will create a schedule for the City Council to review the agreements. Those agreements which contain critical deficiencies will be presented to the Council first, and the Council will subsequently review the balance of the agreements. The City will comply with its procurement ordinance, as well as the adopted policies and procedures when awarding future contracts. Further, the City may utilize interim agreements to allow City staff sufficient time to prioritize the competitive procurement of the City's agreements.

Status of Corrective Action

The city partially implemented our recommendation. We noted that the city reimbursed IMC based on incurred expenses but the city did not implement formal policies and procedures.

In addition, the city's Finance Department does not perform a detailed review of invoices before paying CRIA expenses and does not retain supporting documentation.

City's Response

Formal policies and procedures will be developed to clearly identify services performed (e.g. promotional activities, business assistance, information distribution, training/ seminars, regular newsletter/ media, maintain local business directory, liaison services to provide business input to local government, represent City and businesses at meetings / events, provide welcoming program to new businesses, etc.) and outline invoice submittal and review process. Presently, IMC invoices are reviewed by City staff, then authorized by the City Manager, prior to payment, with a register submitted monthly to the City Council for approval at a public meeting. Both the review procedure and recordkeeping for audits will be examined.

SCO Comment

The city failed to submit documentation to show that detailed review of CRIA invoices was conducted before payments were made. As policies and procedures approved by the city council are pending, our conclusion as stated in the Status of Corrective Action remains the same.

**PRIOR
FINDING 2—
Payments for
general
maintenance and
miscellaneous
services totaling to
\$12.27 million were
questionable**

SCO Recommendation

The City should implement appropriate internal control measures to ensure proper review and approval of all invoices for contracted services. These measures should include:

- Re-evaluating current procedures in place to ensure that proper and reasonable reviews are completed before payments are authorized; and
- Ensuring that invoices from contractors include proper documentation to substantiate services provided.

City staff should perform a detailed review and analysis before processing and approving payments. When reviewing the invoices for contracted services, the nature and type of work provided and materials used should be examined closely to ensure compliance with the terms of the contract.

City's Response Regarding Corrective Action Taken or Planned

In late June and July 2015, the City hired a new City Manager and created a Director of Administrative Services position, a position created to oversee and evaluate City processes. As a result of this organizational change, the City is currently reviewing all of its contracts with outside vendors to determine whether the contracts comply with best practices, contain deficiencies that require amendments, and/or should be competitively bid given the length of time of the contract and/or the type of services being provided. Further, the City has begun implementing additional review procedures as it processes invoices for services provided to the City by third party vendors.

Status of Corrective Action

The city partially implemented our recommendation. City management who were overseeing and evaluating the city processes to implement the recommendation are no longer employed by the city. The city terminated the City Manager's employment, and the Director of Finance and Director of Administrative Services both resigned.

In addition, the city's Finance Department does not perform a detailed review of invoices before paying CRIA expenses and does not retain supporting documentation.

City's Response

Since 2015, the City has worked diligently to implement best practices in the processing of payments to City contractors. On April 12, 2018, the City Council appointed me as Acting City Manager and, on October 25, 2018, the City Council selected me as the permanent City Manager. Further, additional staff have been hired within the last several months, including an experienced and well-trained Assistant City Manager, a competent and capable Finance Director, and a knowledgeable and skilled deputy city clerk. Each has extensive experience with the procurement and invoicing processes, including initiation, review, and authorization of requests for payment.

Collectively, this new administration is evaluating all contracts with outside vendors, including general maintenance and miscellaneous services, for public benefit and an accountable method to review work performed and receive authorization for payment. Also, formal policies and procedures will be developed for the City, CRIA, and all other entities to ensure that future contracts consistently include best practices for processing invoices and approving payments, as well as provide for clarity and standardization of recordkeeping.

Until more comprehensive policies and procedures are developed, any invoices are currently reviewed by City staff, then authorized by the City Manager, prior to payment, with a warrant register submitted monthly to City, CRIA, and any other appropriate entities, for approval at public meetings.

SCO Comment

The city did not submit documentation to support its claim that detailed review of invoices was conducted before paying CRIA expenses. SCO auditors were unable to analyze invoices because, despite repeated requests, the city did not provide documentation or make knowledgeable individuals available for inquiry.

Accordingly, our conclusion as stated in the Status of Corrective Action remains the same.

**PRIOR
FINDING 3—
The City Council
did not exercise
sufficient oversight
over the City’s
financial and
operational
activities**

SCO Recommendation

The City Council should fulfill its fiduciary responsibility by engaging in oversight over the City’s affairs. The City also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally binding agreement. This is especially critical when the City Council approves long-term extensions to existing contracts. All proposed agreements should be presented to the City Council with full explanation of the services to be provided and benefits to the City prior to approval and before formal execution.

In addition, the City should consistently follow its policies and procedures relating to processing payments for goods and services and ensure that all invoices are properly supported by detailed documentation before making payments.

City’s Response Regarding Corrective Action Taken or Planned

The city did not agree with the finding; therefore, the city did not take corrective action for this finding.

Status of Corrective Action

The city did not implement our recommendation. The city, as a member of the CRIA and the IPHMA, failed to exercise sufficient oversight of the financial and operational activities of the Expo Center and the city’s rental properties.

City’s Response

The City Council has provided clear direction to the new administration, that all practices must be evaluated and upgraded to ensure transparency, accountability, and conformity to the City’s vision as a leader in service to the business community. The elected body relies upon Staff for day-to-day operations, with the expectation that Staff fulfills the fiduciary responsibility of providing the City Council with complete, accurate assessments for policy direction and decision making.

The City Council’s commitment to increase oversight is demonstrated by the focus on developing policies and procedures to both standardize and make transparent City operations.

**PRIOR
FINDING 4—
The City failed to
exercise adequate
control over
expenses charged
to City-issued
credit cards**

SCO Recommendation

The City should implement appropriate control measures to ensure proper review and approval of all charges relating to meals, lodging, and other miscellaneous expenses including City-issued credit card charges. This should include:

- An updated and comprehensive travel policy that establishes clear guidance for travel, including the purpose of the trip and documentation requirements, and set limits on lodging rates, meals, and other travel expenses; and
- A policy governing circumstances for which business meals are authorized, including documentation requirements and limits on the maximum amount allowable for business meals.

We also recommend that the City review the questionable charges noted above and determine whether the City officials and employees should be required to refund the City for all or part of them. The City should also consider performing a review of travel and meal expenses for the period of our review to determine whether additional refunds should be sought.

City's Response Regarding Corrective Action Taken or Planned

... the City is currently evaluating its policies on travel to determine whether any amendments are necessary. Once the policies have been evaluated, and any necessary amendments have been completed, all City staff will be provided with an overview of the City's policies on travel.

Status of Corrective Action

The city implemented our recommendation. The city established policies and procedures for credit card usage and travel costs, and enforces discipline for misuse. The city currently only has one credit card, which is carefully monitored by an employee, who ensures that purchase order forms are completed prior to purchases and verifies whether credit card expenses are business-related.

City's Response

As noted in the Report, the City has implemented the California State Controller's recommendation and, therefore, this finding has been resolved.

**PRIOR
FINDING 5—
Some City
employees were
overpaid**

SCO Recommendation

The City should review the payments made to these employees and determine whether the City did, in fact, make double payments. Any overpayment should be returned to the City. The City should also develop policies and procedures to identify and prevent salary overpayments, promptly notify members of overpayments when they occur, and collect overpayments in a timely manner.

City's Response Regarding Corrective Action Taken or Planned

The city did not agree with the finding; therefore, no corrective action was taken by the city for this finding.

Status of Corrective Action

This is no longer an issue. The city does not run payroll for the IUDA, where the double payment was incurred. The city plans to begin processing payroll in-house, and is developing policies and procedures for its payroll system. The city did not overpay its employees for FY 2016-17. The City Council approved pay range adjustments for some positions, which fell within the salary pay scale.

City's Response

This finding was erroneous as City employees never received double-payment. Instead, the salaries of certain employees were assigned to multiple entities, to appropriately account for services rendered. In every case, the total received from the multiple entities never exceeded the salary of that employee. The confusion likely originated from several staff members receiving the same exact amount from two (2) entities, but that resulted from their salary distribution being 50% from each entity and not double-payment.

SCO Comment

The city did not provide source documentation, such as timesheets, to support its assertion that it accurately paid its employees.

The prior finding and recommendations remain unchanged.

**PRIOR
FINDING 6—
Lack of timesheet
prepared by
employees**

SCO Recommendation

The City should include a written procedure in its policy informing employees that they are responsible for accurately recording the times they arrive and leave work. This policy also should inform employees of the consequences for deliberately falsifying time cards, which may include immediate termination of employment. Even though the City is not required to keep records of the actual hours worked by employees who are exempt from overtime requirements, the City should have a system for recording sick days, floating holidays, vacation time, jury duty, bereavement leave, and other absences.

City's Response Regarding Corrective Action Taken or Planned

... in an effort to institute best practices, and compliance with City policies, the City will implement its time sheet requirement, and will create all necessary forms to ensure proper implementation.

Status of Corrective Action

The city implemented our recommendation by developing and establishing a timesheet system.

City's Response

As noted in the Report, the City has implemented the California State Controller's recommendation and, therefore, this finding has been resolved.

**PRIOR
FINDING 7—
Lack of segregation
of duties**

SCO Recommendation

The City should assess its current processes and implement policies and procedures to segregate incompatible functions. Separating responsibilities will help to reduce the risk of errors and fraud. Also, having a second person involved in the review and approval process will enhance the compensating control activity.

City's Response Regarding Corrective Action Taken or Planned

The City will review our current procedures and processes, and will implement changes or procedures that will mitigate the lack of segregation of duties. With respect to the electric revenue, the City will study options for an outside vendor to complete utility billing, and will also look into random audits of meter reads.

Status of Corrective Action

Payroll – The city implemented our recommendation.

Cash receipts (Electric Revenue) – The city implemented our recommendation.

Cash Receipts from Third Party Vendor – The city implemented our recommendation.

City's Response

As noted in the Report, the City has implemented the California State Controller's recommendations and, therefore, this finding has been resolved.

**PRIOR
FINDING 8—
City manager and
other city
employees were not
given annual
performance
appraisals**

SCO Recommendation

The City Council should perform a meaningful and detailed annual performance evaluation of the City Manager to comply with the City Manager Evaluation Policy. Likewise, the City Manager and other City Management should conduct evaluations on all employees on a regular basis. Evaluations should be discussed to provide feedback, recognize quality performance, and establish performance expectations.

City's Response Regarding Corrective Action Taken or Planned

To ensure compliance with best practices, the City will begin conducting written performance evaluations of its employees, and will conduct an annual evaluation of the City Manager, consistent with the City's City Manager Evaluation Policy.

Status of Corrective Action

We could not verify whether the city fully implemented our recommendation. It appears that the City Council conducted performance evaluations for the former City Manager, but we could not verify whether city management conducted performance evaluations for other city employees.

City's Response

The City Manager received his annual review by the City Council on October 11, 2018. Further, the City Manager's contract states that the City Council shall give him a review on an annual basis on or before October 1st each year. Also, the new City Manager has instituted a policy and procedure that all City employees receive annual reviews, effective from the anniversary of their hire date. Staff have been receiving their annual reviews since institution of this policy and procedure.

SCO Comment

The city partially implemented our recommendation by performing an annual evaluation of the City Manager. The city should finalize a written policy and procedures for employees' annual performance appraisals and have it approved by the city council.

The prior finding and recommendations remain unchanged.

