



Betty T. Yee

California State Controller

300 Capitol Mall
Sacramento, CA 95814
www.sco.ca.gov

PR15:44
For Immediate Release
11/3/2015

Contact: JOHN HILL
(916) 445-2636

CA Controller Finds Widespread Deficiencies in Beaumont Fiscal Controls

SACRAMENTO—State Controller Betty T. Yee today announced that her team's detailed review of the City of Beaumont's accounting controls found widespread deficiencies that rendered them effectively non-existent, with 75 of 79 internal control elements determined to be inadequate.

City officials already have taken steps to address the pervasive shortcomings, with plans to make major changes in how the city does business.

"These kinds of deficiencies are of great concern, especially to the citizens of Beaumont, who rightly expect their city government to safeguard their tax dollars," Controller Yee said. "However, I am encouraged that city leaders now recognize the need to implement major improvements."

Controller Yee announced in May that her office would audit the city of 40,000 in Riverside County to resolve significant differences between the city's financial transaction reports to the Controller's Office and its audited financial statements over two fiscal years. The month before, the Federal Bureau of Investigation and the Riverside County District Attorney's Office had served search warrants on Beaumont City Hall.

Among the findings:

- 1 The city failed to properly account for bond transactions by three of its units, including financing and utility authorities and a community facilities district that together issued \$626 million in bonds. As a result, the Controller's team could not determine whether the bond proceeds were used for the intended purposes.
- 1 The former city manager and former public works director, both principals of outside consultants that provided city staff, received fees from bond proceeds for their services. In the absence of any written agreements, it was unclear whether these services were separate from their responsibilities as city officials. These two officials approved payments to the consulting companies where they were principals, creating conflicts of interests.
- 1 In 2008, Beaumont obtained a reseller's permit from the state Board of Equalization, allowing it to purchase items outside the city without paying sales tax, even though the city did not appear to be in the business of selling goods. Beaumont also allowed one of its vendors to use the permit. The arrangement allowed the city to shift sales tax revenues from other jurisdictions by moving the supposed point of sale within its boundaries.
- 1 The city did not consistently follow its competitive bidding laws. City staff bought equipment or let contracts for public works without competitive bidding, arguing that the vendor was the only source, yet failed to provide documents supporting this claim. In 2013, the city entered into a no-bid contract with Urban Logic Consultants that allowed engineering projects to be approved through "job cards" rather than open, competitive bidding.
- 1 The city lacked receipts and descriptions for credit card purchases, supporting documentation for loans made to employees, and sufficient records for a loan to a private business. Invoices were missing, including purchases from a construction company totaling more than \$1 million.
- 1
- 1 For five years in a row, the city ended the fiscal year with material deficits of as much as \$10 million in its General Fund. It did not have sufficient revenue to fund existing levels of service. The city said it would cover these deficits with \$21.5 million owed by its redevelopment agency. However, the redevelopment agency has been dissolved and it is highly uncertain that amount can be collected.
- 1 Beaumont failed to do timely bank reconciliations and did not segregate staff duties.

The city documented many corrective actions it has taken or plans to take in response to the Controller's review, available [here](#).

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

###

