



City of Irwindale

It Must Exercise More Fiscal Responsibility Over Its Spending So That It Can Continue to Provide Core Services to Residents

Report 2016-111





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November 29, 2016

2016-111

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the city of Irwindale's (Irwindale) finances and governance structure.

This report concludes that Irwindale must exercise more fiscal responsibility over its spending so that it can continue to provide core services to its residents. From fiscal years 2011–12 through 2015–16, the city experienced deficits as high as \$5.3 million. These significant deficits forced the city to rely on its reserves to maintain services. Although the city has made limited efforts to control costs, it continues to overspend because it has not developed a long-term financial plan, adjusted some of the benefits it provides to its residents, or adequately evaluated its use of police overtime. Specifically, Irwindale provides its employees with generous health and retirement benefits, in addition to competitive salaries. Also, Irwindale has spent almost \$1 million annually to provide generous prescription drug and vision benefits to its residents. Further, the city spends, on average, \$525,000 per year on police department overtime.

In addition, Irwindale's Housing Authority (Housing Authority) has made some decisions that undermine its housing programs. Specifically, the Housing Authority has forgiven completely \$9.1 million in loans to low-income residents, and it plans to forgive another \$10.2 million. This practice may leave limited funding available to sustain future housing programs. Finally, the Housing Authority gives an unfair advantage in its housing programs to residents who have lived in the city for 15 years or longer, which limits opportunities for other residents to participate in these programs.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The city of Irwindale, located in eastern Los Angeles County, has experienced substantial deficits that if continued could limit its ability to deliver to residents such core services as police services and street repairs. From fiscal years 2011–12 through 2015–16, the city experienced deficits as high as \$5.3 million. For example, in fiscal year 2013–14, the city had a \$5.3 million deficit, which equaled approximately one-third of its budgeted general fund revenues for that year. The city had a one-time gain of \$2.6 million in fiscal year 2015–16 that helped it overcome its budget deficit; however, the city’s budgeted expenditures continue to outpace revenue, so it expects to face a \$735,000 deficit in fiscal year 2016–17. Consequently, Irwindale has been depleting its general fund reserves, which includes an emergency fund for economic downturns.

Although the city has made limited efforts to control costs, it continues to overspend because it has not developed a long-term financial plan, adjusted some of the benefits it provides to its residents, or adequately evaluated its use of police overtime. The city also has not made certain that it receives the best value for the money it spends on contracts or revised its purchasing policy so that staff document that costs for all types of city contracts are reasonable. Additionally, the city’s housing programs require revision so that they remain viable; the Irwindale Housing Authority (Housing Authority), consisting of five city council members, has forgiven completely \$9.1 million in loans to low-income residents, and it plans to forgive another \$10.2 million. Because this practice may leave limited funding available to sustain future housing programs, the Housing Authority should consider other funding mechanisms to continue providing low-income housing.

Known for gravel and sand pit mines—which have brought the city millions of dollars in mining tax revenue—Irwindale has failed to develop a long-term financial plan to align its financial resources with its long-term objectives and help it to weather future financial crises. Instead, Irwindale’s city council has looked in recent years to one-time gains and revenue from the sale or redevelopment of pit mines and other properties to help the city fund normal municipal operations. Nonetheless, the city’s reliance on income from development projects or mine sales is risky because these revenue sources are limited.

Audit Highlights . . .

Our audit of the city of Irwindale highlighted the following:

» *Despite making limited efforts to control costs, the city continues to overspend.*

- *It has not developed a long-term financial plan to align its resources with long-term objectives to help it weather future financial crises.*
- *It has not adjusted the generous and costly programs it offers to benefit its small population and the city’s employees.*

– *Current salaries and benefits consume nearly 51 percent of the city’s general fund budget.*

– *The residents’ vision and prescription drug benefits are paid for by the city and cost more than \$900,000 in fiscal year 2015–16.*

» *The city council has made questionable decisions in the way it administers the city’s housing programs, including forgiving loans—it has forgiven \$9.1 million in loans to low-income residents and plans to forgive another \$10.2 million—and providing longtime residents an unfair advantage in these housing programs.*

The city's financial situation has not prevented it from providing generous benefits to the city's employees. Irwindale has a population of just 1,415 residents, according to the Department of Finance; however, the city's businesses employ about 25,000 workers each day, and the city has the departments, commissions, and employees typical of most cities. Indeed, the city provides key management employees with salaries that are competitive with those at 14 other California cities to which we compared Irwindale, as well as comparatively more generous health and retirement benefits that consume nearly 51 percent of the city's general fund budget. Not only will the city's retirees at the management level receive a generous pension because of the city's contributions to the Public Agency Retirement Services, which will augment these retiree's pensions from the California Public Employees' Retirement System, but these individuals can also cash out some of their vacation and sick leave hours while they are employed and all of their accumulated sick leave when they retire. Despite the city's financial situation, it spent almost \$336,000 on cashed-out sick leave during the five years we reviewed. Moreover, according to data the city provided to the State Controller's Office, the city spent \$1.4 million on health benefits in 2015, or \$18,400 for each of its 76 full-time employees. Partly because it pays 100 percent of all medical, dental, and vision premiums for its full-time employees and their dependents, Irwindale spent \$6,000 more in health benefits per employee in 2015 than was paid by the city that had the next most generous benefits among the 12 other cities we reviewed.

Although the city has not demonstrated whether a relationship exists between the pit mining activities in the city and any health problems experienced by the city's residents, Irwindale has also chosen to provide its residents with generous vision and prescription drug benefits. Because the city requires only a \$3 or \$10 copay, depending on the resident's age, for all generic prescription medicines—and because it generally does not limit the number or cost of medications for each participant—these prescription benefits have cost the city over \$900,000 in fiscal year 2015–16. A relatively small number of participating residents—25 of 251 total participants—have received a disproportionate amount of the city's expenditures for prescriptions; these 25 each received more than \$10,000 in prescription benefits from the city in fiscal year 2015–16. Despite its efforts to reduce the costs of administering this benefit, the city needs to take further steps to contain the costs for the residents' prescription program and prevent them from rising even higher.

In addition, the city has not evaluated adequately its use of police overtime to ensure that its spending for overtime is cost-effective and sustainable and that the level of overtime work is safe for its police force. The city spent more than \$500,000 in fiscal year 2014–15 for roughly 9,000 hours of overtime, and five police officers worked most of those hours, raising concerns about the officers becoming fatigued and less attentive while on duty and creating the appearance of favoritism.

In contracting with vendors for services, the city has exempted, by its municipal code or policy, many types of contracts from competitive bidding requirements. Along with these exemptions, it has not made certain that it always obtains fair and reasonable prices for these contracts. Of the 25 contracts we reviewed, 16 were exempt from competitive bidding and for only five of the exempt contracts did we find evidence that the city had obtained a reasonable price. Additionally, the city has not adequately overseen spending on some of its contracts, which led to the city spending more than \$63,000 above contracted amounts for three contracts.

Composed of five city council members, the Housing Authority has likewise made questionable decisions in the way it administers Irwindale's housing programs, including its practice of forgiving both the principal and interest on many borrowers' loans and its ranking of housing program applicants according to the number of years they have lived in Irwindale. The Housing Authority is now in the process of administering a housing purchase program that will further diminish the Housing Authority's funds. Between 1995 and 2016, it forgave a total of \$9.1 million in loans to low-income residents who wanted to purchase homes or to rehabilitate existing homes. The Housing Authority has also given its residents, who have lived in the city for 15 years or more, an unfair advantage in its housing programs. Because of this residency priority, the majority of the successful participants of its current housing purchase program are longtime residents.

Although the city has been prudent in refinancing its long-term debt, it needs to develop and implement a formal debt management policy. Irwindale has refinanced three issuances of long-term debt that are projected to result in savings on interest costs of approximately \$1.6 million over the life of the debt, which ranges from approximately eight to 11 years. However, the city does not have a debt management policy that would guide decisions involving the debt issuance process, management of a debt portfolio, and adherence to applicable laws.

Summary of Recommendations

To address the structural deficit in its general fund, the city should seek long-term solutions to balance its budget so that its expenditures do not exceed its revenues. The city should document its approach in a long-term financial plan.

Considering that the city's retirement benefits are more generous than those of most comparable cities, and in light of its financial situation, the city should reduce its employee benefits cost by negotiating with employee bargaining groups and key management employees.

To minimize the use of its reserves to reduce long-term liabilities, the city should annually determine whether it has sufficient funding to cash out employee leave balances. Additionally, in future labor negotiations, the city should explore the possibility of eliminating or reducing voluntary leave balance cash-outs by employees, and eliminate sick leave cash-outs altogether.

To reduce the cost of its prescription drug benefit program, the city should enact limits on the number or dollar amount of prescriptions an individual can receive each year.

To promote public safety and equity among police officers, the city should implement a rotational order for scheduled overtime to prevent some officers from working excessive shifts.