Appendix B— Evaluation of Internal Control System

Internal Control Attributes		Present? Y / N	Functioning? Y / N	Explanations/Conclusions	
CONTROL ENVIRONMENT					
1. Demonstrates Commitment to Integrity and Ethical Values					
a.	Sets the tone at the top	X		X	The city failed to support an effective internal control system by not establishing policies and procedures for critical functions, implementing auditor and consultant’s recommendations to remediate findings, and providing oversight of accounting and financial operations. Refer to Findings 1 and 2.
b.	Establishes standards of conduct	X		X	The city’s management failed to establish standards of conduct by neglecting to develop policies and procedures for the Expo Center and the city’s rental properties. Refer to Findings 1 and 2.
c.	Evaluates adherence to standards of conduct	X		X	Refer to 1.b
2. Exercises Oversight Responsibility					
a.	Establishes oversight structure and responsibilities	X		X	The city failed to develop policies and procedures for the Expo Center and the city’s rental properties. Refer to Findings 1 and 2.
b.	Provides oversight for the system of internal control	X		X	The city does not have an audit committee or anything performing the functions of an audit committee. Refer to Finding 5.
c.	Provides input for remediation of deficiencies in the internal control system	X		X	

Appendix B (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
3.	Establishes Structure, Authority, and Responsibility					
	a. Considers organizational structures	X		X		
	b. Defines, assigns, and limits authorities and responsibilities	X		X		
	c. Develops and maintains documentation of the internal control system		X		X	Lack of policies and procedures for: use of city equipment and vehicles by contractors, remodeling projects, loan repayment processes, the Expo Center, and the city's rental properties. Refer to Findings 1 through 4.
4.	Demonstrates Commitment to Competence					
	a. Establishes expectations of competence for key roles	X		X		
	b. Attracts, develops, and retains competent personnel	X		X		
	c. Plans and prepares for succession	X		X		
5.	Enforces Accountability					
	a. Enforces accountability of personnel through mechanisms such as performance appraisals and disciplinary actions	X		X		It appears that the City Council conducted performance evaluations for the former City Manager, but we could not verify whether city management conducted performance evaluations for other city employees.
	b. Considers excessive pressures	X		X		

Appendix B (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
RISK ASSESSMENT						
6.	Defines Objectives and Risk Tolerances					
	a. Defines objectives in specific and measurable terms		X		X	Lack of an objective for the city’s rental operations. Refer to Finding 2.
	b. Considers risk tolerances for the defined objectives		X		X	Refer to 6.a
7.	Identifies, Analyzes, and Responds to Risks					
	a. Identifies risks throughout the entity to provide a basis for analyzing risks		X		X	The city did not properly perform a risk analysis assessment of the Expo Center and the city’s rental properties. Refer to Findings 1 and 2.
	b. Analyzes the identified risks to estimate their significance		X		X	Refer to 7.a
	c. Determines how to respond to risks		X		X	Refer to 7.a
8.	Assesses Fraud Risk					
	a. Considers various types of frauds		X		X	The city, as a member of the CRIA, outsourced the operations, accounting, and financial reporting processes to contractors without establishing sufficient safeguards to deter fraud. Refer to Finding 1.
	b. Assesses fraud risk factors - incentives and pressures, opportunities, and attitudes and rationalizations		X		X	Refer to 8.a
	c. Analyzes and responds to identified fraud risks		X		X	Refer to 8.a

Appendix B (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
9.	Identifies, Analyzes, and Responds to Change					
	a. Identifies and assesses changes that could significantly impact the entity’s internal control system	X		X		
	b. Analyzes and responds to identified changes and related risks in order to maintain an effective internal control system	X		X		
CONTROL ACTIVITIES						
10.	Designs Control Activities					
	a. Designs control activities in response to the entity’s objectives and risks		X		X	The city’s rental operations lack an objective or policies and procedures; these weaknesses are interrelated. Refer to Finding 2.
	b. Designs appropriate types of control activities for the entity’s internal control system		X		X	Refer to 7.a
	c. Considers at what level activities are applied		X		X	Refer to 7.a
	d. Addresses segregation of duties	X		X		

Appendix B (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
11.	Designs General Control over Information System					
	a. Designs the entity’s information system to respond to the entity’s objectives and risks		X		X	The city’s Finance Department does not receive sufficient information regarding the purchasing processes for the CRIA, and the city does not have copies of supporting documentation for CRIA expenses. Refer to Finding 1.
	b. Designs appropriate types of control activities – general and application control activities, in the entity’s information system		X		X	Refer to 11.a
	c. Designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing		X		X	Refer to 11.a
	d. Establishes relevant security management process control activities		X		X	Refer to 11.a
	e. Establishes relevant technology acquisition, development, and maintenance process control activities	X		X		
12.	Implements Control Activities					
	a. Documents in policies and procedures the internal control responsibilities of the organization		X		X	Lack of policies and procedures for: use of city equipment and vehicles by contractors, remodeling projects, loan repayment processes, the Expo Center, and the city’s rental properties. Refer to Findings 1 through 4.
	b. Reassesses policies and procedures through periodic review of control activities		X		X	Refer to 12.a

Appendix B (continued)

Internal Control Attributes		Present? Y / N	Functioning? Y / N	Explanations/Conclusions
INFORMATION AND COMMUNICATION				
13.	Uses Quality Information			
	a. Identifies information requirements	X	X	The city's Finance Department is not sufficiently involved in the Expo Center's expense processing and does not retain supporting documentation for Expo Center expenses. Refer to Finding 1.
	b. Obtains relevant data from reliable internal and external sources in a timely manner	X	X	Refer to 13.a
	c. Processes the obtained data into quality information within the entity's information system	X	X	Refer to 13.a
14.	Communicates Internally			
	a. Communicates internal control information throughout the entity using established reporting lines	X	X	Refer to 13.a
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X	X	Refer to 13.a
15.	Communicates Externally			
	a. Communicates to external parties, and obtains quality information from external parties using established reporting lines	X	X	The city did not retain supporting documentation for Expo Center expenses. Refer to Finding 1.
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X	X	Refer to 15.a

Appendix B (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
MONITORING						
16.	Conducts Ongoing Monitoring Activities					
	a. Establishes a baseline to monitor the internal control system		X		X	The city, as a member of IPHMA, did not establish a baseline to monitor the IPHMA’s internal control system. Refer to Finding 1.
	b. Considers a mix of ongoing and separate evaluations		X		X	The city’s Finance Department is not involved in the evaluation of the Expo Center’s expenses. Refer to Finding 1.
	c. Objectively evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues		X		X	Refer to 16.b
17.	Evaluates Issues and Communicates and Remediates Deficiencies					
	a. Reports internal control issues through established reporting lines to the appropriate internal and external parties in a timely manner		X		X	Internal control issues regarding Expo Center activities are not reported in a timely manner because the city’s Finance Department is not directly involved in expense processing for the Expo Center. Refer to Finding 1.
	b. Evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies		X		X	The city did not develop formal policies and procedures, and did not provide sufficient oversight of CRIA and IPHMA operations. Refer to Findings 1 and 2.
	c. Monitors, completes, and documents corrective actions		X		X	Refer to 17.b

The evaluation tool is based on the guidelines established by the GAO’s Green Book. It serves as a guideline to aid local agencies in identifying internal control deficiencies. The SCO uses the same evaluation tool on all of its administrative and internal control system reviews of local government agencies, regardless of size.

**Attachment—
City of Industry’s Response to Draft Review Report**



CITY OF INDUSTRY

December 14, 2018

Efren Loste, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250

RE: State Controller's Review of the City of Industry's Internal Control System for January 29, 2016, through April 12, 2018

Mr. Loste:

The City of Industry ("City") is in receipt of the State Controller's ("Controller") Draft Review Report of the City's Internal Control System for January 29, 2016-April 12, 2018 ("Report"), wherein your concerns with the City's internal control system were listed. In 2015, your office conducted a prior review of the City for the period of July 1, 2012 through June 30, 2014. It is unclear why any subsequent review does not cover the period beginning July 1, 2015 to ensure a complete review of the City's internal financial controls.

Curiously, during the City's entrance conference with staff from your office, it was communicated that the Controller had not engaged in any subsequent review of any other agency throughout the State, and that the Controller's first follow-up review was being conducted in Industry. Based on documents obtained through a request to your office under the California Public Records Act, it appears that this subsequent review is nothing more than a politically motivated attack on the City and its elected and appointed officials, and an attempt by your office to assist private individuals with whom your office maintains personal and political relationships.¹

By way of example, when asked how different projects are chosen for review by the Controller, your staff indicated that much of what is reviewed is precipitated by newspaper articles, whistleblowers or comments by staff members with the targeted agency. For at least the past year, there have been countless articles written about the City's purchase of the property known as Tres Hermanos, and the transaction is currently subject to seven lawsuits. Despite the high profile nature of this transaction, the fact that **\$20 million in public funds** were spent on the project, and that the party with whom the City contracted has failed to provide any substantive documents which support its use of the \$20 million, the Controller's office failed to review the Tres Hermanos project. This failure exists despite my request for a review of the transaction by the Controller.

The politics here are clear. Those individuals with whom the Controller's office maintains the aforementioned relationships are those who stand to benefit from the Tres Hermanos transaction.

¹ A copy of the aforementioned documents is attached hereto as Exhibit A.

Using the Controller's office to aid the private interests of the Controller's personal friends and political allies is not only disconcerting, but, simply and unequivocally stated, constitutes a misuse of public funds and an abuse of office.

It is also imperative that the Controller recognize that during much of the audit period, January 29, 2016 through April 12, 2018, Bill Lockyer served as the City's Independent Reform Advisor, and per the Controller's report, Mr. Lockyer was charged with making an "independent assessment of the [C]ity's efforts to address administrative, managerial, and governing deficiencies." Before impliedly criticizing the City for using its discretion to terminate the agreement with Mr. Lockyer, the Controller should have reviewed Mr. Lockyer's reports, as they routinely discussed the City's compliance with the Controller's recommendations, and lauded the City, its elected and appointed officials, for its/their progress. Arguably, the City's alleged egregious deficiencies set forth in the Report should have been noted by Mr. Lockyer given the requirements in his contract to address the State Controller's audit recommendations.

Before the individual findings are addressed, it is important to note two issues pertaining to the timeframe for the review, and the standards used by the Controller to conduct the review.

While the Report notes certain alleged deficiencies, and the City may concur that certain policies and procedures can be improved, it should be noted that, during the timeframe of the review, the City was managed under a different administration. Since that time, as set forth in your Report, substantial staff departures have occurred, and the City Council has directed staff to focus on correcting all areas of non-compliance. On April 12, 2018, the City Council appointed me as Acting City Manager and, on October 25, 2018, the City Council selected me as the permanent City Manager. Also, additional staff have been hired within the last several months, including an experienced and well-trained Assistant City Manager, a competent and capable Finance Director, and a knowledgeable and skilled deputy city clerk. Each has extensive experience with the procurement and invoicing processes, including initiation, review, and authorization of requests for payment. With the City Council and this new administration, findings identified by the State Controller will be prioritized and we hope to work cooperatively and expeditiously with your office toward final resolution.

It has also been noted that your office used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office (GAO), for your assessment of the City's internal control system. What was not explained to the City is why those standards are used, and whether those standards are used by the majority of cities in California. Rather than using standards for the Federal Government, please be advised that Resolution No. CC 2013-12, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF INDUSTRY, CALIFORNIA, ADOPTING POLICIES RELATING TO FINANCIAL MANAGEMENT, FRAUD REPORTING, PROCUREMENT PROCEDURES, AND CITY MANAGER PERFORMANCE EVALUATIONS, adopted by the City Council on June 27, 2013, provides that "(t)he City's accounting of financial systems will be maintained in accordance with Generally Accepted Accounting Principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA)". The City is in compliance with each of the aforementioned standards. A copy of the Resolution is attached hereto as Exhibit B. Notwithstanding

any potential discrepancies between the City Council's adopted standards and those of the Federal Government, the following responds to each finding identified in the Report.

FINDING NO. 1: Insufficient oversight of the Expo Center

City's Response: The Report states that annual losses from the Expo Center result from insufficient oversight. However, the Report fails to offer any facts which support that a lack of oversight caused any losses experienced by the Expo Center. While there are certain changes that can improve daily operations and accounting, a fundamental understanding of the Expo Center's public purpose helps to clarify why the facility does not operate as a profit center. Set on a 125 acre hilltop, the Expo Center essentially serves as a regional convention center, and is comprised of the Grand Arena (45,000 square foot venue with scoreboard and sound system and 5,000-guest capacity), the Pavilion (10,000 square foot multi-use facility with 500 guest capacity), and the Avalon Room (a smaller multi-purpose room with 100 guest capacity). Nationwide, convention centers have been funded and subsidized by State and local agencies to attract visitors and support local hotels, restaurants, and other businesses. The Expo Center is a multi-purpose event facility, much like a convention center, that hosts visitor-generating activities, such as motorcycle speedway racing, professional boxing, rodeos, equestrian shows, dog shows, music festivals, sporting events, and cultural festivals. With events that reach 5,000 persons, the Expo Center is an economic development tool that promotes local businesses.

In addition, the Civic Recreational Industrial Authority (CRIIA), which is the Expo Center's operating entity under a joint powers authority, also recognizes its role in serving other public agencies, the business community, and residents of neighboring cities. The Expo Center provides facilities for trainings/assemblies for the County of Los Angeles and local public school districts (serving as a venue for graduation ceremonies for local public high schools), business meetings, parties, and special events. Thus, the Expo Center serves a civic purpose as a community use facility. It is offered at rates that are affordable to public agencies, and to residents of the surrounding communities. Similar to parks and recreation departments of cities across California, this community resource is not operated purely for the purpose of generating profit for CRIIA and may incur operational losses, which the City has subsidized to allow continued service.

Based upon the City's Fiscal Year 2018-19 adopted budget, Expo Center revenues have steadily increased by 21.6% during the past three (3) years, from \$1,295,861 in 2015, to \$1,576,126 in 2017. CRIIA will continue to seek opportunities to increase facility utilization, including both revenue generating and those that benefit the City, neighboring communities and residents.

The political nature of this Report is again noted when the Controller's office states that "a City Councilmember is also employed by CNC Equestrian Management Services, Inc. ("CNC Equestrian") to manage the Expo Center's accounting functions." It is unclear how that statement is relevant to the analysis (or lack thereof) concerning the operations at the Expo Center. The notation concerning the Councilmember is likely an effort by the Controller and her cronies to intimidate an Industry Councilmember and as retaliation against that Councilmember for actions related to the Tres Hermanos project.

Inadequate oversight of purchasing/Inadequate Record Keeping:

Contrary to what is stated in the Report, the City does not give CNC Equestrian complete control and authority over the City's bank account, or purchasing and payments.

Presently, CRIA contracts with CNC Equestrian to manage all day-to-day operations, including operation of the facility, staffing, and bookkeeping. All invoices are reviewed by CNC Equestrian, then a check is prepared and submitted for authorization and payment by CRIA. Payment authorization requires dual signatures by City administrators. Thereafter, month end closing and reconciliation is prepared by Rogers, Clem & Company, an accounting firm, and reviewed by CRIA, at a public meeting, and audited by The Pun Group, another accounting firm. With respect to the issue of voided checks, those checks are included in the warrant register for CRIA's review. It is also the City's understanding that CNC Equestrian has plans to contract out the ATM replenishment process.

