

LA PALMA COMMUNITY DEVELOPMENT COMMISSION

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

November 2014



JOHN CHIANG
California State Controller

November 19, 2014

Ellen Volmert, City Manager
La Palma Community Development
Commission/Successor Agency
7822 Walker Street
La Palma, CA 90623

Dear Ms. Volmert:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the La Palma Community Development Commission (RDA) to the City of La Palma (City) or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers of assets to the City or any other public agencies have been reversed.

Our review found that the RDA transferred \$15,678,626 in assets after January 1, 2011, including unallowable transfers to the City totaling \$197,211, or 1.26% of transferred assets.

However, on June 1, 2014, the City turned over \$197,211 in cash to the Successor Agency. Therefore, no further action is necessary.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Jan E. Grimes, Auditor-Controller
Orange County
Laurie Murray, Administrative Services Director
City of La Palma
Douglas Dumhart, Community Development Director
City of La Palma
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
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Betty Moya, Audit Manager
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Margaux Clark, Auditor-in-Charge
Division of Audits, State Controller's Office

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Attachment—City’s Response to Draft Review Report

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the La Palma Community Development Commission (RDA) after January 1, 2011. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payments of any kind from any source.

Our review found that the RDA transferred \$15,678,626 in assets after January 1, 2011, including unallowable transfers to the City of La Palma totaling \$197,211, or 1.26% of transferred assets.

However, on June 1, 2014, the City turned over \$197,211 in cash to the Successor Agency. Therefore, no further action is necessary.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA Successor Agencies to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety (H&S) Code beginning with section 34161.

H&S Code section 34167.5, states, in part, "...the Controller shall review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency."

The SCO identified asset transfers that occurred after January 1, 2011, between the RDA, the City, and/or other public agencies. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal action to ensure compliance with this order.

Objective, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA, or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, the RDA, the Successor Agency, and the Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the La Palma Community Development Commission transferred \$15,678,626 in assets after January 1, 2011, including unallowable transfers to the City of La Palma totaling \$197,211, or 1.26% of transferred assets.

However, on June 1, 2014, the City turned over \$197,211 in cash to the Successor Agency. Therefore, no further action is necessary.

Details of our finding are described in the Finding and Order of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on September 8, 2014. Laurie Murray, Administrative Services Director, responded by email on October 6, 2014, communicating that the City made corrective transfers, as required. The City's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City of La Palma, the Successor Agency, the Oversight Board, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record when issued final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

November 19, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfer to the City
of La Palma**

The La Palma Community Development Commission (RDA) made an unallowable transfer of \$197,211 to the City of La Palma (City). The transfer occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On September 30, 2011, the RDA transferred cash in the amount of \$197,211 to the City. The transfer was an annual loan payment, and consisted of principal and interest payments. The agreement was entered into on May 21, 2002, between the City and the RDA, for the purpose of assisting the RDA in meeting certain contractual obligations pertaining to the RDA project area.

Pursuant to Health and Safety (H&S) Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011, that were not contractually committed to a third party prior to June 28, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of \$197,211 and turn over the assets to the Successor Agency. However, on June 1, 2014, the City turned over \$197,211 to the Successor Agency. Therefore no further action is necessary.

City's Response

The City communicated in an email dated October 6, 2014, that it returned cash of \$197,211 to the Successor Agency on June 1, 2014.

SCO's Comment

The SCO validated that the City turned over cash to the Successor Agency. The Order of the Controller has been modified to reflect the change. Therefore, no further action is necessary.

**Attachment—
City's Response to
Draft Review Report**

Mellas, John

From: Murray, Laurie <LaurieM@cityoflapalma.org>
Sent: Monday, October 06, 2014 4:38 PM
To: Mellas, John
Cc: Dumhart, Douglas; Suzanne Harrell; Rake, Lori; Volmert, Ellen
Subject: City of La Palma

Dear Mr. Mellas,

The City of La Palma is in receipt of the State Controller's Office (SCO) letter dated September 8, 2014, wherein the SCO communicates its finding that of the \$15,678,625 in assets transferred by the La Palma Community Development Commission (RDA) after January 1, 2011; that \$197,211 have been deemed unallowed and must be turned over to the Successor Agency. Please note that this amount was already returned to the Successor Agency on June 1, 2014. The City has no further comments regarding this matter other than its initial response.

Laurie A. Murray
Administrative Services Director
City of La Palma
7822 Walker Street
La Palma, California 90623
(714) 690-3338

**State Controller's Office
Division of Audits
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