To help ensure that it receives the best value for contracts it exempts from competitive bidding, the city should revise its purchasing policy to require its staff to document in the contract file evidence that the price is fair and reasonable.

The Housing Authority should consider options to provide low-income housing opportunities to more people. Additionally, if the Housing Authority intends to continue providing low-income housing opportunities in the future, the city should examine the available funding mechanisms to continue providing low-income housing before it exhausts its Housing Authority Fund balance.

To ensure that all residents have an equal chance to participate in the Housing Authority's housing programs, the city should remove the long-term residency priorities from any future housing programs.

To ensure that it continues to properly manage its debt, the city should prioritize developing and implementing a debt management policy.

Agency Comments

Irwindale took issue with some of the conclusions in our report. However, it indicated that it accepts and plans to implement many of the recommendations.

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Introduction

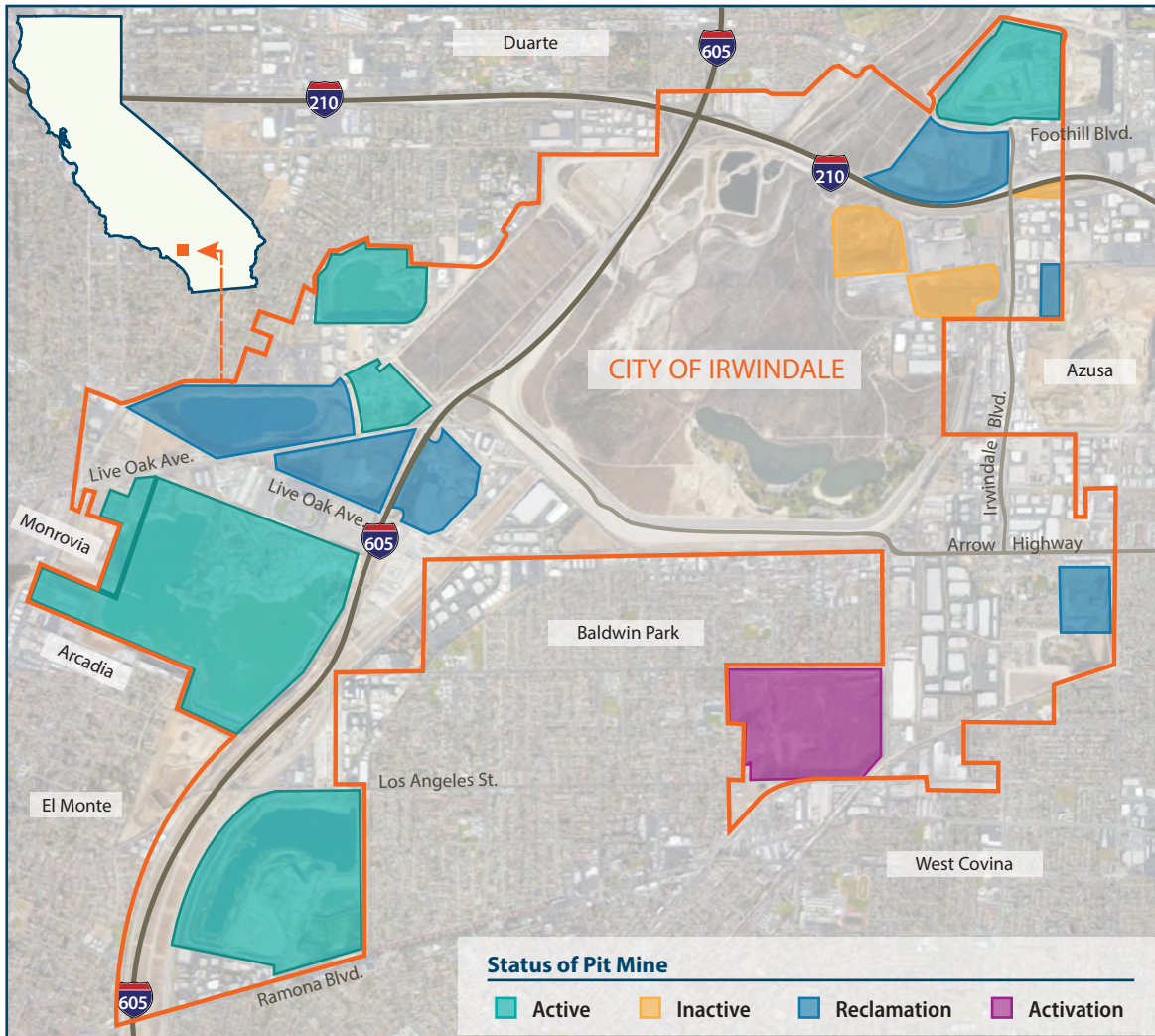
Background

The city of Irwindale, incorporated in 1957, is located 20 miles east of downtown Los Angeles and covers 9.6 square miles. According to the Department of Finance, the city has a population of 1,415 residents. Nearly 2.9 square miles, or one-third of the geographical area of the city, consists of 16 gravel and sand pit mines, as Figure 1 on the following page shows. Currently, there are in the city six active pit mines that produce more than \$6.3 million in mining tax revenue, and six pit mines in reclamation that the mine owners are backfilling and that no longer produce tax revenue; these mines may eventually be redeveloped. Of the four remaining mines, one was an idle pit mine that the city has begun activating and that will resume mining operations, and the other three are and will remain inactive with no plans for future development. The city estimates that it is also home to roughly 700 businesses that employ approximately 25,000 people. These businesses include the Irwindale Speedway, located on a former quarry, as well as companies in the utility, communications, beverage, food service, and agricultural industries.

Status as a Charter City

Irwindale currently operates under a city charter initially adopted in 1976 by the city's electorate. The California Constitution gives a city the right, based on the approval of a majority of the city's electorate, to operate as a charter city. Unlike general law cities, which are subject to the State's general law that regulates municipal affairs, a charter city has the authority, through the adoption of a charter, to define its own system of governance and to establish specific rules for conducting municipal affairs. The California Constitution expressly defines regulation of the city's police force; election, removal, and compensation of municipal officers and employees; conduct of city elections; and regulation of subgovernmental units of the city as four primary areas of municipal concern over which charter cities have control, subject only to the California and U.S. constitutions. These so-called *home-rule* provisions of the California Constitution are based on the principle that a city, rather than the State, is in the best position to govern matters of local concern. In addition, the courts have recognized specific issues that are considered matters of municipal concern and over which a charter city has control, such as the power to tax for local purposes.

Figure 1
City of Irwindale and the 16 Pit Mines Within Its Boundaries



Source: City of Irwindale’s public works department.

Note: Currently, all pit mines are privately owned except the pit mine that has a status of Activation, which the city owns and has entered into an agreement with a company for mining and reclamation.

- = **Active:** Mines currently generating mining tax revenue.
- = **Inactive:** Mines not under reclamation, and not currently generating any mining tax revenue.
- = **Reclamation:** Mines not currently generating tax revenue, but with future tax revenue potential if redevelopment occurs.
- = **Activation:** Mine not currently generating tax revenue, but will provide future mining tax revenue.

Despite the fact that a charter city has considerable discretion over its municipal affairs, it remains subject to the various state laws that do not pertain to municipal affairs and that are considered to be of statewide concern. For example, courts that have considered these issues have found that conducting city business at open public meetings, rather than in closed meetings, is a matter of statewide concern. The city must therefore comply with the Ralph M. Brown Act,

a law that governs open meetings for local government bodies when they conduct business, and it must also comply with the general laws relating to conflicts of interest, such as the Political Reform Act of 1974 and Government Code section 1090.

The National Civic League—an organization intent on making local government open, accountable, and effective—publishes a *model charter* that delineates best practices for charter cities. The model charter describes key provisions for charter cities to include in their charters, which the text box lists. Irwindale includes most of these provisions in its charter, and the remainder are included in state law or city ordinances, except those that call for a separate multiyear capital program and an independent annual audit. The National Civic League recommends that cities submit to the city council a multiyear capital program that includes long-term goals of the city, a list of all capital improvements and other capital expenditures that are proposed during the fiscal years the program covers, cost estimates and time schedules, and the method for financing the program. Additionally, the National Civic League recommends that the charter contain a provision for the city council to provide for an independent annual audit of its accounts. Although the model charter recommends these provisions, Irwindale’s city manager stated that inclusion of the current and ongoing capital projects as part of the annual budget process, as well as the voluntary submission to an annual independent audit, fulfill the recommendations.

City Structure

Under its charter, Irwindale is governed by a five-member city council, which is the legislative body of the city and is expected to hold council meetings twice a month. The city council members serve four-year terms, with elections staggered every two years. Each year the city council selects one of its members as mayor—the presiding officer of the city council—and selects another of its members as the mayor pro tempore—the officer responsible for performing the duties of the mayor if the mayor is absent or disabled. Two new members were elected to the city council somewhat recently—one member joined the city council in November 2013 and

The Model Charter’s Suggested Major Provisions for Charter Cities

Preamble

- Identifies source of authority, the action of adopting the charter, and the goals that the city wants to accomplish.