There are also instances where the Controller indicates that it was "unable to verify that [c]hecks were properly voided" or that it could "not verify that any Expo Center expenses were for official business," yet the Report does not demonstrate that the checks were *not* properly voided, or that expenses were *not* for official business. These remarks are used to make the reader believe that the City or CNC Equestrian are somehow engaged in illicit activities, however there is nothing to substantiate these allegations.

To address other concerns identified in the Report, formal policies and procedures to define appropriate operations and expenditures will be drafted, submitted for CRIA's consideration, and implemented consistent with the City Resolution 2013-12. For example, both CRIA and the City will further outline the purchasing and payment process, as well as ensure preservation of supporting documentation in accordance with a records retention schedule.

FINDING NO. 2: Insufficient oversight of rental properties

City's Response: As a City dominated by manufacturing and other industrial activities, ideal sites for residential use, adequately buffered from noise, effluent, or other concomitants, are very difficult to locate. Based upon prevailing land uses, development pressure for industrial purposes is constant. Over the years, existing housing and suitable home sites have been preserved through acquisition, resulting in the accumulated inventory managed by the Industry Property and Housing Management Authority ("IPHMA"). Now, based upon the number of housing units acquired and managed by IPHMA, further refinement of the objectives beyond housing preservation is timely.

Lack of clear objective:

The Report indicates that the City "does not have a clear objective for the IPHMA, or a strategic plan for its operations". The Report goes on to say that the Controller's office "spoke with city management on several occasion in an attempt to understand the objective of the IPHMA; however, city management could not explain the IPHMA's purpose beyond managing the city's properties and rental activity." The contradictory nature of these statements is mind boggling. On the one hand, the Report states that the IPHMA does not have a clear objective, but in the very next paragraph, it goes

on to state the *exact objective* provided by City Staff-the management of the City's residential housing units. Moreover, the joint exercise of powers agreement ("JPA") between the City and CRIA explicitly states the purpose of the IPHMA:

"A. City and CRIA each own and manage certain Property within and outside of the City of Industry. Some of this Property provides housing opportunities for City residents, employees and officials.

B. Ownership and management of this Property by the Members creates potential duplication in management efforts, operations and services.

C. *In order to centralize management of this Property, reduce costs, and increase efficiencies, the Members desire to place certain Property under the management and control of one entity, which the Members intend to create under this Agreement pursuant to the Joint Exercise of Powers Act of the State of California.*" (Emphasis added)

Per the JPA, the purpose of the IPHMA is to manage City and CRIA owned residential properties."

Lack of formal policies and procedures:

The IPHMA Board has directed staff to prepare standard applications, lease agreements, and a methodology for rent determinations to comply with best practices. To provide a comprehensive set of policies and procedures, staff is preparing a Request for Qualifications to retain a consultant, with public housing expertise, to advise and assist with standardization of practices, commensurate with a housing objective to be defined by IPHMA and, as the matter relates to land use and development, the City Council. Once these policies and procedures are completed, concerns listed in the Report will be fully resolved.

Please note that, on Page 9, under *Lack of rent calculation methodology*, the second paragraph states that "the city's housing properties are occupied by . . . current IPHMA Board members". In fact, no past or present IPHMA Board members live in any property managed by the IPHMA, and none of the IPHMA Board Members are City residents. At no time has the City ever represented to anyone from the Controller's office that IPHMA housing is occupied by any member of the IPHMA Board. Again, this is just another misstatement by the Controller's office to malign the City or it is further evidence that the Report fails to accurately portray the facts.

With respect to Satsuma, it is unclear how the Controller came to the conclusion that the monthly maintenance costs were "neither reviewed nor questioned," and that there was nothing to justify the variances in the invoice amount. Invoices from Satsuma are processed in the same manner as all requests for payment from vendors. Once received, the invoice is submitted to Accounts Payable staff, within the Finance Department, who compare it against the Purchase Order ("PO") terms. If the type of service, allocated time, and cost is consistent with the PO, then the invoice is transmitted to the City Manager for signature. Prior to authorizing payment, the City Manager, or his authorized designee, will verify that work performed was actually needed and ordered by the City, satisfactorily completed, and the time and materials billed are reasonable. Afterwards, all records are retained.

Concerning the variances in Satsuma's invoices, it is only logical for invoices to vary for maintenance services based on the level of services performed each month.

Further, consistent with the tone of the Report, statements were made once again to intimidate a Councilmember and as political retribution. While repairs and renovations have been made to most of the housing managed by the IPHMA, the Controller chose to single out a Councilmember's home to use as an example.

FINDING NO. 3: Lack of controls over equipment and vehicle usage

City's Response: Concerns of theft, vandalism, and misuse of city-owned equipment and vehicles will be addressed by preparing a policy that all publicly owned equipment and vehicles may only be used by authorized City employees to conduct official business.

Any current agreements will be evaluated for compliance and future agreements will include clear contract language to ensure that neither City owned vehicles nor equipment are used. This does not, however, preclude a contractor or consultant from requesting reimbursement for related equipment or vehicle expenses incurred from actual pre-authorized service to the City.

Once again, the Controller's office took an opportunity to make an example of Councilmembers while ignoring the greater use of City owned vehicles by other contractors. This blatant targeting of City officials further supports the City's conclusion that the purpose of this Report was nothing more than political gamesmanship by the Controller on behalf of those private parties with an interest in the Tres Hermanos project.

FINDING NO. 4: Lack of controls for a loan to the Industry Convalescent Hospital

City's Response: Section 3 of the existing loan agreement, entered in 1990, provides, in part, that the "Hospital agrees to repay the advances . . . at such time as hospital has surplus funds sufficient to pay some portion or all of the obligation." Despite the repayment flexibility of this existing provision, on August 9, 2018, the City Council directed staff to begin negotiating a restructuring of the loan to recover the principal balance. While repayment options are evaluated, the City recognizes that the facility provides comprehensive rehabilitation and skilled nursing services to disabled and elderly persons. Maintaining a high level of care for this sensitive population during financial reassessment is critical and, therefore, demanding, if the operator does not have the financial wherewithal to maintain service levels, is not considered prudent. The City commits to working with the facility operator to develop an agreeable and realistic repayment process and, upon establishment of a payment schedule, will establish a clear invoice system.

FINDING NO. 5: Lack of an audit committee

City's Response: Enclosed herewith, please find a copy of RESOLUTION NO. CC 2013-18, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF INDUSTRY, CALIFORNIA, ESTABLISHING AN AUDIT COMMITTEE AND DESIGNATING ITS FUNCTIONS, adopted

on September 26, 2013. The committee membership does not include members of City Management. Section 5.A of Resolution No. CC 2013-18 provides, in part, that the Audit Committee will: "Hold an annual meeting at least once each fiscal year". For the audited time period, there are no records of convened meetings. Staff will schedule an agenda item for the City Council to appoint members and establish a regular meeting schedule. A copy of the Resolution is attached hereto as Exhibit C.

FINDING NO. 6: Lack of approved meeting minutes

City's Response: Transparency and accountability are high priorities of this City Council and administration. Accordingly, timely adoption of Board/Commission and/or City Council meeting minutes has been addressed. Since September 2018, minutes for all City Council meetings have been completed and scheduled for City Council adoption by the next regularly scheduled meeting. In addition, a formal policy, to standardize content, form, timeliness, and public availability of minutes, is being prepared for City Council adoption.

Given the substantial number of past Board/Commission and/or City Council meeting minutes that have neither been prepared nor adopted, staff is also developing a plan to ensure steady progress toward bringing all minutes up-to-date.

PRIOR FINDING NO. 1: Questionable payments of \$14.7 million paid to a contractor

City's Response: The Industry Manufacturers Council ("IMC"), which has been rebranded as the Industry Business Council ("IBC"), provides all services of a Chamber of Commerce. Commonly, California cities support Chambers of Commerce to promote local business, attract visitors into the City, and serve as liaison to the business community. The City is home to over 3,000 businesses that generate over \$30 billion in annual sales, with a workforce population of 67,000 people. And, based upon the *Economic Report for the City of Industry* prepared by the Emerson Consulting Group, this emphasis is critical to the regional economy – the City provides 215,000 jobs, \$19.6 billion of labor income, \$11.5 billion in taxes, and \$54.5 billion for the San Gabriel Valley. From these facts, the importance of maintaining communication and providing service to the business community is clearly evident.

Formal policies and procedures will be developed to clearly identify services performed (e.g. promotional activities, business assistance, information distribution, training/seminars, regular newsletter/media, maintain local business directory, liaison services to provide business input to local government, represent City and businesses at meetings/events, provide welcoming program to new businesses, etc.) and outline invoice submittal and review process. Presently, IMC invoices are reviewed by City staff, then authorized by the City Manager, prior to payment, with a register submitted monthly to the City Council for approval at a public meeting. Both the review procedure and recordkeeping for audits will be examined.

PRIOR FINDING NO. 2: Payments for general maintenance and miscellaneous services totaling to \$12.27 million were questionable

City's Response:

Interestingly, while the Controller's Report states that "City staff should perform a detailed review and analysis before processing and approving payments. When reviewing the invoices for contracted services, the nature and type of work provided and materials used should be examined closely to ensure compliance with the terms of the contract." Yet when I requested that the Controller's office conduct a review of the Tres Hermanos project, for which the City expended \$20 million of public funds, the Controller failed to conduct even a cursory review. Apparently, good financial standards and accounting practices do not apply to projects where the individuals involved are friends or political allies of the Controller.

Since 2015, the City has worked diligently to implement best practices in the processing of payments to City contractors. On April 12, 2018, the City Council appointed me as Acting City Manager and, on October 25, 2018, the City Council selected me as the permanent City Manager. Further, additional staff have been hired within the last several months, including an experienced and well-trained Assistant City Manager, a competent and capable Finance Director, and a knowledgeable and skilled deputy city clerk. Each has extensive experience with the procurement and invoicing processes, including initiation, review, and authorization of requests for payment.

Collectively, this new administration is evaluating all contracts with outside vendors, including general maintenance and miscellaneous services, for public benefit and an accountable method to review work performed and receive authorization for payment. Also, formal policies and procedures will be developed for the City, CRIA, and all other entities to ensure that future contracts consistently include best practices for processing invoices and approving payments, as well as provide for clarity and standardization of recordkeeping.

Until more comprehensive policies and procedures are developed, any invoices are currently reviewed by City staff, then authorized by the City Manager, prior to payment, with a warrant register submitted monthly to City, CRIA, and any other appropriate entities, for approval at public meetings.

PRIOR FINDING NO. 3: The City Council did not exercise sufficient oversight over the City's financial operational activities

City's Response: The City Council has provided clear direction to the new administration, that all practices must be evaluated and upgraded to ensure transparency, accountability, and conformity to the City's vision as a leader in service to the business community. The elected body relies upon Staff for day-to-day operations, with the expectation that Staff fulfills the fiduciary responsibility of providing the City Council with complete, accurate assessments for policy direction and decision making.

The City Council's commitment to increase oversight is demonstrated by the focus on developing policies and procedures to both standardize and make transparent City operations.

PRIOR FINDING NO. 4: City failed to exercise adequate control over expenses charged to City issued credit cards

City's Response: As noted in the Report, the City has implemented the California State Controller's recommendation and, therefore, this finding has been resolved.

PRIOR FINDING NO. 5: City employees were overpaid

City's Response: This finding was erroneous as City employees never received double-payment. Instead, the salaries of certain employees were assigned to multiple entities, to appropriately account for services rendered. In every case, the total received from the multiple entities never exceeded the salary of that employee. The confusion likely originated from several staff members receiving the same exact amount from two (2) entities, but that resulted from their salary distribution being 50% from each entity and not double-payment.

PRIOR FINDING NO. 6: Lack of timesheet prepared by employees

City's Response: As noted in the Report, the City has implemented the California State Controller's recommendation and, therefore, this finding has been resolved.

PRIOR FINDING NO. 7: Lack of segregation of duties

City's Response: As noted in the Report, the City has implemented the California State Controller's recommendations and, therefore, this finding has been resolved.

PRIOR FINDING NO. 8: City Manager and other city employees were not given annual performance appraisals

City's Response: The City Manager received his annual review by the City Council on October 11, 2018. Further, the City Manager's contract states that the City Council shall give him a review on an annual basis on or before October 1st each year. Also, the new City Manager has instituted a policy and procedure that all City employees receive annual reviews, effective from the anniversary of their hire date. Staff have been receiving their annual reviews since institution of this policy and procedure.

Conclusion:

The Controller's Report is concerning in that the tone, coupled with the documents received by the City under a public records request, make clear that the motivations were political, rather than in the public interest. During the Controller's review, the City was forced to dedicate countless hours to a political witch hunt, instead of devoting staff time to the public's business. It is unfortunate that a group of disgruntled developers and the City's own former reform advisor were able to strong arm the Controller into engaging in conduct that amounts to nothing more than political retaliation.

Efren Loste
December 14, 2018
Page 10 of 10

While your office may be engaged in acts that benefit politically connected, private individuals, the City is committed to open, transparent, and effective governance. In the Report, many of your staff's observations relate to events and practices in place, prior to the present administration. The City Council and I are committed to ensuring the continued implementation of best practices.