Article I: Powers of the City

- Defines the scope of the city’s powers.

Article II: City Council

- States that the council is elected by, representative of, and responsible to the citizens of the city.
- Requires the city council to provide for an independent annual financial audit.

Article III: City Manager

- Establishes that the manager is continuously responsible to the city council.

Article IV: Departments, Offices, and Agencies

- Provides for the creation of the departments, offices, and agencies that perform the day-to-day operations of the city.
- Provides that the city manager appoints and supervises department heads, except the city attorney.
- Addresses planning, focusing on environmentally sensitive planning that takes the needs of the surrounding region into account.

Article V: Financial Management

- Provides for the development of a comprehensive financial program, which consists of an annual operating budget and multiyear capital plan.
- Establishes a set of short- and long-term goals for the community and aids in resolving disagreements that arise in the execution of the operations of the government.

Article VI: Elections

- Provides for nonpartisan elections and control over their timing.

Article VII: General Provisions

- Contains ethics provisions that foster public trust in the integrity of city government and serves as a check on improper or abusive behavior by city officials and employees.

Article VIII: Charter Amendment

- Provides for a process to amend the charter.

Article IX: Transition and Severability

- Presents matters to consider and provides a template for a transition from an old to a new form of government organization.

Source: National Civic League.

one joined in November 2015. The remaining three members of the city council have served on the council for nearly nine, 11, and 17 consecutive years, respectively.

The city council appoints a city manager—the city’s top executive—who is responsible to the city council as the administrative head of the city government. The city council may also appoint a city clerk, city attorney, and city treasurer. Currently, the city has six executive management positions, with three individuals who each fill multiple positions within the city. Specifically, the city manager is also the city clerk and personnel director, the finance director is also the city treasurer, and the director of public works also serves as the city engineer.

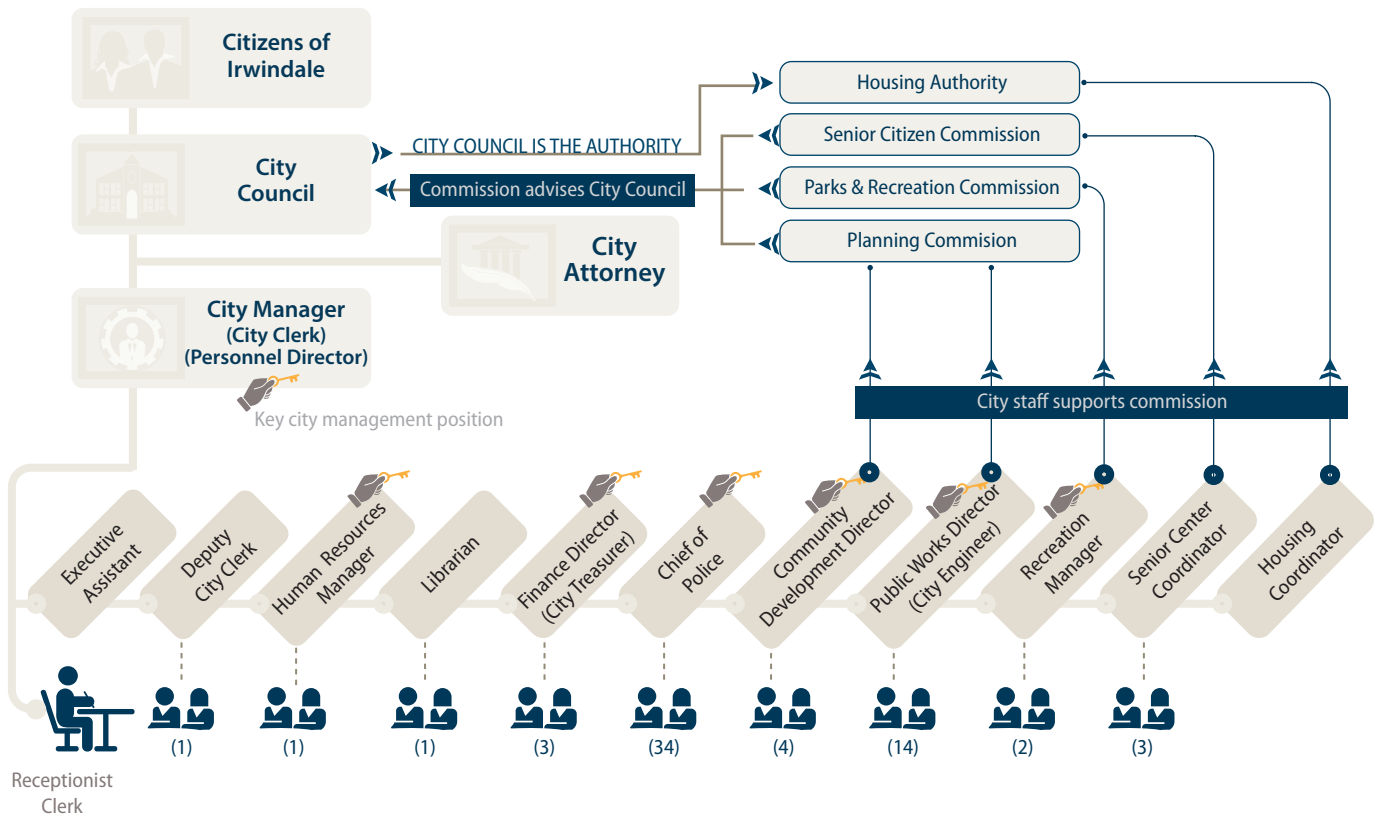
As shown in Figure 2, the city has various staff and commissions that perform typical city functions, as well as some specialized services of the city. For example, the city provides various programs to promote the physical and social well-being of Irwindale residents, including a recreation department that provides a range of youth programs, such as after-school and summer programs, and a senior center that offers daily food services, classes, and transportation. As of September 2016, the city had 76 full-time employees, nearly one-half of whom are in the police department. The city has entered into collective bargaining agreements with its employees, except for the city manager, the finance director, the police chief, the public works director, and the community development director. The city contracts with the California Public Employees’ Retirement System and Public Agency Retirement Services to provide retirement benefits to its employees.

Financial Position

The city’s general fund is its primary operating fund, used to account for all revenue and expenditures necessary to carry out the basic governmental activities of the city that are not accounted for through other funds. As Figure 3 on page 12 shows, the general fund receives most of its ongoing revenue through different taxes, with sales tax as its largest single source, followed by a utility users tax.¹ The city’s largest general fund expenditures, shown in Figure 4 on page 12, generally consist of expenditures for its police department, followed by expenditures for its public works and construction department. In fiscal year 2015–16, the city’s estimated general fund revenue was \$22.9 million, and its expenditures were \$21.1 million. We discuss the city’s historic deficits further in the Audit Results.

¹ Irwindale imposes a utility users tax on customers of electricity, gas, telephone services, cable television, and sewer services.

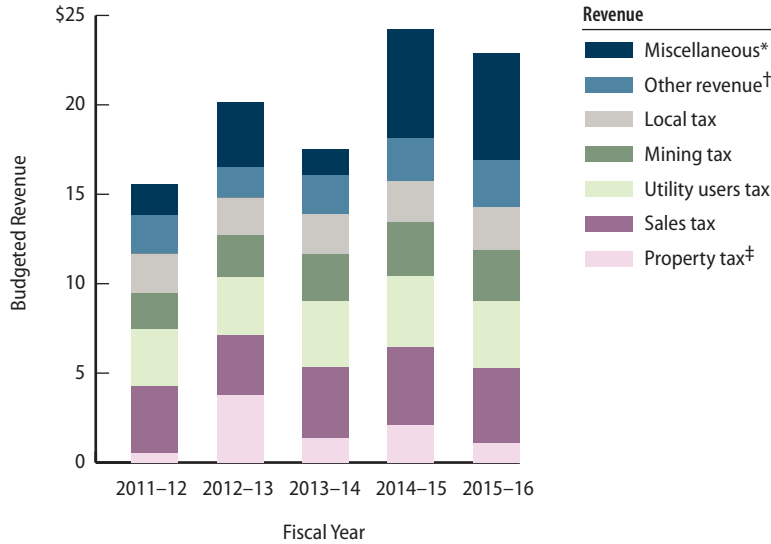
Figure 2
City of Irwindale's Organizational Chart



POSITION	JOB SPECIFICATIONS	
City Manager	Plans, leads, and oversees the development and execution of citywide programs, services, and policies that are consistent with community needs and the Irwindale municipal code; oversees department directors, managers, and assigned staff; plans, presents, and evaluates the effectiveness of the city operating budget, capital projects, and economic development opportunities. Also serves as city clerk and personnel director.	
Finance Director	Directs, plans, organizes, budgets, and oversees the programs, projects, and operations of the finance department; directs finance, budgeting, accounting, treasury, revenue, and purchasing. Also serves as city treasurer.	
Community Development Director	Plans, directs, organizes, budgets, and oversees the programs, projects, and operations of the community development department; directs planning, economic development, and code enforcement; acts as liaison to the city's planning commission.	
Public Works Director	Plans, directs, budgets, and oversees the operations, projects, and services of the public works department, including building and safety, engineering, maintenance, and mining and reclamation, including mapping services; provides staff support to the city council.	
Recreation Manager	Plans, implements, and manages the services, activities, events, and special projects of the recreation department; manages and oversees all staff, programs, and budgets of the recreation department.	
Senior Center Coordinator	Plans, organizes, coordinates, and evaluates senior recreation programs, including classes and special events; operates recreation facilities on a year-round basis.	
Housing Coordinator	Plans, coordinates, and manages Home Improvement, First Time Homebuyer, and Senior Apartment Rental Programs; administers land acquisition, housing development, and property administration programs and provides staff support to city manager, Housing Authority, and other bodies; administers Resident Benefit Program, information technology, and other service contracts; coordinates and promotes community events and special recognition functions; conducts other budgetary, research, and special projects.	
COMMISSION	MEMBERS	ROLE
Senior Citizen Commission	5 members of the public	Provides policy direction to the city council in administering the city's senior citizen programs.
Parks and Recreation Commission	5 members of the public	Provides policy direction to the city council in administering the city's parks and recreation programs.
Planning Commission	5 members of the public	Provides land use policy direction to the city council.
Housing Authority	5 city council members	Provides for suitable, safe, and sanitary housing opportunities for Irwindale residents.

Sources: City of Irwindale's 2016-17 budget; human resources; website; and resolution 87-15-1117 adopted August 27, 1987.

Figure 3
City of Irwindale’s Budgeted General Fund Revenue
Fiscal Years 2011–12 Through 2015–16
(In Millions)



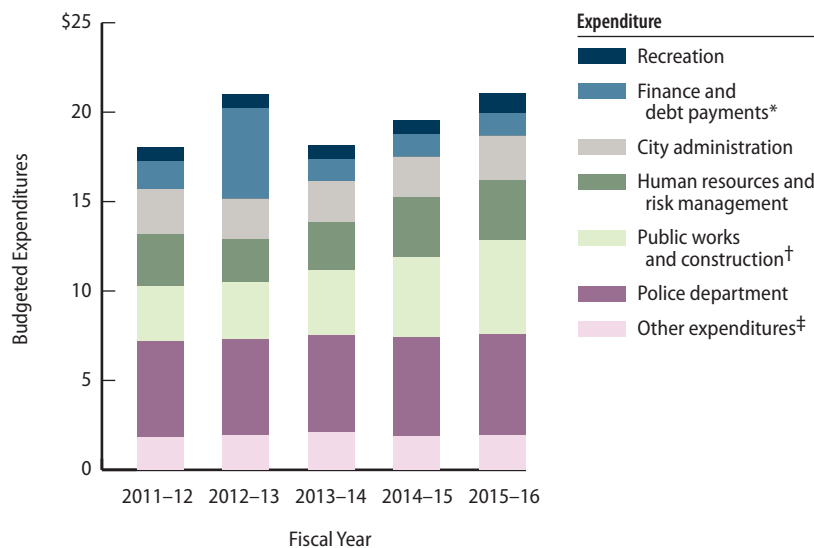
Sources: City of Irwindale’s unaudited annual budgets for fiscal years 2013–14, 2015–16, and 2016–17.

* The category *Miscellaneous* for fiscal year 2014–15 includes a \$5.8 million transfer of land held for resale from the successor agency. The category *Miscellaneous* for fiscal year 2015–16 includes \$3 million from the sale of a pit mine and \$1.4 million transfer of funds from the pit mine Irwindale recently activated.

† The category *Other Revenue* consists of licenses and permits, revenue from other agencies, fees, use of money and property, and fines and penalties.

‡ Property tax revenue for fiscal year 2012–13 increased by \$2.2 million because of residual property tax revenue inflows from the successor agency.

Figure 4
City of Irwindale’s Budgeted General Fund Expenditures
Fiscal Years 2011–12 Through 2015–16
(In Millions)



Sources: City of Irwindale’s unaudited annual budgets for fiscal years 2013–14, 2015–16, and 2016–17.

* Expenditures for finance and debt payments for fiscal year 2012–13 rose by \$3.6 million as a result of the Department of Finance requiring the city to return a loan payment to the former redevelopment agency for repayment to Los Angeles County.

† From fiscal years 2012–13 to 2015–16, public works and construction expenditures increased from approximately \$3.2 million to \$5.3 million because of Irwindale’s greater spending on a park, other capital projects, and acquisition of property.

‡ The category *Other Expenditures* consists of expenditures for the following city departments: city council, community development, legal services, library, and senior center.

The city also has special revenue funds, which are separate from the general fund and account for activities funded by specific revenue sources that are legally restricted for specified purposes. Therefore, the city may not use amounts in these funds to pay for general governmental purposes. As the text box indicates, the Special Mining Tax Fund finances specific activities to address the negative effects the city experiences because of the various mining operations in the city. Additionally, the Irwindale Housing Authority (Housing Authority) Fund is dedicated to providing housing opportunities to households with extremely low, very low, low, or moderate incomes (which this report refers to collectively as *low-income*), as defined by the Department of Housing and Community Development.

Until 2011 the city's redevelopment agency received a portion of property tax for purposes of preparing and carrying out plans for the improvement, rehabilitation, and development of blighted areas within the city. However, legislation in June 2011 subsequently dissolved the State's redevelopment program and did away with this revenue source. As a result of this dissolution, the city council elected to become the successor agency to the city's redevelopment agency. Thus, all assets and all responsibilities for closing out the activities of the redevelopment agency transferred to the city as the successor agency. These responsibilities include fulfilling obligations of the former redevelopment agency, such as making payments for outstanding bonds and loans.

Housing Authority

One of the city's goals includes providing affordable housing opportunities for all segments of its residential community, an effort that the Housing Authority carries out. The Housing Authority is a city entity managed by city employees whose goal is to provide safe, affordable housing for the city's low-income residents. The five individuals who sit on the city council also serve as the Housing Authority's five-member board of directors.

As the successor agency to the former redevelopment agency, the Housing Authority assumed the responsibility of providing loans through the city's low-income housing purchase program (Olson program) and its low-income housing rehabilitation program (rehabilitation program). However, the Housing Authority does not have the same financing that the former redevelopment agency had. Specifically, the former redevelopment agency funded its housing projects primarily through tax increment financing,

City of Irwindale's Two Major Special Revenue Funds

Special revenue funds account for revenue that is legally restricted to expenditures for a specific purpose. The city of Irwindale maintains two major special revenue funds:

- The *Special Mining Tax Fund* accounts for the excavation and processing taxes received from the different mining companies in the city. The purpose of this fund is to provide a means of financing the costs of studying, quantifying, analyzing, monitoring, correcting, and mitigating environmental impacts from mining and processing activities. Some examples of these environmental impacts include deterioration of streets and other public infrastructure facilities, degradation of air quality, public health and safety hazards, increased noise, and remediation of toxic or contaminated property.
- The *Irwindale Housing Authority Fund* accounts for the transactions of the Irwindale Housing Authority, which the city established for the development of low-income housing. The fund also reports restricted resources and assets from the former redevelopment agency's fund.

Sources: Irwindale's audited financial statements, annual budgets, and municipal code.

which generally relies on incremental property taxes and which is a technique used for redevelopment and for attracting economic development projects. The dissolution of the State's redevelopment program abolished this financing mechanism.

As of June 30, 2016, the Housing Authority had provided to Irwindale residents a total of \$19.3 million in loans under its Olson program, Mayans housing purchase program (Mayans program), and rehabilitation program. The former redevelopment agency created the Olson program in 2004 to provide additional single-family housing inventory and to create opportunities for first-time homeownership. Specifically, using tax increment financing, the former redevelopment agency entered into an agreement with a developer for the construction and development of 132 single-family homes to be built over four phases. The former redevelopment agency also provided \$11.9 million in home purchase loans to low-income participants in the Olson program. Moreover, as part of its redevelopment efforts, the former redevelopment agency provided \$6.4 million in rehabilitation program loans to low-income households within the city to address severe cases of deterioration or overcrowding of existing buildings. The Housing Authority has provided an additional \$1 million in loans for its current housing purchase program.