Please feel free to contact me if you have any further questions, or require any additional information to complete your final report.

Very truly yours,



Troy Helling
City Manager

cc: Mayor Radecki & Councilmembers
The Honorable Betty Yee, State Controller
Richard J. Chivaro, Chief Counsel Office of State Controller Betty Yee

Enclosures

Exhibit A

Rick Chivaro

From: Wyse, Sarian <SWyse@sco.ca.gov>
Sent: Monday, March 26, 2018 8:11 AM
To: Chivaro, Rick
Subject: phone call

Bill Barkett called regarding The City of Industry. He said you were supposed to call him on Friday. 858-456-9301 (work) 858-531-2200 (cell)

Thanks,

SARIAN WYSE | Administrative Assistant
Office of the State Controller Betty T. Yee
Legal Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | (916) 445-7446

Rick Chivaro

From: Blaylock, Chicomo <CBlaylock@sco.ca.gov>
Sent: Tuesday, March 27, 2018 8:41 AM
To: Chivaro, Rick
Subject: Phone Call from Bill Barkett (858) 456-9301 regarding City of Industry

Hi Rick,

We received a call from Bill Barkett regarding City of Industry. Bill can be reached at (858) 456-9301 office or (858) 531-2200 Cell Phone. No email address provided because he does not use computers.

Chicomo Blaylock | Legal Analyst
Office of State Controller Betty T. Yee
Legal Division, Executive Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | 916.324-2349

Rick Chivaro

From: Blaylock, Chicomo <CBlaylock@sco.ca.gov>
Sent: Wednesday, March 28, 2018 8:22 AM
To: Chivaro, Rick
Subject: FW: Phone Call from Bill Barkett (858) 456-9301 regarding City of Industry

Hi Rick,

Bill Barkett called and would like to speak with you, he also said he will be here on Monday and would like to meet with you.

From: Blaylock, Chicomo
Sent: Tuesday, March 27, 2018 8:41 AM
To: Chivaro, Rick <rchivaro@sco.ca.gov>
Subject: Phone Call from Bill Barkett (858) 456-9301 regarding City of Industry

Hi Rick,

We received a call from Bill Barkett regarding City of Industry. Bill can be reached at (858) 456-9301 office or (858) 531-2200 Cell Phone. No email address provided because he does not use computers.

Chicomo Blaylock | Legal Analyst
Office of State Controller Betty T. Yee
Legal Division, Executive Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | 916.324-2349

Rick Chivaro

From: Bill Barkett <bbarkett@merjanfinancial.com>
Sent: Monday, April 2, 2018 10:05 AM
To: Rick Chivaro
Subject: Re: Revised Complaint Draft

Thank you. Let's have a quick call then I would like to put you in touch with the attorney handling the matter to coordinate schedules

I am in a car traveling back to so cal. Call at your convenience. Cell is 858-531-2200

Regards

Bill

Sent from my iPhone

On Apr 2, 2018, at 10:02 AM, Rick Chivaro <rchivaro@sco.ca.gov> wrote:

Bill:

I read this over the weekend and without commenting on the merits of the various causes of action, would like to know what it is that you need from this office?

Richard J. Chivaro | Chief Counsel
Office of State Controller Betty T. Yee
Legal Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | (916) 445-6854

From: Bill Barkett [<mailto:bbarkett@merjanfinancial.com>]
Sent: Friday, March 30, 2018 4:59 PM
To: rchivaro@sco.ca.gov
Subject: Fwd: Revised Complaint Draft

Rick

Please see attached revised draft complaint for the City of Industry action pursuant a call from Controller Yee to former Attorney General Lockyer.

Have a great Easter.

Regards

Bill Barkett

Sent from my iPhone

Begin forwarded message:

From: "David M. Gilmore" <DMG@gmlegal.net>
Date: March 30, 2018 at 10:07:37 AM PDT
To: Bill Barkett <bbarkett@merianfinancial.com>
Subject: Revised Complaint Draft

This is a revised version of the complaint. All input welcomed.

PLEASE NOTE: Effective May 1, 2017, the firm's name and address changed. See below for details.

David M. Gilmore, Esq.
GILMORE MAGNESS JANISSE, a Professional Corporation
7789 N. Ingram Ave., Suite 105
Fresno, CA 93711
(559) 448-9800, Ext. 124
(559) 448-9899 FAX
New Email Address: dgilmore@gmlegal.net

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Rick Chivaro

From: David M. Gilmore <DMG@gmlegal.net>
Sent: Tuesday, April 3, 2018 10:57 AM
To: rchivaro@sco.ca.gov
Cc: Bill Barkett
Subject: Declaration for Brownfield
Attachments: Declaration of Brownfield.DOCX

Rick—per our discussion here is a draft declaration for your review and for Mr. Brownfield. Obviously my preference would be to put in something that suggests this goes next to the AG but I understand that is not acceptable. I am still working to get into court Thursday so I would like this today if at all possible. Dave

David M. Gilmore, Esq.
GILMORE MAGNESS JANISSE, a Professional Corporation
7789 N. Ingram Ave., Suite 105
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(559) 448-9800, Ext. 124
(559) 448-9899 FAX
New Email Address: dgilmore@gmlegal.net

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Loste, Efren

From: Loste, Efren
Sent: Wednesday, April 4, 2018 2:54 PM
To: Spano, Jim; Brownfield, Jeff; Kinney, Taryn
Cc: Lolas, George; Chivaro, Rick; Winger, Nicole
Subject: RE: For review: draft Industry press release

Hi Taryn,
Please see responses and edits below. Thank you.

From: Brownfield, Jeff
Sent: Wednesday, April 4, 2018 1:37 PM
To: Loste, Efren <ELoste@sco.ca.gov>; Spano, Jim <jspano@sco.ca.gov>
Subject: Fwd: For review: draft Industry press release

Get [Outlook for iOS](#)

----- Forwarded message -----

From: "Lolas, George" <GLolas@sco.ca.gov>
Date: Wed, Apr 4, 2018 at 1:29 PM -0700
Subject: Re: For review: draft Industry press release
To: "Kinney, Taryn" <TKinney@sco.ca.gov>, "Brownfield, Jeff" <jbrownfield@sco.ca.gov>, "Chivaro, Rick" <rchivaro@sco.ca.gov>
Cc: "Winger, Nicole" <NWinger@sco.ca.gov>

Not sure if Rick has issue with this, but technically these are Reviews instead of Audits.

Sent from my Verizon, Samsung Galaxy smartphone

----- Original message -----

From: "Kinney, Taryn" <TKinney@sco.ca.gov>
Date: 4/4/18 1:15 PM (GMT-08:00)
To: "Brownfield, Jeff" <jbrownfield@sco.ca.gov>, "Lolas, George" <GLolas@sco.ca.gov>, "Chivaro, Rick" <rchivaro@sco.ca.gov>
Cc: "Winger, Nicole" <NWinger@sco.ca.gov>
Subject: For review: draft Industry press release

Hi Rick, George and Jeff,
For your review, below is a draft release on Industry (the highlighted sections need confirmation). I have also included a few questions below that I assume I will get from media so please provide suggested responses. Thank you!

How did the need to go back in first come to our attention?

- Information from concerned citizens that the city may be back to their old lax practices

Why does going back to the same City (of just 200 residents) rise to the level of another state audit?

- Internal control and sound financial practices by a city impact not only that city, but also surrounding cities and the state as a whole.

How common is it for SCO to do a follow-up review of the same entity?

- If we determine that there is a need to perform a follow-up, we do so, just as we did for the City of Bell, to mitigate further impact to the citizens for uncorrected internal control deficiencies and for potential new breaches.

CA Controller to Reexamine City of Industry

SACRAMENTO — State Controller Betty T. Yee today announced her team will conduct a follow-up audit review to investigate the financial practices of the City of Industry. In January 2016, the Controller's first review found the City of Industry's accounting controls had pervasive and serious deficiencies including failures to provide proper financial and other oversight of the city and its finances. This review will include a follow-up on how the city has addressed the deficiencies that were identified in the prior review, and an assessment of the adequacy of existing internal controls at the city.

"Since our 2016 review showed prevalent accounting shortcomings, I was hopeful that city management was addressing their problems and implementing our reform recommendations," Controller Yee said. "However, concerned citizens have brought to light that the city may be back to their old tax practices. As the state's fiscal watchdog, I have a duty to determine whether the city is still misusing taxpayer dollars."

In order to examine whether the City of Industry has addressed any of the deficiencies identified in the January 2016 review, the Controller's audit team will start a follow-up investigation as early as next week, Thursday.

After the 2016 review, William Lockyer, former State Attorney General and State Treasurer, was retained by the City of Industry as ethics advisor and was working to address the Controller's recommendations. Recently, he was abruptly fired and the Concerned Citizens of the City of Industry filed with the Los Angeles County Superior Court for injunctive relief to reinstate Lockyer in his oversight role. While the results of the Controller's second audit current review are pending, her team has filed a declaration in support of the citizen group's application.

The City of Industry, in the San Gabriel Valley of Los Angeles County, is home to more than 2,500 businesses and about 200 residents.

Rick Chivaro

From: David M. Gilmore <DMG@gmlegal.net>
Sent: Thursday, April 5, 2018 11:42 AM
To: Rick Chivaro
Subject: RE: Status

Rick—there are 20-25 people who are helping us that live there and/or work in the City but at this point not officially members yet because of concerns about retaliation. If we get Bill Lockyer back in there they will be official members. Right now though the business is the member. Dave

David M. Gilmore, Esq.
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From: Rick Chivaro <rchivaro@sco.ca.gov>
Sent: Thursday, April 5, 2018 11:13 AM
To: David M. Gilmore <DMG@gmlegal.net>
Subject: RE: Status

Dave,

Can you tell me how many members or individuals the Concerned Citizen's group is comprised of? Are there actual members to this group or is this a group represented solely by Bill Barkett and/or his business?

Richard J. Chivaro | Chief Counsel
Office of State Controller Betty T. Yee
Legal Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | (916) 445-6854

From: David M. Gilmore [<mailto:DMG@gmlegal.net>]
Sent: Wednesday, April 4, 2018 2:01 PM
To: Rick Chivaro <rchivaro@sco.ca.gov>
Subject: RE: Status

Yes. I will be filing it Friday morning per the court rules. I will confirm it is done when it is filed.

David M. Gilmore, Esq.

GILMORE MAGNESS JANISSE, a Professional Corporation
7789 N. Ingram Ave., Suite 105
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From: Rick Chivaro <rchivaro@sco.ca.gov>
Sent: Wednesday, April 4, 2018 10:29 AM
To: David M. Gilmore <DMG@gmlegal.net>
Subject: RE: Status

No problem. Can you let me know when this is filed?

Richard J. Chivaro | Chief Counsel
Office of State Controller Betty T. Yee
Legal Office
300 Capitol Mall, Suite 1850
Sacramento, CA 95814 | (916) 445-6854

From: David M. Gilmore [<mailto:DMG@gmlegal.net>]
Sent: Wednesday, April 4, 2018 10:28 AM
To: Rick Chivaro <rchivaro@sco.ca.gov>
Subject: RE: Status

Thanks. I appreciate the help getting that back in.

David M. Gilmore, Esq.
GILMORE MAGNESS JANISSE, a Professional Corporation
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From: Rick Chivaro <rchivaro@sco.ca.gov>
Sent: Wednesday, April 4, 2018 10:26 AM

Rick Chivaro

From: David M. Gilmore <DMG@gmlegal.net>
Sent: Tuesday, April 17, 2018 11:21 AM
To: Rick Chivaro
Subject: City of Industry
Attachments: City of Industry - Questions for State Controller 2018-04-17.docx

Rick—as I suspect you are aware, my client is being fed information about what is going on in the City of Industry. I was asked to pass on to you the attached which might interest the Controller as it conducts its audit. Please let me know if you have any questions. I am also sending a second request under the Public Records Act which I will copy to you when I have it approved. Dave

David M. Gilmore, Esq.
GILMORE MAGNESS JANISSE, a Professional Corporation
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The State Controller staff should ask for and review:

1. The fact that the City is required to collect the trash billings and is required by the franchise agreement to collect the delinquent billings;
2. The City owned housing rent is \$700 per mo. plus the City pays for the water, landscaping and property upkeep, etc. and the City pays the property taxes.
3. The State Controller should review the consultant study re: El Encanto rest home and the lack of governance and oversight of the 501c3. The State Controller should also review the loan agreement -- Industry to City of La Puente -- the wall was built by La Puente and IS NOT ADA compliant -- Casso knew about the ADA issue and did not tell City of Industry -- (Casso represents both cities, over my concern he obtained a conflict waiver from both cities) -- the liability exposure is high.
4. The State Controller needs to ask to review the citywide Billboard Study completed by the attorney firm Dapeer and Rosenblitt -- extensive revenue losses ongoing based on favoritism in the placement of various billboards as well as some billboards erected without permits

Rick Chivaro

From: David M. Gilmore <DMG@gmlegal.net>
Sent: Tuesday, May 15, 2018 2:42 PM
To: 'Rick Chivaro'
Subject: Concerned Citizens of the City of Industry

Rick—I trust all is well. My client trusts that the controller's audit is proceeding apace. I was asked to pass on to you to pass on to the auditors a request to have the auditors talk with several people that have pertinent information. Those include the former City Manager Paul Phillips (who resides at 12568 Eckleson, Cerritos 90703), former assistant City Manager, Alex Gonzales, (who resides at 2660 Lake Avenue #14, Altadena), Bill Lockyer, former ethics advisor (at Brown Rudnick in Orange County) and Anthony Bouza, attorney that had been working for the City of Industry (tonybouza@bouzalaw.com). Please let me know if you have any questions. Dave

David M. Gilmore, Esq.
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Exhibit B

RESOLUTION NO. CC 2013-12

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
INDUSTRY, CALIFORNIA, ADOPTING POLICIES RELATING TO
FINANCIAL MANAGEMENT, FRAUD REPORTING,
PROCUREMENT PROCEDURES, AND CITY MANAGER
PERFORMANCE EVALUATIONS.