The Housing Authority is currently in the process of administering another housing program, and it also subsidizes the rent for residents of its senior apartment complex using remaining redevelopment funds. In 2013 the Housing Authority created the Mayans program, which like the Olson program, will provide additional single-family housing inventory and create first-time homeownership opportunities for low-income individuals. The Housing Authority entered into an agreement with another developer for the construction of 17 new homes and the rehabilitation of four existing homes, for a total of 21 homes that are all reserved for low-income households. As of August 2016, the developer had completed the rehabilitation of the four existing homes, and it is currently constructing the new homes. Furthermore, the Housing Authority is in the process of adding additional properties to the Mayans program. The Housing Authority also owns the Las Casitas senior apartments (senior apartments) with the goal of providing safe and sanitary rental opportunities for its low-income seniors. The senior apartment complex consists of 25 units restricted to low-income senior households and one unit for the apartment manager.

Scope and Methodology

The Joint Legislative Audit Committee (Audit Committee) directed the California State Auditor to conduct an audit of the management and finances of the city of Irwindale. Specifically, the Audit Committee directed us to address the objectives listed in Table 1.

Table 1
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, and other background materials applicable to charter law cities.
2 Review the current charter and any proposed changes to determine whether they comply with applicable laws and promote sound operational business practices. Determine how the charter compares to those of similar cities.	<ul style="list-style-type: none"> • Reviewed the existing city of Irwindale charter; Irwindale has not proposed any changes to it. • Identified other charter law cities in California similar to Irwindale based on geographic size, location, population, and the amount of expenditures the cities made, which we used as an approximation for the overall size of the cities' operations. We compared Irwindale's charter to the charters of three other cities selected—Arcadia, Los Alamitos, and Temple City—and found Irwindale's charter includes similar provisions. • Compared Irwindale's charter to the National Civic League's model city charter.
3 Describe the current governance structure in the city, including the roles, responsibilities, and authority of various officials including elected officials, the city manager, and others with key roles in governing the city's operations.	<ul style="list-style-type: none"> • Reviewed the organizational chart, job specifications for key management employees, and other relevant documentation. • Reviewed the roles, responsibilities, and authority of the city council, Planning Commission, Parks and Recreation Commission, and Housing Authority. In particular, we reviewed meeting minutes and evaluated whether meetings were held appropriately and decisions were adequately documented. • Interviewed city staff to determine their roles, responsibilities, and authority.
4 Describe the operational structure of the city and evaluate the effectiveness of management's controls over financial and administrative functions, particularly the city's contracting practices and how it spends funds and manages its decisions regarding the city's Planning Commission.	<ul style="list-style-type: none"> • Examined the city's operational and organizational structure, as further detailed in Objective 3. • Reviewed the city's controls over financial functions, including bank reconciliations and controls to minimize the risk of fraud, and controls over changes in wage rates. • Reviewed the city's controls over administrative functions, including timesheets, conflicts of interest, and harassment training. • Determined that city employees and city council members received biannual ethics training. • Verified the appropriateness of a selection of city council members' travel reimbursements to verify that they only include reimbursement for allowable expenses and were approved. • Examined the city's contracting practices, as further detailed in Objective 8. • Reviewed the city's expenditures, as explained in Objectives 5 and 6. • Evaluated the city's management of the Planning Commission decisions, as described in Objective 3.
5 For the most recent five-year period, review the city's expenditures and revenue to identify any unusual trends or fluctuations. If any such trends or fluctuations exist, determine why.	<ul style="list-style-type: none"> • Reviewed Irwindale's annual budgets and midyear budget adjustments for fiscal years 2011–12 through 2016–17. Also obtained and reviewed the city's audited financial statements for fiscal years 2009–10 through 2014–15. • Identified trends in major revenue sources and expenditure categories for fiscal years 2011–12 through 2015–16. • Interviewed staff to determine the reasons for any significant or unusual fluctuations or trends in the major revenue sources and expenditure categories.
6 Review the appropriateness of a selection of revenues and expenditures occurring over the last five years.	<ul style="list-style-type: none"> • Reviewed a judgmental selection of 50 expenditure transactions: 10 from each of the five fiscal years from 2011–12 through 2015–16. • Reviewed city council and employee travel expenditures. Specifically, we reviewed hotel, meal, parking, and mileage expenditures to ensure they were reimbursed at allowable rates. • Reviewed Irwindale's general fund revenue structure and existing tax rates and determined when they were last updated.

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AUDIT OBJECTIVE	METHOD
<p>7 Examine the salaries, benefits, and pension packages of high-level staff and elected officials. Determine how the compensation was determined and approved, and how it compares to that of other cities of comparable size. Determine whether any public funds are supporting the college educations of any children of city officials.</p>	<ul style="list-style-type: none"> • Interviewed city employees and reviewed relevant policies, procedures, and employment agreements with various represented employee groups. • Reviewed Irwindale's contracts for employment that describe compensation for the city manager, finance director, public works director, and police chief. • Reviewed whether any executives held multiple office positions and determined how their compensation was established. • Reviewed wage rate adjustments to ensure salary increases were appropriate and actual pay fell within the allowable range. • Identified 14 comparable cities based on the amount of expenditures, population, geographic location, geographic size, and the types of services the cities provide, such as police and fire services. • Compared the salary ranges of Irwindale's key management positions to similar positions held in 14 comparable cities. Also compared Irwindale's pension and health benefits provided to employees with the benefits provided by comparable cities. Finally, compared the salaries, pension and health benefits of Irwindale's city council to those of two other cities. • Examined Irwindale's practices related to providing performance evaluations, pay raises, cost-of-living increases, overtime, and leave cash-outs. • Reviewed a Fair Political Practices Commission report related to a donation made by a vendor to the child of a city council member, as we discuss in the Audit Results. Also, reviewed Irwindale's expenditures and did not identify any expenditures of public funds for college tuition.
<p>8 Examine contracting practices over the last five years. Review the contract bidding and approval process, the process for identifying and mitigating conflicts of interest, and the process for ensuring adequate performance under the contract.</p>	<ul style="list-style-type: none"> • For fiscal years 2011–12 through 2015–16, judgmentally selected 25 contracts for review. • Determined whether Irwindale complied adequately with relevant city codes; state law; and contracting best practices related to contract bidding and approval, identifying and mitigating conflicts of interest, and ensuring adequate performance under the contract. • Reviewed Irwindale's conflict-of-interest code and verified that all required staff and council members filed appropriately a Form 700 disclosure of financial interests.
<p>9 Evaluate how Irwindale manages bonds and the impact of the city's bonded indebtedness on its long-term fiscal health. Identify all bonds issued over the past seven years and, for a selection of those bonds, determine the following:</p>	<ul style="list-style-type: none"> • Interviewed city management to determine why the city does not have a debt management policy. • Obtained a list of all bonds issued by the city from fiscal years 2009–10 through 2015–16.
<p>a. The purpose of the bond issue.</p>	<p>Reviewed the terms of bond indentures to identify the purpose of the bonds.</p>
<p>b. Whether it was well-defined, properly approved, and used appropriately.</p>	<ul style="list-style-type: none"> • Reviewed meeting minutes at which bond issuances were approved by the city council. • Reviewed bond approval documents. • Interviewed city employees to determine how bond-related proceeds and expenditures are tracked. • Determined whether the city complied with applicable laws and regulations for its bonds.
<p>c. The status of the debt service.</p>	<ul style="list-style-type: none"> • Reviewed audited financial statements to identify the status of the debt service on outstanding bonds. • Analyzed the impact of debt service on the city's financial status through audited financial statements, the city budget, and other documents.
<p>10 Examine Irwindale's ownership of residential property within the city limits, including a review of leasing practices, rental practices, and property sale practices.</p>	<ul style="list-style-type: none"> • Obtained Irwindale's list of residential properties within the city and current low-income housing programs. • Examined Irwindale's policies and procedures for administering its low-income housing purchase programs. • Examined Irwindale's policies and procedures for administering its low-income senior housing apartment rental program. • Determined whether Irwindale complied with applicable federal and state laws for its low-income housing programs.
<p>11 Review and assess any other issues that are significant to the audit.</p>	<p>Reviewed Irwindale's resident prescription and vision benefit programs, including payment data, and their financial impact on the city.</p>

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2016-111 as well as state law and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained electronic data files extracted from the information systems listed in Table 2. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support findings, conclusions, and recommendations. Table 2 describes the analyses we conducted using data from these information systems, our methods for testing, and the results of our assessment. Although these determinations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

Table 2
Methods Used to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
City of Irwindale Springbrook expenditure data	To choose for review a selection of expenditures made by Irwindale from fiscal years 2011–12 through 2015–16.	<ul style="list-style-type: none"> We performed data-set verification procedures and testing of key data fields and found no errors. We also performed completeness testing of 29 items and found no errors. 	Complete for this audit purpose.
Payroll data	To calculate the amount and cost of overtime charged by Irwindale’s police department from fiscal years 2011–12 through 2015–16.	<ul style="list-style-type: none"> We performed data-set verification procedures and testing of key data fields and found no errors. We also performed limited accuracy testing and found no errors. However, because the data were aggregated by fiscal year we were unable to perform completeness testing. 	Undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations. Further, we present these data because they represent the best available data source of this information.
SIRE document management system	To choose for review a selection of contracts Irwindale entered into from fiscal years 2011–12 through 2015–16.	<ul style="list-style-type: none"> We performed data-set verification procedures and testing of key data fields and found one error. We also performed completeness testing of 29 items and found errors. 	Not complete for this audit purpose.
Prescription program billing data	To calculate the city’s and residents’ costs for the prescription program from fiscal years 2011–12 through 2015–16.	<ul style="list-style-type: none"> We performed data-set verification procedures and testing of key data fields and found no errors. We also compared the billing data to expenditure data in the city’s accounting system and found a variance of less than 1 percent. 	Sufficiently reliable.