THE CITY COUNCIL OF THE CITY OF INDUSTRY RESOLVES AS FOLLOWS:

SECTION 1. The City Council finds as follows:

A. To ensure sound financial management, the City desires to adopt a formal set of financial policies to provide a basic foundation and framework for elected officials and staff when making financial decisions on behalf of the City.

B. The City desires to adopt a fraud, waste, and abuse policy to protect the City's revenue, property, proprietary information, and other assets from any attempt by City officials, employees, contractors or vendors to gain financial or other benefits through fraud or deception.

C. Chapter 3.04 of Title 3 of the Industry Municipal Code provides the general authority and procedures for making purchases on behalf of the City. To ensure continuity and uniformity in the City's contracting and purchasing operations, the City desires to adopt a procurement policy detailing the procedures for contracting for services and purchasing supplies and equipment for the City.

D. To help identify and achieve annual goals, objectives, and policy directions, the City desires to implement a City Manager evaluation policy to provide guidelines for the City Manager's annual performance evaluation, where the Council will review the City Manager's past performance and set goals for the upcoming fiscal year.

SECTION 2. The City Council hereby adopts the Financial Policies, attached as Exhibit A.

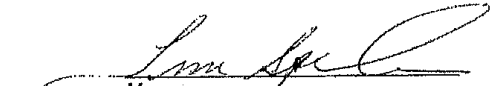
SECTION 3. The City Council hereby adopts the Fraud, Waste and Abuse Policy, attached as Exhibit B.

SECTION 4. The City Council hereby adopts the Procurement Policy, attached as Exhibit C.

SECTION 5. The City Council hereby adopts the City Manager Evaluation Policy, attached as Exhibit D.

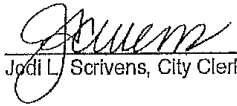
SECTION 6. The City Clerk is directed to certify to the adoption of this Resolution.

PASSED, APPROVED AND ADOPTED this 27 day of June, 2013.



Mayor

ATTEST:



Jordii L. Scrivens, City Clerk

APPROVED AS TO FORM:




Michele R. Vadon, City Attorney

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF INDUSTRY)

CITY CLERK'S CERTIFICATION
RE: ADOPTION OF CITY RESOLUTION

I, Jodi L. Scrivens, City Clerk of the City of Industry, do hereby certify that the foregoing Resolution No. CC 2013-12 was duly passed and adopted at a regular meeting of the City Council on June 27, 2013, by the following vote, to wit:

AYES:	COUNCIL MEMBERS:	Ferrero, Haber, Marcellin, MPT/Parriott M/Spohn
NOES:	COUNCIL MEMBERS:	None
ABSENT:	COUNCIL MEMBERS:	None
ABSTAIN:	COUNCIL MEMBERS:	None



Jodi L. Scrivens
City Clerk, City of Industry

(SEAL)

EXHIBIT A
Financial Policies

CITY OF INDUSTRY

Section:	Finance	Date Adopted:
Subject:	Financial Policies	Last Amended:
Number:		Page 1 of __

SECTION 1. GENERAL POLICIES

The City will:

- Manage its financial assets in a sound and prudent manner;
- Maintain and further develop programs to ensure its long term ability to pay all costs necessary to provide the level and quality of service required by its citizens; and
- Establish and maintain investment policies that are in accordance with State laws.

SECTION 2. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

A. Financial Information.

It is the policy of the City of Industry to provide all financial information in a thorough, timely fashion, and in a format that is easy for the City Council, and City boards, commissions, employees as well as citizens to understand and utilize.

B. Accounting Standards.

The City's accounting of financial systems will be maintained in accordance with Generally Accepted Accounting Principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).

C. Accounting Policies and Procedures Manual.

The City will maintain a manual on accounting policies and procedures, which will include details of procedures and define specific financial authority and responsibilities of employees. These policies and procedures will be reviewed annually and updated at least once every three years as needed.

As part of this review, the City will review and update its internal control procedures over financial management.

D. Audit Committee.

The City Council will appoint two members of the City Council to act as members of the audit committee. The audit committee will be responsible for the appointment, compensation, retention and oversight of the work of the independent accounting firm engaged to perform the annual audit of the City's annual financial report.

E. Annual Audit.

An independent public accounting firm will perform an annual audit and its opinions will be included in the annual financial report.

The independent audit firm will be selected through a competitive process at least once every five years. The City Manager and staff will review the qualifications of prospective firms and make a recommendation to the audit committee. The audit committee will make the final recommendation to the City Council. The audit contract, and any extensions, will be awarded by the City Council.

The independent audit firm must confirm to the City that it is in compliance with applicable standards of independence for external auditors regarding the City and its entities.

The independent audit firm may provide non-audit services as requested and approved by the City Council. The proposed non-audit contract will be reviewed by the audit committee, and a recommendation made to the City Council.

The annual audited financial statement will be posted on the City's website.

SECTION 3. FUND BALANCE POLICIES

The City utilizes a variety of accounting funds for recording revenues and expenditures. At the end of each fiscal year, budgeted/appropriated expenditure authority lapses with the exception of operating expenses that have been incurred but not paid for. The remaining dollars left in each fund that are unassigned constitute available funds of the City. The Council authorizes the City Manager to make assignment of unassigned funds as needed.

A. General Fund.

The General Fund Unassigned Fund Balance will be maintained in an amount as determined by the City Council based upon the facts and circumstances facing the City at that time. These funds are designed to be used in the event of significant financial emergency. Such additional amounts may be allocated for specific purposes, such as capital projects or for known significant future cost items. Any residual balance will be

available for general operational working capital uses.

B. City Council Contingency Account.

A contingency account will be maintained annually in the City's General Fund. The amount will be determined annually by the City Council as dictated by the facts and circumstances facing the City at that time. This account will be available for unanticipated, unbudgeted expenditures and will require City Council approval to spend. The purpose of this account is to provide some flexibility for unforeseen events without the necessity to appropriate additional funds from the City's Unassigned Fund Balance.

C. Enterprise Funds.

The City's Enterprise Funds will maintain reserves as determined by the City Council as dictated by the facts and circumstances facing the City at that time.

D. Trust and Agency Funds.

The City maintains funds on a trustee basis for a number of purposes, including City-sponsored post-employment benefits programs and trust accounts for special assessment districts and the Successor Agency of the Industry Urban Development Agency. These funds will be segregated from the City's general funds.

The estimated cost of City-sponsored retirement programs will be actuarially valued biennially. Ongoing annual normal costs for such programs will be budgeted in the department receiving the benefit. Unfunded liabilities will be disclosed and accounted for in accordance with Generally Accepted Accounting Principles (GAAP).

SECTION 4. DEBT POLICIES

A. Issuance of Debt.

The City will not use long-term debt to pay for current operations.

The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.

The term of the debt may never extend beyond the useful life of the improvements to be financed.

SECTION 5. REVENUE POLICIES

A. General Fund Revenue.

The City will strive to develop and maintain a diversified and reliable revenue stream so as to avoid becoming overly dependent on any single type of revenue. Efforts will be directed to optimize existing revenue sources while periodically reviewing potential new revenue sources.

Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.

If revenues from "one-time" or limited duration sources are used to balance the City's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the City's goal to not rely on these types of revenues to balance the operating budget.

The City will pursue revenue collection and auditing to assure that moneys due the City are accurately received in a timely manner.

The City will seek reimbursement for state and federal mandated costs whenever possible.

B. Grants and Gifts.

The City will actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the City will thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of such grant.

C. Enterprise Fund Charges.

The City will set user fees for each enterprise fund at a rate that fully covers direct and indirect costs of providing the service, as well as planned capital improvements that may be necessary from time to time.

SECTION 6. CAPITAL IMPROVEMENT POLICIES

A. Capital Improvement Policies Funding Sources.

Most of the City's infrastructure has a designated revenue source to pay for its upgrade or replacement, as appropriate. For example, water/wastewater rates fund utility infrastructure needs; gas tax revenues fund street needs; and storm drainage needs are paid for with related fees and assessments. The City's public buildings and properties are the primary beneficiaries of the City's Capital Projects Fund.

Transfers into the Capital Projects Fund will be processed by the Finance Department on a monthly basis and recorded as such in the annual adopted budget.

B. Three Year Capital Projects Program.

The City will annually prepare a capital projects spending program projecting capital needs for a three year period (shorter period budget if deemed appropriate due to circumstances). This spending program will address all of the City's funds.

The first year of the three year capital projects program will be consistent with, and adopted as a component of, the annual operating budget.

In the development of the capital projects program, the operating costs associated with the capital project will be projected and considered in conjunction with the capital projects program.

C. Enterprise Fund Capital Improvements.

Capital improvements funded from the Enterprise Funds will be paid for in combination of current operating cash flows, transfers from the general fund and the use of long-term debt financing. The City will periodically review its enterprise capital needs and establish capital spending plans that are appropriate.

SECTION 7. CAPITALIZATION AND DEPRECIATION POLICIES

The City will capitalize capital assets purchases in excess of \$5,000.

The City will depreciate capital assets such as machinery, equipment, buildings and improvements, and infrastructure (roads, sidewalks, parks, etc.). Depreciation will be performed on a straight line basis over the expected useful life of the asset and in accordance with Generally Accepted Accounting Principles (GAAP).

SECTION 8. CASH MANAGEMENT & INVESTMENT POLICIES

The City Treasurer will annually review and update, or modify as appropriate, the City's investment policy. Review will take place at public meetings and the policy will be adopted by minute action of the City Council based upon the City Treasurer's recommendations

City funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield in accordance with the applicable investment provisions of the California Government Code.

SECTION 9. OPERATING BUDGET POLICIES

A. Balanced Operating Budget.

It is the policy of the City to adopt a balanced budget, where operating revenues are equal to, or exceed, operating expenditures. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.

Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or "one-time only" General Fund expenditures.

B. Budget Document.

The operating budget will serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives. The budget will provide the staff the resources necessary to accomplish City Council determined service levels.

The City Manager will prepare a two-year (one year budget if deemed appropriate due to circumstances) proposed operating budget and present the proposed operating budget to the City Council no later than the second regular Council meeting in May of every two years; and Council will adopt such budget no later than June 30 of each year. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City Council.

The City's annual budget will be presented by department, with a logical breakdown of programs and proposed expenses. The budget document will also summarize expenditures at the personnel, operating and maintenance, and capital levels.

Each year the City's budget will be reviewed for possible amendments to the budgeted amounts and presented to the City Council for approval.

C. Budget Control and Accountability.

Budget control is maintained at the departmental level. The City Manager has the authority to approve appropriation transfers between programs or departments. In no case may total expenditures of a particular fund exceed that which is appropriated by the City Council without a budget amendment. Amendments to the budget are approved by the City Council

with the exception of the appropriation and transfer of funds from employee leave reserves to a specific department's program budget to cover unplanned customary termination leave expenditures within a given year. Such amendments may be approved by the City Manager.

Budget accountability rests primarily with the operating departments of the City.

D. Capital Plant and Equipment.

The annual budget will provide for adequate maintenance and replacement of capital assets.

E. Enterprise Funds.

The Enterprise Funds will be supported by their own rates and charges, and, if needed, will be subsidized by transfers from other available funds approved in the annual budget. The amount of the transfers may be changed if approved by the City Manager.

EXHIBIT B

Fraud, Waste and Abuse Policy

CITY OF INDUSTRY

Section:	Finance	Date Adopted:
Subject:	Fraud, Waste and Abuse Policy	Last Amended:
Number:		Page 1 of __

SECTION 1. PURPOSE

The City is committed to protecting its revenue, property, proprietary information and other assets from any attempt by City officials, employees, contractors or vendors to gain financial or other benefits through fraud and deception. The City does not tolerate misuse or misappropriation of City assets. It is the City's intent to promptly and fully investigate any suspected acts of "fraud," as it is defined in this Policy, in an impartial manner regardless of the suspected wrongdoer's length of service, position, title or relationship to the City.

This Policy addresses specific guidelines and responsibilities regarding appropriate actions for detecting, reporting, and investigating fraud or other similar irregularities.

SECTION 2. APPLICABILITY

This Policy applies to all City officials, employees and those doing business with the City.

SECTION 3. POLICY

The City will identify and promptly investigate any possible acts of fraud or related dishonest activities against the City. When appropriate, the City will take disciplinary action against officials and employees, including the possibility of termination of employment or contract, and will also pursue other available legal remedies, including forwarding information to the appropriate authorities for criminal prosecution.