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INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
State Controller's Office Government Compensation in California website (compensation website)	To determine the salary ranges of selected positions at Irwindale and comparable cities.	<ul style="list-style-type: none"> • We reviewed information provided on the compensation website that indicates the data are unaudited. • We performed limited analysis of the data to ensure they appeared reasonable. • We did not perform accuracy or completeness testing on these data because the source documentation is located at various cities throughout the State, making such testing cost-prohibitive. 	Undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations. Further, we present these data because they represent the best available data source of this information.

Sources: California State Auditor's analysis of various documents, interviews, and data from Irwindale.

Audit Results

Despite Facing Chronic Budget Deficits, the City of Irwindale Has Failed to Control Its Spending

The city of Irwindale has significantly depleted its general fund reserves by continuing to spend on generous programs, even though it has frequently faced budget deficits in the past several fiscal years. In particular, the city's spending of more funds than it has collected has reduced the city's reserves by roughly 40 percent. This practice is not sustainable. In spite of these financial challenges, the city has not developed a long-term financial plan. The city has continued to provide competitive salaries and generous benefits to city employees and to the city council, and these expenses for fiscal year 2015–16 consume 51 percent of Irwindale's general fund budget. In addition, the city offers prescription drug and vision benefit programs to its residents that cost the city nearly \$1 million in that year. Irwindale has also continued to spend significant amounts for police overtime without determining whether doing so is cost-effective.

The City Council Has Failed to Develop a Long-Term Financial Plan for Dealing With Irwindale's Budget Deficits and for Restoring Its Reserves

For at least the last six fiscal years, Irwindale's city council approved annual budgets in which estimated expenditures exceeded projected revenues. For example, for fiscal year 2011–12, the city budgeted \$15.8 million in general fund revenue and more than \$18.1 million in general fund expenditures, resulting in a projected general fund deficit of \$2.3 million. This persistent fundamental imbalance between budgeted general fund revenue and expenditures is known as a *structural deficit*. As Table 3 on the following page shows, the city's general fund has operated with a structural deficit each year since fiscal year 2011–12, and the city currently expects to face a \$735,000 deficit in fiscal year 2016–17. The city's actual general fund expenditures also exceeded its actual revenues in fiscal year 2011–12, and fiscal years 2013–14 through 2014–15.

As a result of these deficits, the city has had to rely on its general fund reserves, which have decreased significantly since fiscal year 2011–12. The city's fund balance policy established an Economic Contingency Reserve with a minimum assigned fund balance of \$5 million, which the city is to use for emergencies or for maintaining services in a severe fiscal crisis only. Assigned fund balances are amounts that the city has set aside for specific purposes such as covering economic contingencies, postretirement health benefits, and future capital asset replacements and infrastructure needs. However, the city may modify these fund balance assignments

as it deems appropriate. As shown in Figure 5, the city's general fund reserves, which consist of several reserve categories, fell by approximately \$9.4 million, or 39 percent, from June 30, 2011, through June 30, 2015. If the city continues to experience annual deficits similar to those from previous fiscal years, the city's general fund reserves may eventually run out, and this lack of reserves may limit the city's future ability to provide to its residents such core services as maintaining the city's public infrastructure and providing for the safety and welfare of residents and the business community. In addition, if the city continues to use its general fund reserves to finance its deficits, it will no longer be able to use those funds for their intended purposes. For example, as of June 30, 2015 the city had assigned \$8.8 million of its general fund balance to partially fund its \$11.8 million outstanding liability for retiree health benefits (according to the most recent actuarial valuation). If the city continues to deplete its reserves, it will further constrain its ability to set aside money to fund these future benefits.

Table 3
City of Irwindale's Spending From Its General Fund Has Frequently Exceeded Its Revenue
Fiscal Years 2011–12 Through 2016–17
(In Millions)

	FISCAL YEAR										
	2011–12		2012–13		2013–14		2014–15		2015–16		2016–17
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ESTIMATED ACTUAL	BUDGET
General Fund revenues*	\$15.8	\$15.6	\$14.5	\$17.7	\$14.9	\$16.7	\$15.6	\$18.6	\$18.5	\$17.5	\$20.7
General Fund expenditures*	18.1	17.0	18.4	17.4	18.5	22.0	18.5	19.2	19.4	21.1	21.4
Excess (deficiency) of revenues over (under) expenditures	\$(2.3)	\$(1.4)	\$(3.9)	\$0.3	\$(3.6)	\$(5.3)	\$(2.9)	\$(0.6)	\$(0.9)	\$(3.6)	\$(0.7)
Transfers in (out) [†]		\$(9.4)		-		\$2.2		\$(0.5)		\$2.3	
Contributions to successor agency		(0.5)		-		-		-		-	
Gain (loss)		-		\$(1.2) [‡]		\$(30.1) [§]		\$5.8		\$2.6	
Net Change in Fund Balance		\$(11.3)		\$(0.9)		\$(33.2)		\$4.7		\$1.3	

Sources: City of Irwindale's annual budgets and audited comprehensive annual financial reports.

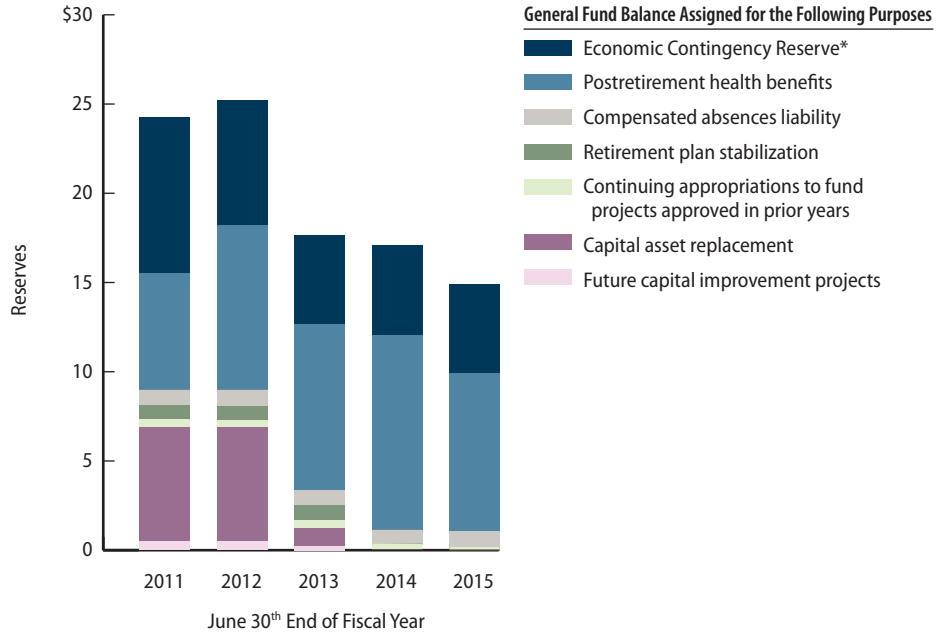
* Budgeted revenues and budgeted expenditures include transfers and one-time items.

† These are transfers between Irwindale's general fund and various other funds.

‡ The Department of Finance (Finance) determined that cash transferred to Irwindale in the amount of \$3.6 million was not an enforceable obligation and should be returned to the former redevelopment agency and remitted to Los Angeles County. As a result, Irwindale was required to transfer the amount to the successor agency and remit payment to Los Angeles County. In addition, Finance disallowed the 2001 certificates of participation as an enforceable obligation of the successor agency, and the agency subsequently transferred the debt and related restricted cash back to Irwindale, resulting in a gain of approximately \$2.4 million. These two events resulted in a net loss to Irwindale's general fund of \$1.2 million.

§ Irwindale's general fund transferred former redevelopment agency land held for resale to the successor agency and reported a loss of \$30.1 million.

Figure 5
City of Irwindale’s General Fund Reserves
(In Millions)



Sources: City of Irwindale’s audited comprehensive annual financial reports.

Note: Irwindale’s general fund reserves consist of *assigned fund balances*, which are amounts intended for specific uses. However, Irwindale may modify these amounts as it deems appropriate.