SECTION 4. DEFINITIONS

For the purposes of this Policy, "fraud" is the act of intentional deception as a tool for personal gain. Fraud also includes any intentional waste, abuse, or attempt to use a City asset or position for personal gain or for purposes unrelated to City business, and other similar misconduct that is prohibited under California law. Examples of fraud include, but are not limited to:

- Using one's position for personal gain
- Stealing or removing City assets from City property

- Using City equipment, facilities, supplies or funds for purposes unrelated to City business
- Falsifying any City document or record
- Seeking or obtaining anything of material value in excess of permitted gift limits from those doing business with the City in exchange for favors in performing one's official duties
- Willful misrepresentations or providing false statements, certificates, reports, forms or claims
- Improprieties in the handling or reporting of money transactions
- Authorization or receipt of payments for goods not received or services not performed
- Authorization or receipt of payment for hours not worked
- Any claim for reimbursement of expenses that are not made for the benefit of the City or to perform one's official duties
- Unnecessary spending of City funds to purchase supplies or equipment
- Using one's position in one City department to gain an advantage over another City resident when conducting personal business in another City department
- Willful violations of federal, state or local laws related to fraudulent activities, including the Political Reform Act (Govt. Code §81000 and following), Government Code section 1090, the Regulations of the Fair Political Practices Commission, etc.

For the purposes of this Policy, "fraud investigator" includes any one of the following individuals: City Manager, City Attorney, City Clerk.

SECTION 5. MANAGEMENT RESPONSIBILITY

Members of management (i.e., department heads and supervisors) are responsible for establishing and maintaining a system of internal controls to ensure the detection and prevention of fraud and other irregularities.

Management should be reasonably familiar with the types of fraud that might occur within their area of responsibility, and be alert for any indication of fraud.

Management has the same responsibility with respect to reporting fraud as do all other employees of the City as outlined below. Management will support and co-operate with the fraud investigators, independent investigators, and law enforcement agencies in the detection, reporting and investigation of all fraudulent acts, including the prosecution of offenders.

Upon notification of suspected fraud from an employee or a member of the public, or if management has reason to suspect fraud has occurred, he/she will contact a fraud investigator. The fraud investigator will then contact each of the other fraud investigators, unless one or more of the investigators is suspected of fraud. The fraud investigator(s) will then conduct the investigation, or retain an independent investigator if necessary. If all fraud investigators are suspected of fraud, the fraudulent activity should be reported to law enforcement.

After reporting the suspected fraud to the appropriate person, management will not attempt to conduct individual investigations, interviews, or interrogations.

Great care must be taken in dealing with suspected fraudulent activities to avoid the following:

- Incorrect accusations;
- Alerting suspected individuals/companies that an investigation is underway;
- Treating employees/third parties unfairly; or
- Making statements that could lead to claims of false accusations or other offenses.

Responsibilities of management in handling fraudulent activities include the following:

- Not contacting the suspected individual to determine facts or demand restitution.
- Not discussing the case, facts, suspicions, or allegations with anyone outside the City, unless specifically directed to do so by the fraud investigator(s), or independent investigator.
- Not discussing the case with anyone inside the City other than employees who have a need to know, such as the City Manager.
- Directing all inquiries from the suspected individual/company or his/her/its representative/attorney to the City Manager.
- Directing all inquiries from the media to the City Manager's Office. A proper response to such an inquiry might be, "I'm not at liberty to discuss this matter. Let me refer you to the City Manager's Office". The City Manager's Office will determine the appropriate media messages and identify an appropriate City spokesperson, as required.

Upon completion of an investigation, management is responsible for taking appropriate corrective actions as recommended by the applicable investigator to ensure adequate controls exist to prevent reoccurrence of improper actions.

SECTION 6. EMPLOYEE RESPONSIBILITIES

Any employee of the City who knows or has reason to believe that a fraudulent act or practice has occurred must do the following:

- Report the incident or practice to at least one fraud investigator.
- Refrain from further investigation of the incident, confrontation with the alleged violator, or further discussion of the incident with anyone other than the fraud investigator(s), independent investigator, or law enforcement personnel.

Employees who wish to remain anonymous when reporting a suspected fraudulent activity may submit an anonymous online Fraud Report form at:
[http://www.cityofindustry.org/_____](http://www.cityofindustry.org/).

It is expected that employees (other than those who chose to remain anonymous) will fully co-operate with the fraud investigator(s), independent investigators and law enforcement agencies during the course of an investigation and will make all reasonable efforts to be available to assist with the investigation.

Employees that have a reasonable basis for reporting a fraudulent act or practice will be protected from retaliation under applicable City personnel policies and rules.

SECTION 7. INVESTIGATION

The fraud investigator(s) will carry out an initial review. After this review is completed, a determination of whether the suspected fraud warrants additional investigation will be made.

Where appropriate, a prompt and thorough investigation will be conducted and will include detailed analyses of available records. Within the scope of their investigation, the fraud investigator(s), or outside investigator, as applicable, will have unrestricted access to all City records, employees and City premises and the authority to examine, copy, or remove all or any portion of the contents of files, desks, cabinets, computers and other City resources, equipment and facilities without prior knowledge or consent of any individual who might use or have custody of any such items when there is a reasonable suspicion of a dishonest or fraudulent activity, which makes such inspection appropriate. There is no assumption of privacy in such cases.

The person conducting the investigation will proceed as follows, if evidence is uncovered showing possible fraudulent activities:

- Discuss the findings and recommendations for prevention of future similar occurrences with management and appropriate administrators.
- Determine if disciplinary actions should be taken.
- If criminal activity appears to have occurred, in consultation with the City Attorney, report the findings to the appropriate law enforcement agency.

Decisions to prosecute or refer the investigation results to an appropriate law enforcement agency for independent investigation will be made by the City Manager in appropriate circumstances and in consultation with the City Attorney.

SECTION 8. CONFIDENTIALITY

All participants in a fraud investigation will treat all information received confidentially. To the extent permitted by law, the identity of individuals involved in an investigation including the identity of an individual alleging fraud and the identity of an individual alleged to have committed fraud will be protected. Disclosure of the identity of witnesses may be required, however, pursuant to a subpoena or in other circumstances where the City is required by law to release information. In addition, persons reporting fraud

should also be aware that public testimony might be needed to prove the case against the accused.

EXHIBIT C

Procurement Policy

CITY OF INDUSTRY

Section:	City Manager	Date Adopted:
Subject:	Procurement Policy	Last Amended:
Number:		Page 1 of __

SECTION 1. PURPOSE

The purpose of this policy is to provide the City of Industry a means of assuring continuity and uniformity in its contracting and purchasing operations, and to define the responsibilities for contracting for services and purchasing supplies and equipment for the City. This policy is in furtherance of the general authority and procedures set forth in Chapter 3.04 (Purchasing System) of Title 3 of the Industry Municipal Code, and while comprehensive is not intended to address every issue, exception, or contingency that may arise in the course of City contracting and purchasing activities. The basic standard that should always prevail is to exercise good judgment in the use and stewardship of City resources, including keeping within the budget authorized by the City Council.

This policy does not address the purchase of supplies, equipment and services, which are included within the definition of a "public works" project subject to the requirements of the California Public Contract Code.

SECTION 2. PROCUREMENT OFFICER

The City Manager is designated as the Procurement Officer for the City and may delegate the administration of the program to a designee. The Procurement Officer is charged with the responsibility and authority for coordinating and managing the procurement of the City's supplies, equipment and services according to this policy.

The Procurement Officer and all departments must adhere to this policy when procuring supplies, equipment and services. This policy strives to define decision making with prudent review and internal control procedures and to maintain departmental responsibility and flexibility in evaluating, selecting, and procurement supplies, equipment and services.

SECTION 3. RESPONSIBILITIES OF THE PROCUREMENT OFFICER

The Procurement Officer is responsible for 1) the procurement of supplies, equipment and services; 2) the administration of this procurement policy; and 3) the management of surplus city property. To perform these functions efficiently and assist departments, the Procurement Officer will:

- A. Coordinate and manage the procurement of the City's supplies, equipment and services from the lowest responsive and responsible bidder when required by this policy.
- B. Ensure full and open competition on all purchases as required by this policy.
- C. Identify, evaluate and utilize procurement methods which best meet the needs of the City (i.e., cooperative purchases, blanket purchase orders, contractual agreements, etc.)
- D. Assist all departments with research and recommendations in developing specifications; review specifications for completeness of information to ensure specifications are not unnecessarily restrictive.
- E. Coordinate vendor relations, locate sources of supply, and evaluate vendor performance.
- F. Recommend revisions to procurement procedures when necessary and keep informed of current developments in the field of public contracting and purchasing.
- G. Prescribe and maintain all forms and records necessary for the efficient operation of the procurement function.
- H. Act as the City's agent in the transfer and disposal of surplus equipment and materials.
- I. Investigate the cost of recycled and non-recycled products to determine if the purchase of recycled products is practical and economical. To be considered economical, the added costs should not exceed 10% of the lowest non-recycled product price.
- J. Make purchase award recommendations to the appropriate authority.

SECTION 4. RESPONSIBILITIES OF DEPARTMENTS

Departments are charged with the following responsibilities in the procurement process:

- A. To anticipate requirements sufficiently in advance to allow adequate time to obtain goods in accordance with the best procurement practices.
- B. To communicate and coordinate purchases with the Procurement Officer, as necessary.
- C. To provide detailed, accurate specifications to ensure goods obtained are consistent with requirements and expectations.

- D. To prepare requisitions in accordance with instructions so as to minimize the processing effort.
- E. To inform the Procurement Officer of any vendor relations problems, shipping problems (i.e., damaged goods, late delivery, wrong items delivered, incorrect quantity delivered, etc.) and any situations that could negatively affect the procurement function.
- F. To minimize urgent and sole source purchases and to provide written documentation when such purchases may be necessary.
- G. To assist the Procurement Officer with the review of all bids received for compliance with specifications, and provide the Procurement Officer with written documentation regarding their findings.
- H. To notify vendors of purchase award when authorized by the Procurement Officer.
- I. To not "split" orders for the purpose of avoiding procurement requirements. See Definitions.
- J. To consider the use of recycled products when practical and economically feasible. To be considered economical, the added costs should not exceed 10% of the lowest non-recycled product price.

SECTION 5. VENDOR AND CONSULTANT RELATIONS

It is to the City's advantage to promote and maintain good relations with vendors and service providers. The Procurement Officer and department staff will conduct their dealings with vendors and consultants in a professional manner and will promote equal opportunity and demonstrate fairness, integrity, and courtesy in all relations. When feasible and cost-effective to do so, as determined by the Procurement Officer, vendors within the City of Industry should be utilized for supplies and equipment.

SECTION 6. SPECIFICATIONS

It is the responsibility of each department to provide detailed, accurate specifications when requisitioning supplies and equipment. Accurate specifications are essential for effective bidding.

A. Sole Source Specifications.

Sole source specifications must be avoided whenever possible, as they minimize or eliminate competition. The appropriate authority (Procurement Officer if total purchase for supplies or equipment is \$100,000 or less; City Council if total purchase for supplies or equipment is more than \$100,000) may waive bidding requirements if sufficient written justification for a sole source purchase exists. Written documentation signed by the appropriate

department head must accompany the requisition for any sole source request.

B. Standardization.

Standardization of specifications for items common to several departments can facilitate the procurement process. The Procurement Officer and departments are encouraged to work together to establish standard specifications for such items.

C. Brand Name, or Equal, Specifications.

In purchasing equipment or supplies needed to be compatible with existing equipment, or to perform complex or unique functions, the Procurement Officer may limit bidding to a specific product type or a brand name product. Use of brand names in specifications will be for the purpose of describing the standard of quality, performance, and characteristics the City desires and not be intended to limit or restrict competition. If a brand name is incorporated into a specification, a minimum of two acceptable brands will be listed whenever possible and will be followed by the statement "or approved equal" unless the sole source rule applies. Using specifications provided by a specific manufacturer should be avoided, however, if used, the name of the manufacturer, model number, etc., should be indicated. The bid document must clearly state that the use of the manufacturer's specifications are for the sole purpose of establishing the level of quality desired. The Procurement Officer reserves the right to determine and approve any product submitted as an "or equal."

D. Vendor Assistance in Writing Specifications.

There may be occasions when vendor assistance is required to develop a specification. Such specifications must be written in general terms and the vendor will be informed that the information they provide may be used to develop specifications for a competitive bid process. The vendor will be allowed to submit a bid, but will not be given any preference over the other bids.

SECTION 7. SUPPLIES & EQUIPMENT: PROCUREMENT METHODS

A. Requirements for Certain Procurement Dollar Limits.

Procurement dollar limits are "per order". This policy specifically prohibits splitting an order to circumvent the specified dollar limits. Departments should contact the Procurement Officer to coordinate volume bids of repetitive requirements (i.e., the frequent purchase of items such as chemical, paper goods, etc., which annually exceed the specified limits).

1. Purchases of Less than \$10,000 – Over-the-Counter.

For purchases of less than \$10,000, the authority to award is the Procurement Officer. Comparative pricing is not required but will be used when practical. Prudent judgment must be used at all times. All departments may purchase supplies and equipment of less than \$10,000 without competitive bidding and without a purchase order. A purchase order may be requested by the department if required by the vendor or if the department wishes to use the purchase order as a mechanism to encumber funds.

2. Purchases Between \$10,000 - \$100,000 -- Open Market.

For purchases of between \$10,000 - \$100,000 the authority to award is the Procurement Officer. Department staff may not award purchase orders for \$10,000 or more without the approval of the Procurement Officer, except in the event of an urgency purchase. All departments must obtain at least three oral or written competitive proposals whenever possible for purchases, unless the Procurement Officer determines that it is not possible to obtain three such proposals. The Procurement Officer may be requested to assist in this process. The department must submit a requisition, which includes the recommended vendor, with all supporting documentation to the Procurement Officer. Supporting documentation will include competitive price quotes obtained, names of vendors contacted, description of the items required, and certificates of insurance as applicable. The Procurement Officer will review the recommendation and supporting documentation and may contact additional sources for quotations. The Procurement Officer may award purchase to the lowest responsive and responsible bidder whose quotation fulfills the intended purpose, quality, and delivery needs of the solicitation, provided that an unencumbered appropriation for that item exists. In lieu of awarding the purchase, the Procurement Officer may reject bids, or may negotiate further to obtain terms more acceptable to the City.

3. Purchases of More than \$100,000 -- Formal Bid.

Purchases that exceed \$100,000 require a Formal Bid Process, and City Council approval. See Section 9.

B. Blanket Purchase Orders.

A blanket purchase order is an agreement whereby the City contracts with a vendor to provide equipment or supplies on an as-needed and often over-the-counter basis. Blanket purchase orders provide a mechanism whereby items which are uneconomical to stock may be purchased in a

manner that allows field operations timely access to necessary materials. Blanket purchase orders may not be used to purchase services, capital assets or items maintained in stock.

1. Review.

The Procurement Officer will request confirmation of blanket purchase orders annually, before the beginning of the fiscal year. Requests for blanket purchase orders may also be submitted to the Procurement Officer on an as-needed basis. The Procurement Officer will review blanket purchase order requests based upon the following criteria:

- a. Geographic location.
- b. Responsiveness and capabilities.
- c. Average dollar value and type of items to be purchased.
- d. Frequency of need.

2. Contents.

All blanket purchase orders must include the following information:

- a. A general description of the equipment or supplies that may be charged.
- b. The period of time the order will remain open, not to exceed one year.
- c. The maximum total amount that may be charged on the purchase order.
- d. The maximum amount that may be charged each time the employee implementing a purchase enters the vendor's place of business, or if unspecified, \$250 per visit and \$750 per month.
- e. Items excluded from the purchase, if applicable.
- f. The phone number of the Purchasing Officer for questions or approval of charges that exceed the limit.
- g. Identification of the department(s) and employee(s) who may charge against the order.
- h. Requirement that the employee show City identification.

- i. Requirement that employees print and sign their names when picking up goods.
- j. City account number(s) to be charged.

Once a Blanket Purchase Order is issued to a vendor, any authorized City employee may contact the vendor directly to place orders per the terms and conditions specified in the Blanket Purchase Order.

C. Contract Purchase Orders.

Contract purchase orders are the preferred method of procurement repetitive-use items that may be common to several departments or within one department. Establishing contract purchase orders provides a means of obtaining volume pricing based upon the combined needs of all departments, reduces the administrative costs associated with seeking redundant competitive bids and processing a contract purchase order each time an order is placed, and allows departments to order as needed, reducing the requirement to maintain large inventories of stock.

If a contract purchase order exists, departments will order all of their requirements from the successful vendor. No other source may be used without prior approval of the Procurement Officer. Departments must submit, in writing to the Procurement Officer, any performance problem encountered immediately following the occurrence so that corrective action may be taken.

Contract purchase orders are annual and may include option for renewal for specific products, product types, or services at agreed upon prices or pricing structure and for a specified period of time.

D. Cooperative Purchases.

The Procurement Officer may participate in purchases and contracts established by other political jurisdictions, provided the cooperative agreement is established following a competitive bid process. The Procurement Officer may authorize the award of cooperative purchase agreements up to and including \$100,000. City Council approval is required for the award of any cooperative purchase of more than \$100,000.

E. Sole Source Purchases.

Supplies and equipment that can be obtained from only one vendor are exempt from competitive bidding. Sole source purchases may include proprietary items sold directly from the manufacturer, items that have only one distributor authorized to sell in this area or a certain product has been proven to be the only product that has proven to be acceptable. All sole

source purchases must be supported by written documentation signed by the appropriate department head and forwarded to the Procurement Officer. Final determination that an item is a valid sole source purchase will be made by the Procurement Officer.

F. Urgency Purchases.

1. Applicability.

Urgency purchases may be made without competitive bidding when time is of the essence, and will be made only for the following reasons:

- a. to preserve or protect life, health or property; or
- b. upon natural disaster; or
- c. to forestall a shutdown of essential public services.

2. Requirements.

Since urgency purchases do not normally provide the City an opportunity to obtain competitive quotations or properly encumber funds committed, sound judgment must be used in keeping such orders to an absolute minimum. In addition, the following requirements apply:

- a. The Procurement Officer must be contacted as soon as possible for approval, which may be given verbally, to cover the urgent transaction. If unable to contact the Procurement Officer, place the order and contact the Procurement Officer the next workday.
- b. A completed purchase requisition must be submitted to the Procurement Officer within two working days, or as soon as the information is available. All purchase requisitions for urgent purchases must be signed by the appropriate department head.
- c. Documentation explaining the circumstances and nature of the urgency purchase must be submitted by the appropriate department head as follows:
 - (i) Purchases less than \$10,000: Use standard procurement procedures.

- (ii) Purchases in the amount of \$10,000 - \$100,000: Report to the Procurement Officer by processing requisition within one week.
 - (iii) Purchases of more than \$100,000: 1) Report to Procurement Officer within two working days, and 2) Report to the City Council at its next scheduled meeting for ratification.
- d. If the urgency purchase causes any budget line item to exceed the approved budget, it will be the responsibility of the department requesting the purchase to obtain subsequent City Council approval for an additional appropriation or to make a transfer to cover the purchase.

G. Change Orders.

Purchase orders represent a contract between the City and the vendor. Any substantial change to a purchase order must be documented as a change order. Change orders will be reviewed and approved by the Procurement Officer. Any change order that causes the purchase order to exceed \$10,000 must be reported to City Council as part of an agenda report. Any change order that results in the purchase order exceeding \$100,000 must be approved by City Council. Urgency changes must comply with Section 7.F. A purchase order may not be increased by more than 10% or \$2,500, whichever is less, without a change order, except for taxes, shipping and handling as discussed below. Taxes, shipping and handling may cause the purchase order to exceed the authorized purchase order amount. These items do not require a change order, even if they exceed 10% of the original purchase order amount.

SECTION 8. SUPPLIES & EQUIPMENT: PURCHASE AWARD

A. Lowest Responsive and Qualified Bidder.

1. Bids will be awarded to the "responsive" and "qualified" bidder who submits the lowest bid.
2. In determining the lowest "responsive" bid, the following elements will be considered in addition to price:
 - a. A responsive bid is one that is in substantial conformance with the requirements of the invitation to bid, including specifications and the City's contractual terms and conditions. Bidders who substitute terms and conditions or who qualify their bids in such a manner as to nullify or limit their liability will be considered non-responsive bidders.

- b. Conformance with the requirements of the invitation to bid may also include providing proof of insurance, completing all forms, including references, and all other information as requested in the bid document.
 - c. The successful bidder must demonstrate the ability to successfully fulfill a contract, including rendering of subsequent and continuing service. Staff may request proof of a prospective bidder's reliability. Prospective bidders may be requested to furnish proof of financial resources, a list of current or previous customers, and other pertinent data. Such action may also be taken after receipt of bids.
 - d. A bidder may be determined to be non-responsive if a prospective bidder fails to furnish proof of qualifications when required.
3. In determining the lowest "qualified" bidder, the following elements will be considered in addition to price:
- a. That the products offered provide the quality, fitness, and capacity for the required usage.
 - b. That the bidder has the ability, capacity and skill to perform the contract satisfactorily and within the time required.
 - c. That the bidder's experience(s) regarding past purchases or services received by the City or other public agencies demonstrates the reliability of the bidder to perform the contract.
4. When a bid is recommended to be awarded to other than the low bidder, written justification is required, signed by the appropriate department head.

B. Rejection of Bids.

The Procurement Officer or the requesting department may recommend rejection of any or all bids if it is determined to be in the best interests of the City. Reasons for rejection may include, but are not limited to, the following: a bid is determined to be non-responsive, the number of bids received is inadequate, bids received are not reasonably uniform in price, or the lowest bid received is deemed to be too high. The Procurement Officer may, in any given case, reject all bids with or without cause and submit the supplies, equipment or service involved to a new bidding process. If all bids are rejected, the Procurement Officer may be authorized to re-solicit bids, negotiate a contract for the purchase, or abandon the purchase.

C. Tie Bids.

If two or more bids are received that are in all respects equal, the Procurement Officer, in the Officer's discretion, may accept the one deemed to be in the best interests of the City.

SECTION 9. INFORMAL AND FORMAL BID PROCESS

- A. Except as otherwise exempted in the policy, supplies and equipment with an estimated value of \$10,000 to \$100,000 will be purchased following an Informal Bid Process and purchases of more than \$100,000 will be made following a Formal Bid Process.
- B. To initiate the informal/formal bid process, the department making the request must provide specifications for the item to be purchased and documentation showing the existence of an unencumbered appropriation for the item in the current approved budget. The Procurement Officer or requesting department will solicit informal/formal bids as prescribed by the Industry Municipal Code.
- C. Informal bids may be posted at City Hall, mailed to prospective bidders a minimum of ten calendar days before the due date, or solicited over the phone or otherwise.
- D. Formal bids will be published in a newspaper of general circulation in the City, posted in at least three public places in the City designated by ordinance for the posting of public notices, and posted on the City's website. The Procurement Officer will also mail a copy to anyone who has requested to be so notified. All notices must be published, posted, or mailed at least 10 days before the date specified for the opening of bids. All formal bids must be sealed and will be publicly opened and read at the date, time, and place indicated in the published notice.
- E. Copies of all bids received by the Procurement Officer will be retained by the City Clerk and will be generally available public inspection during regular business hours for at least thirty days following the bid opening.
- F. Bids will be reviewed for compliance with specifications by the requesting department. All deviations from the specifications must be fully documented by the requesting department and the impact of the deviations on the performance or suitability of the bid item will be detailed. Staff will prepare and forward a recommendation for approval of purchase.
- G. Informal bids will be approved by the City Manager.
- H. Formal bids will be approved by the City Council. The City Council may reject any and all bids, and may waive any irregularity in any bid.

SECTION 10. CREDIT CARD USAGE

Under certain circumstances, the use of a city credit card may be the most appropriate method for certain purchases. The following policies and procedures are established to insure internal control and timely payment of charges.

- A. City credit cards will be distributed on an as-needed basis to department heads. City credit cards will only be available for the conduct of official City business. Use of the City credit card for personal purchases or cash advances is prohibited.
- B. Purchases with a credit card may not exceed \$10,000 without prior written approval of the City Manager.
- C. All receipts must be turned in when the credit card is turned in.
- D. Failure to comply with established procedures may result in discontinuance of use of the City credit card by the employee/department, and may subject the employee to disciplinary personnel action, including but not limited to reimbursement.

SECTION 11. UNAUTHORIZED PURCHASES

Except for urgencies, departmental purchases, or other authorized exemptions stated in these policies, no purchase of supplies, equipment or services may be made without an authorized purchase order. Otherwise, such purchases are void and not considered an obligation of the City. Any invoices without an authorized purchase order may be returned to the vendor unpaid. Purchase orders must be issued prior to ordering supplies, equipment and services and not "after the fact" for work already done or materials already ordered.

SECTION 12. PROFESSIONAL SERVICES: CONSULTANT SELECTION

- A. Selection of Consultants for Professional Services (General):
 - 1. As used in this policy, "professional services" are those professional services listed in California Government Code sections 4525-4529.5, 37103, and 53060. The following criteria will be used to determine approval authority for consultants for professional service contracts:
 - Contracts of \$100,000 or less/year: Procurement Officer approval.
 - Contracts of more than \$100,000/year: City Council approval.
 - 2. This policy specifically prohibits splitting scope of services to circumvent the limits set forth in Section 12.A.1, above.

3. The appropriate department head, with the approval of the Procurement Officer, will prepare a scope of work consistent with the proposed budget. A Request for Proposal (RFP) or Request for Qualifications (RFQ) process may be used at the discretion of the Procurement Officer. If utilized, the RFP or RFQ will outline the City's requirements and project description. The list of solicited firms may be drawn from firms who, in the opinion of the department head, can perform the work. In addition, upon request, department heads will maintain a list of interested bidders who will be included in future solicitations.
 4. In the event a RFP or RFQ is issued, the initial review of proposals will be conducted by the involved department head(s), who will make a recommendation to the Procurement Officer regarding which consultants should be invited to interviews. Formal interviews will be conducted by the Procurement Officer and applicable department heads, who, where applicable, will make a recommendation to the City Council for final selection.
 5. Qualifications should be the primary factor in the selection of a professional services consultant.
 6. Prior to approval of a contract, the department head must conduct appropriate background and reference checks and ensure that adequate bonding or security, if required, is posted.
 7. Consultants must comply with all regulations and laws dealing with conflict of interest disclosure and reporting. Consultants will not be engaged if a conflict of interest exists.
 8. Approval of "additional scope of work" items must comply with the limits of Section 12.A.1, above.
- B. Selection of Consultants for Professional Services for Continuing Services:
1. Firms providing professional services may be retained on a continuing basis to provide professional services. The department head may recommend to the Procurement Officer that the City contract on a project-by-project or on a retainer basis for additional work/services without going through the RFP and selection process. At least every five years these arrangements will be reviewed and, if deemed appropriate or necessary, the City will solicit proposals from at least three consultants to perform the same services. This is to ensure the City is receiving the best value in their services.