* Irwindale’s fund balance policy established an Economic Contingency Reserve with a minimum assigned fund balance of \$5 million, which is to be used only for emergencies (for example, natural disasters or other operational emergencies) or for maintaining services in a severe fiscal crisis.

Despite its financial challenges, according to the city’s finance director, Irwindale has not developed a formal long-term financial plan. Long-term financial planning is the process of aligning financial resources with long-term objectives, which should include projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables. An organization can use a financial plan as a tool to prevent future financial challenges and to enable long-term and strategic thinking. Without such a plan in place, the city may be inclined to depend on one-time gains—such as money derived from selling pit mines—to fund its ongoing operations.

Recently, the city has relied on one-time gains that helped it overcome its structural deficits. The \$5.8 million gain shown in Table 3 for fiscal year 2014–15 is due to the successor agency transferring former redevelopment agency land held for resale to the city. However, that gain did not include cash and thus has not been available for the city to spend on its normal operations. In fiscal year 2015–16, however, the city realized a \$2.6 million gain when it sold a pit mine that was no longer used for

The city has not developed a long-term financial plan that describes how it will use one-time gains and revenue to fund its ongoing expenses and eliminate future structural deficits.

mining operations. In addition, the city recently began receiving annual revenue from a pit mine that it owns. Specifically, in fiscal year 2015–16, the city received \$1.8 million from this mine, and it projects that it will receive annual revenue from this mine ranging from \$1.2 million to \$3.7 million over the following six fiscal years. This helped the city cover the nearly \$1 million gap between its budgeted revenue and expenditures. In fact, the finance director asserts that the city’s general fund reserves will increase by \$4 million by the end of fiscal year 2015–16. In addition, in its budget workshop for fiscal year 2016–17, the city projected that its general fund reserves would increase when it sells another pit mine and additional property. Later in 2016, the city sold that pit mine and one other property for \$9.8 million, and according to the finance director, this will result in a \$7 million gain in fiscal year 2016–17. She also stated that the city expects to receive additional property, sales, and utility users tax revenue from the developments that will take place on those properties and other future projects that will take a few years to complete. Nevertheless, the city has not developed a long-term financial plan that describes how it will use these one-time gains and revenue to fund its ongoing expenses and eliminate future structural deficits.

The city has made some efforts to reduce its costs. For example, in fiscal year 2009–10, the city increased fees and reduced operating expenditures for its recreation and library departments. In fiscal year 2011–12, the city merged its public works yard and engineering departments, and it instituted hiring freezes when employees retired. In fiscal year 2012–13, the city cut budgeted expenditures for all of its departments by up to 10 percent. Finally, in fiscal year 2014–15, the city council cut nonmandatory training budgets with the exception of emergency management training for the police department. These efforts were nonetheless insufficient to allow the city to balance its budget.

Furthermore, raising taxes does not seem to be a feasible means for the city to bolster its reserves because some rates are already higher than those of comparable cities. In particular, in 2013 the city hired a consultant who estimated that Irwindale’s businesses, when compared to those in comparable cities, pay on average two times more in utility users taxes and nearly four times more in business license fees; additionally, like most comparable cities, Irwindale does not have a city-imposed sales tax. Furthermore, the city in its municipal code has tied its mining tax rates to the California Consumer Price Index; lastly, the California Constitution and state statutes restrict the city’s ability to levy taxes on property. The city manager agreed with the consultant that raising the city’s tax rates is not currently a potential solution for the city to increase its revenue and replenish its general fund reserves.

According to the city manager, the city council worked with management to cut costs while maintaining core services, and appropriately relied on its “rainy day fund” to weather the recession. Additionally, the mayor stated that the city council worked to reduce costs during the recession through practices such as replacing equipment only when absolutely necessary. The mayor added that the city council elected to build its “rainy day fund” in the years prior to prepare for economic downturns and as such appropriately used those funds to cover the annual deficits in recent years. Nevertheless, as we describe in the following sections, the city council has continued to spend considerable sums for generous programs and failed to cut costs sufficiently to balance the city budget.

The city council has continued to spend considerable sums for generous programs and failed to cut costs sufficiently to balance the city budget.

The City Allocates a Significant Portion of Its Budget to Salaries and Generous Health Benefits

Although Irwindale faces financial challenges, the city directs 51 percent of its general fund budget to personnel expenses—including salaries, fringe benefits, and overtime pay. These benefits are defined in the city’s employment agreements through negotiations with three represented employee groups: nonmanagement, management, and police officers. These groups represent 71 of the city’s 76 full-time employees. Five individuals—the city manager, director of finance, director of public works, director of community development, and police chief—are not represented by any of the three employee groups; rather, employment contracts define the terms of these individuals’ employment with the city and establish their compensation. Further, the employment contracts for these individuals contain clauses that allow them to partake in the same benefits as represented management employees to the extent that those benefits are not included in their employment contracts.

The city’s salaries for key management positions are comparable to those for similar positions in other cities, ranging from \$104,221 to \$185,000. We identified 14 cities comparable to Irwindale based on their location, annual expenditures, services provided (such as whether the city operates its own police department), and population size. Table 4 on the following page shows that Irwindale’s maximum salary ranges for 2015 consistently ranked in the middle or lower end of the salary spectrum for the other 14 cities, with the exception of the salary range for the recreation manager, which was the second highest in that group. Six of the key management employees included in Table 4 currently earn annual salaries in excess of \$100,000. According to the human resources manager, the city needs to offer competitive salaries to recruit and retain qualified candidates.

Table 4
City of Irwindale's 2015 Salaries for Key Management Rank Mostly in the Middle to Low Ranges Among the Salaries for Comparable Cities' Management Positions

CITY	AGENCY INFORMATION			SALARY RANGES FOR MANAGEMENT POSITIONS THAT EXIST IN IRWINDALE'S AND OTHER CITIES' GOVERNMENTS								
	FISCAL YEAR 2014-15 GOVERNMENT FUNDS, TOTAL EXPENDITURES	POPULATION SERVED	SQUARE MILES	CITY MANAGER			DIRECTOR OF FINANCE			CHIEF OF POLICE		
				LOW	HIGH	RANK	LOW	HIGH	RANK	LOW	HIGH	RANK
Irwindale	\$22,481,599	1,415*	9.6	\$185,000	\$185,000	13	\$131,866	\$131,866	9	\$164,832	\$164,832	11
Monrovia	61,072,949	37,531	13.7	199,875	199,875	10	99,348	129,153	11	112,507	168,930	10
Arcadia	60,562,328	57,050	11.1	212,556	220,731	1	109,116	141,526	8	158,856	206,039	2
Azusa	52,754,576	48,485	9.7	198,500	198,500	12	144,990	144,990	6	194,997	194,997	5
Baldwin Park	45,388,831	74,738	6.8	198,602	198,602	11	130,000	130,000	10	188,987	188,987	8
San Gabriel	45,105,393	40,424	4.1	200,232	200,232	9	135,660	164,892	3	155,484	188,988	7
Covina	39,592,315	49,291	7.0	205,500	205,500	8	132,404	180,000	2	150,994	197,647	3
La Verne	39,317,689	33,200	8.6	177,571	215,840	5	96,047	116,745	13	160,011	194,496	6
Glendora	32,177,182	52,362	19.6	219,622	219,622	4	145,363	181,538	1	178,659	223,120	1
Claremont	31,061,780	36,218	13.5	215,220	215,220	6	130,474	157,627	5	197,287	197,287	4
Diamond Bar	28,430,893	57,081	14.9	214,167	214,167	7	122,829	164,602	4	NA	NA	
San Fernando	22,462,001	24,533	2.4	185,000	185,000	14	104,784	127,356	12	144,000	144,000	12
Duarte	16,037,463	22,177	6.7	220,068	220,068	2	85,212	102,996	15	NA	NA	
South El Monte	14,648,035†	20,814	2.8	183,277	183,277	15	115,000	115,000	14	NA	NA	
Montclair	No available financial statements	38,686	5.5	164,004	219,996	3	130,764	144,168	7	151,812	184,524	9

Sources: State Controller's Office Government Compensation in California 2015 City Data; city of Irwindale and other cities' financial statements for fiscal year 2014-15 (except as noted); United States Census Bureau; Department of Finance.

NA = The city listed has no position determined to be similar to the management position in Irwindale's government.

* Although Irwindale's residential population is reported as 1,415, the city estimates a working population of approximately 25,000.

† The most recent annual financial report that was available was for fiscal year 2013-14.