2. Beginning each fiscal year, the Procurement Officer will make a written request to each department head to submit to the Procurement Officer a list of consultants currently under contract by their department, setting forth name of firms, type of services, cost of contracts, length of contracts and date entered into, and the number of years retained by the City.

SECTION 13. SPECIALTY SERVICES: CONSULTANT SELECTION

A. Selection of Consultants for Specialty Services (General):

1. As used in this policy, "specialty services" are those professional services that are not specifically listed in California Government Code sections 4525-4529.5, 37103, and 53060. The following criteria will be used to determine approval authority for consultants for specialty service contracts:

Contracts of \$100,000 or less/year: Procurement Officer approval.

Contracts of more than \$100,000/year: City Council approval.
2. This policy specifically prohibits splitting contract services to circumvent the limits set forth in Section 13.A.1, above.
3. The appropriate department head, with the approval of the Procurement Officer, will prepare a scope of work consistent with the proposed budget. A Request for Proposal (RFP) or Request for Qualifications (RFQ) process may be used at the discretion of the Procurement Officer. If utilized, the RFP or RFQ will outline the City's requirements and project description. The list of solicited firms may be drawn from firms who, in the opinion of the department head, can perform the work. In addition, upon request, department heads will maintain a list of interested bidders who will be included in future solicitations.
4. In the event a RFP or RFQ is issued, the initial review of proposals will be conducted by the involved department head(s), who will make a recommendation to the Procurement Officer regarding which consultants should be invited to interviews. Formal interviews will be conducted by the Procurement Officer and applicable department heads, who, where applicable, will make a recommendation to the City Council for final selection.
5. Qualifications should be the primary factor in the selection of a specialty services consultant.

6. Prior to approval of a contract, the department head must conduct appropriate background and reference checks and ensure that adequate bonding or security, if required, is posted.
7. Consultants must comply with all regulations and laws dealing with conflict of interest disclosure and reporting. Consultants will not be engaged if a conflict of interest exists.
8. Approval of "additional scope of work" items must comply with the limits of Section 13.A.1.

B. Selection of Consultants for Specialty Services for Continuing Services:

1. Consultants providing specialty services may be retained on a continuing basis. The department head, with the approval of the Procurement Officer, may contract on a project-by-project or on a retainer basis for additional work/services without going through the RFP and selection process. At least every five years these arrangements will be reviewed and, if deemed appropriate or necessary, the City will solicit proposals from at least three consultants to perform the same services. This is to ensure the City is receiving the best value in their services.
2. Beginning each fiscal year, the Procurement Officer will make a written request to each department head to submit to the Procurement Officer a list of consultants for specialty services currently under contract by their department, setting forth name of firms, type of services, cost of contracts, length of contracts and date entered into, and the number of years retained by the City.

SECTION 14. PROTEST PROCEDURES

Any person or entity may present a formal protest to the City with respect to solicitations. The protest must be in writing, addressed to the City Manager and delivered to the City Clerk. These protest procedures will only apply to non-federally funded bids (formal or informal) over \$10,000.

A. Timeframes.

Protests of any kind regarding the solicitation including, but not limited to, specifications, scope of work or process, must be received by the City not more than five business days after the last day for questions or the last addendum is issued, whichever is later. Protests regarding bid responses or award of contract must be received by the City within five business days of when the protester knew or should have known of the facts and circumstances on which the protest is based. For information that is made public, including posting intent of the award on City Council Agendas, the time will start from the date the information is made public or is publicly

available.

B. Format.

The protest must include the following information at a minimum:

1. The name, address and phone number of the protester, or the authorized representative of the protester;
2. The signature of the protester or authorized representative of the protester;
3. The bid number and title under which the protest is submitted;
4. A detailed description of the legal or factual grounds for the protest and all supporting documentation. For protests containing elements not based on publicly released information the protest must contain documentation clearly showing the date on which the protester received the information; and
5. The form of relief requested.

C. Protest Review.

The protest will be reviewed by the Procurement Officer, who will issue a response to the protester. If the protest is incomplete, the City reserves the right to deny the protest on that ground or to request additional information. The Procurement Officer will provide a written response to the protester within ten business days of receipt of the protest unless additional information is requested, in which case the response will be provided within ten business days of receipt of that information.

D. Appeal.

Any appeal of the Procurement Officer's decision must be made to the City Council prior to the final award. The City Council's decision will be binding and final.

E. Mandatory Procedure.

This administrative procedure and the time limits set forth herein are mandatory. Failure to comply with these mandatory procedures constitutes a waiver of any right to pursue the bid protest, including filing a Government Code claim or any legal proceedings or actions.

SECTION 15. SURPLUS PERSONAL PROPERTY

The Procurement Officer is responsible for the transfer and disposition of surplus City property. "Surplus property" is used generically to describe any City property that is no longer needed or useable by the applicable department. The Procurement Officer has the authority to declare item(s) surplus.

A. Methods of Disposition.

The Procurement Officer will determine or approve one of the following methods of disposition that is most appropriate and in the best interests of the City.

1. Transfer to Another Department.

Surplus property may be transferred between City departments. All transfers of items with an estimated value of \$1,000 or more require approval of the department heads from each department affected by the transfer.

2. Trade-In.

Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property. All trade-in offers will be submitted for the review and approval of the Procurement Officer. If surplus property is to be applied to a purchase order, the trade-in value must be itemized on the Purchase Order. The amount charged against the expenditure account will be the value of the purchase before application of the trade-in credit.

3. Return to Manufacturer.

Surplus property may, when possible, be returned to the manufacturer for buy-back or credit toward the purchase of new property.

4. Disposal.

Surplus property may be offered for sale by the Procurement Officer. All surplus property is for sale "as is" and "where is", with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability of the property offered for sale. Appropriate methods of sale are as follows:

- a. Public Auction - Surplus property may be sold at public auction. Public Auctions may be conducted by City staff, or the City may contract with a professional auctioneer including professional auction services.

- b. Sealed Bids - Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.
- c. Selling for Scrap - Surplus property may be sold as scrap if the Procurement Officer deems that the value of the raw material exceeds the value of the property as a whole.
- d. Negotiated Sale - Surplus property may be sold outright if the Procurement Officer determines that only one known buyer is available or interested in acquiring the property.
- e. Donation to Non-Profit - Surplus property may be donated to a non-profit organization if the Procurement Officer determines that: (i) the resale value of the item is limited, (ii) the cost of other means of disposal would potentially exceed the recovery value, or (iii) the surplus property may be used by a non-profit in a manner that would provide a general public benefit.
- f. No Value Item - Where the Procurement Officer determines that specific supplies or equipment are surplus and of minimal value to the City due to spoilage, obsolescence or other cause or where the Procurement Officer determines that the cost of disposal of such supplies or equipment would exceed the recovery value, the Procurement Officer will dispose of the same in such a manner as he or she deems appropriate and in the best interest of the City.

B. Proceeds.

Proceeds from the sale or trade-in of surplus property will be returned to the appropriate fund.

EXHIBIT D

City Manager Evaluation Policy

CITY OF INDUSTRY

Section:	City Council	Date Adopted:
Subject:	City Manager Evaluation Policy	Last Amended:
Number:		Page 1 of __

SECTION 1. PURPOSE

The City is committed to identifying and fulfilling annual goals, objectives, and policy directions to bring projects to successful completion and to provide residents and businesses within the City with the best and most efficient service. This policy provides guidelines for the City Manager's performance evaluation, where the Council will evaluate the City Manager's past performance and set goals, objectives, and policy direction for the upcoming fiscal year.

SECTION 2. POLICY

The City Council will evaluate the performance of the City Manager annually. The evaluation process is intended to be a positive interchange between the Council and City Manager, resulting in the documentation of performance, strengths, weaknesses, accomplishments, and expectations.

SECTION 3. EVALUATION PROCESS

Evaluations will occur six months after initial hire, and, thereafter, on an annual basis within three months after the close of the fiscal year.

The City Manager will prepare a written summary of accomplishments in the past year, including progress towards meeting the goals and objectives established by City Council, and present the summary to Councilmembers before the evaluation meeting.

City Councilmembers should complete the standard evaluation forms and meet with the City Manager in closed session. At the conclusion of the session, the City Council will, by consensus, determine an overall evaluation of the City Manager's performance in the past year, and complete a group evaluation form.

During this process, the City Manager and City Council should take into consideration, among other things, the powers and duties of the City Manager set forth in the Industry Charter and Industry Municipal Code section 2.08.070 ("Powers and duties"), as well as Industry Municipal Code section 2.08.100 ("Relations with city council").

SECTION 4. CONFIDENTIALITY

The evaluations completed pursuant to these policies are intended to be a candid disclosure of performance between the City Manager and City Council. Therefore, such evaluations will remain confidential, and will not be made available to the general public.

Exhibit C

RESOLUTION NO. CC 2013-18

A RESOLUTION OF THE CITY COUNCIL OF THE CITY
OF INDUSTRY, CALIFORNIA, ESTABLISHING AN AUDIT
COMMITTEE AND DESIGNATING ITS FUNCTIONS

THE CITY COUNCIL OF THE CITY OF INDUSTRY RESOLVES AS
FOLLOWS:

SECTION 1. Findings. The City Council finds as follows:

A. On June 27, 2013 the City Council adopted Resolution No. CC 2013-12 to establish policies relating to financial management to help promote efficient and effective management and operation of the City.

B. Under the City's adopted financial policies, the City Council is directed to establish an Audit Committee that is responsible for the appointment, compensation, retention and oversight of the work of the independent accounting firm engaged to perform the annual audit of the City's annual financial report.

C. Article VIII of the Charter of the City of Industry grants to the City Council the authority to create such commissions, committees and agencies as are required (Section 800) and to appropriate necessary funds sufficient for the proper functioning of such commissions, committees and agencies (Section 801), and to establish operating standards including, but not limited to; standards for appointment of members, any necessary procedural rules and regulations (Section 802) and provisions for reimbursement of expenses and compensation (Section 804).

D. The City Council desires to create an Audit Committee consistent with the authority of the above-referenced provisions of the Charter of the City of Industry and the City's financial policies.

SECTION 2. Creation of Committee. The City Council hereby creates the Audit Committee of the City of Industry.

SECTION 3. Committee Membership. The Audit Committee will consist of two members appointed by the City Council and will serve at the pleasure of the City Council. Every person appointed to the Audit Committee will, at the time of his or her appointment, be a member of the City Council of the City of Industry. Should any person so appointed cease to be a member of the Industry City Council, that person will be ineligible to continue to serve as a member of the Committee. Strong consideration will be given to Council members who have a background in financial services, including but not limited to financial management, accounting, or auditing.

SECTION 4. Meetings. All meetings of the Committee will be held in accordance with and subject to the applicable provisions of the Ralph M. Brown Act.

SECTION 5. Functions and Responsibilities. The function and purpose of the Audit Committee is to assist the City Council by making recommendations pertaining to the appointment, compensation, retention and oversight of the work of the independent accounting firm engaged to perform the annual audit of the City's annual financial report. The Audit Committee, in addition to any other duties requested by the City Council, will do the following:

A. Hold an annual meeting at least once each fiscal year, as well as at additional times as requested by the City Council.

B. Designate the City Manager and Controller as Committee Advisors, to provide assistance and recommendations in all matters reviewed by the Audit Committee.

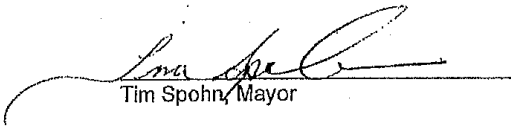
C. Review the year-end financial audit for the City with Committee Advisors, along with representatives from the independent accounting firm charged with preparing the year-end audit. Prepare and present a summary of the year end audit for Council review at the next regularly scheduled Council meeting following the Audit Committee's review.

D. At least once every five years, receive and review recommendations and information from staff regarding the selection of an independent audit firm through a competitive process. Make a final recommendation to the Council regarding the award of the audit contract.

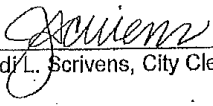
E. Review and make a final recommendation to Council on any proposed contract between the City and the selected independent audit firm for non-audit services.

SECTION 6. The City Clerk is directed to certify to the adoption of this resolution.

PASSED, APPROVED and ADOPTED by the City Council of the City of Industry at a regular meeting held on September 26, 2013.


Tim Spohn, Mayor

ATTEST:

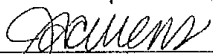

Jodi L. Scrivens, City Clerk

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF INDUSTRY)

CITY CLERK'S CERTIFICATION
RE: ADOPTION OF CITY RESOLUTION

I, Jodi L. Scrivens, City Clerk of the City of Industry, do hereby certify that the foregoing Resolution No. CC 2013-18 was duly passed and adopted at a regular meeting of the City Council on September 26, 2013, by the following vote, to wit:

AYES:	COUNCIL MEMBERS:	Ferrero, Haber, Marcellin, MPT/Parriott, M/Spohn
NOES:	COUNCIL MEMBERS:	None
ABSENT:	COUNCIL MEMBERS:	None
ABSTAIN:	COUNCIL MEMBERS:	None



Jodi L. Scrivens
City Clerk, City of Industry

(SEAL)

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>