SALARY RANGES FOR
MANAGEMENT POSITIONS THAT EXIST IN IRWINDALE'S AND OTHER CITIES' GOVERNMENTS

DIRECTOR OF PUBLIC WORKS			DIRECTOR OF COMMUNITY DEVELOPMENT			HUMAN RESOURCES MANAGER			RECREATION MANAGER		
LOW	HIGH	RANK	LOW	HIGH	RANK	LOW	HIGH	RANK	LOW	HIGH	RANK
\$133,411	\$133,411	13	\$128,000	\$128,000	14	\$92,336	\$112,235	8	\$85,743	\$104,221	2
112,507	168,930	3	112,507	169,314	1	99,348	129,153	5	58,237	78,043	8
139,680	181,141	2	111,852	145,052	10	109,116	141,526	3	NA	NA	
151,846	151,846	9	166,544	166,544	2	130,050	130,050	4	71,563	86,985	5
154,468	154,468	8	120,000	120,000	15	100,000	110,334	9	NA	NA	
135,660	164,892	5	129,204	157,044	7	66,732	81,108	13	66,732	81,108	6
111,866	150,000	10	111,866	150,000	9	111,866	150,000	2	NA	NA	
130,059	158,088	6	119,090	144,755	11	86,550	105,202	11	NA	NA	
147,278	183,930	1	130,905	163,483	4	140,926	175,997	1	76,023	92,406	4
157,627	157,627	7	130,474	157,627	6	93,864	113,398	7	NA	NA	
125,900	168,718	4	122,829	164,602	3	84,809	113,652	6	76,833	102,963	3
115,668	140,580	12	107,400	130,548	13	87,252	106,044	10	104,784	127,356	1
98,148	116,748	14	130,188	160,368	5	54,924	68,688	14	65,028	80,004	7
NA	NA		156,688	156,688	8	NA	NA		NA	NA	
130,764	144,168	11	130,764	144,168	12	85,752	104,232	12	NA	NA	

Salary Incentives and Allowances for City of Irwindale Management Employees

- **Bilingual bonus pay**—2.5 percent of the base rate of pay for employees who pass a verbal bilingual exam demonstrating proficiency in Spanish, American Sign Language, or both and who are required to use such languages during the course of the city's business.
- **Education incentive pay**—\$1,200 per year for employees who have at minimum an associate of arts degree or junior-year status or higher at a four-year college. Individuals who do not meet the degree or education requirement may receive \$5 per month, up to \$100, for every three units completed for courses taken while employed with the city.
- **Technology or cell phone allowance**—\$40 per month, \$33 per month, or \$20 per month, depending on position, for employees who are required to use cell phones to carry out their official city duties, and an additional \$33 per month for data (email) service; \$125 per month for unrepresented management staff.
- **Annual service award pay**—\$20 for each year worked on and after the fifth consecutive year of employment.
- **Automobile allowance**—The city provides a vehicle, fuel, and maintenance for city-related and personal use to the city manager and police chief, and it provides a \$350 monthly automobile allowance to the public works director.

Sources: *The Irwindale Management Employees Association Memorandum of Understanding* and employment contracts for the Irwindale city manager, public works director, director of finance, community development director, and police chief.

Key management employees also receive incentives and allowances—such as those described in the text box—that supplement their base pay. The education incentive in particular appears to be unnecessary for upper management employees who are required to have high levels of education to even qualify for their positions. For example, the city manager's contract entitles him to the education incentive pay described in the text box, even though the job specifications for his position require at least a bachelor's degree in addition to eight years of experience. According to the city, in fiscal year 2015–16, the city spent \$11,000 on education incentive pay for 10 management employees whose job specifications required a higher level of education than that necessary to receive the incentive. Furthermore, according to finance department staff, the city reports this additional compensation to the California Public Employees' Retirement System (CalPERS), and it is included in the calculation of the employees' final compensation when computing retirement benefits.

Although the city's salaries for key management staff are comparable to those for staff of other cities, Irwindale spends the highest amount on health benefits per employee among 12 comparable cities. Data provided by the city to the State Controller's Office indicate that the city spent \$1.4 million on health, dental, and vision benefits in 2015, or \$18,400 per full-time employee. This amount is about \$6,000 more than the city with the next most generous benefits provides in health benefits to its employees. The city spends so much partly because

it covers 100 percent of employee and dependent health, dental, and vision insurance premiums. If employees demonstrate sufficient insurance coverage through sources other than the plans offered by the city, the city pays the employees a cash benefit of one-half of the average monthly cost of single-employee medical insurance, or \$309. By contrast, the State offers only \$155 to employees in similar circumstances. According to the finance director, the city proposed a possible employee contribution to medical benefits during the labor negotiations preceding the adoption of the 2013–2016 employment agreements. The city subsequently determined that

these changes were not ideal after concluding through discussions with CalPERS that the changes would also negatively affect all retirees.

In addition to offering competitive salaries, the city provides key management, as well as all other full-time staff, with more generous employee pensions than those offered by comparable cities. As Table 5 shows, the city offers management staff hired before January 1, 2013, a CalPERS pension of 2 percent at age 55 and a Retirement Enhancement Plan supplement from Public Agency Retirement Services (PARS) of 1 percent, also at age 55, for a 3 percent total pension at age 55. CalPERS retirement benefits are funded through contributions paid by participating employers, employee contributions, and earnings on CalPERS investments. Employer contribution rates are determined by periodic actuarial valuations under state law. All three represented employee groups are eligible to receive the CalPERS and PARS pension benefits through their employment agreements for employees hired before January 1, 2013. Only one of the 14 comparable cities we reviewed (Azusa) offers a similar supplementary retirement benefit through PARS.

The retirement formula is used to calculate an employee's retirement benefit by taking the employee's years of service, age at retirement, benefit factor, and final compensation. For example, an Irwindale employee who retires at age 55 after 30 years of service and earns \$100,000 per year would receive an annual retirement benefit of \$90,000 based on a benefit factor of 3 percent at 55.

According to the city, it hired 10 of its 76 full-time employees after the Public Employees' Pension Reform Act (PEPRA) went into effect in January 2013; thus, these 10 employees are subject to PEPRA's provisions that increased to 62 the age at which an employee could receive a pension of 2 percent. In addition, as of July 1, 2015, all city employees are required to pay the entire employee portion of the CalPERS required contribution. The city now pays only the employer portion for CalPERS, but it covers nearly all of the PARS costs for the additional 1 percent at age 55. The contribution rate for employees hired before January 1, 2011, is 0.4 percent of their salaries, while those hired on or after January 1, 2011, pay the total employee contribution, or 7.485 percent of their salaries. In addition, employees hired after January 1, 2013, are not eligible to participate in PARS. For fiscal year 2015-16, the city budgeted approximately \$476,000 for PARS expenses.

Table 5
City of Irwindale's Pension Benefits Were Generous Compared to Other Cities as of August 2016

CITY	PLAN	BENEFIT FACTOR*	EMPLOYEE CONTRIBUTIONS AS A PERCENTAGE OF EMPLOYEE SALARIES
Irwindale	Public Agency Retirement Services (PARS)	Employees hired before January 1, 2011	0.4%
		Employees hired on or after January 1, 2011 and before January 1, 2013	7.485
	California Public Employees' Retirement System (CalPERS)	Tier 1	7 [†]
		Miscellaneous Public Employees' Pension Reform Act of 2013 (PEPRA) [‡]	7 [†]
Azusa [§]	PARS	0.7% @ 55	0.0%
	CalPERS	2% @ 55	5 or 7
	PEPRA	2% @ 62	Data not publicly available
Baldwin Park	Tier 1	2.7% @ 55	8
	PEPRA	2% @ 62	6.25
Claremont	Tier 1	2.5% @ 55	8
	Tier 2	2% @ 55	7
	PEPRA	2% @ 62	6.25
Covina [§]	Tier 1	2.5% @ 55	Data not publicly available
	PEPRA	2% @ 62	Data not publicly available
Glendora	Tier 1	2.5% @ 55	8
	Tier 2	2% @ 60	7
	PEPRA	2% @ 62	6.25
Monrovia [§]	Tier 1	2.7% @ 55	Data not publicly available
	PEPRA	2% @ 62	Data not publicly available
San Gabriel	Tier 1	2.7% @ 55	8
	Tier 2	2% @ 60	7
	PEPRA	2% @ 62	6.5
Diamond Bar	Tier 1	2% @ 55	Data not publicly available
	PEPRA	2% @ 62	Data not publicly available
Duarte	Tier 1	2.5% @ 55	8
	Tier 2	2% @ 60	7
	Tier 3	2% @ 60	7
	PEPRA	2% @ 62	6.5
Montclair [§]	Data not publicly available	Data not publicly available	Data not publicly available
San Fernando	Tier 1	3% @ 60	1
	Tier 2	2% @ 55	2
	PEPRA	2% @ 62	9
South El Monte [§]	Tier 1	2.5% @ 55	4
	Tier 2	2% @ 60	3.50
	PEPRA	2% @ 62	Data not publicly available
Arcadia	Tier 1	2.5% @ 55	8
	Tier 2	2% @ 60	7
	PEPRA	2% @ 62	6.75

CITY	PLAN	BENEFIT FACTOR*	EMPLOYEE CONTRIBUTIONS AS A PERCENTAGE OF EMPLOYEE SALARIES
La Verne	Tier 1	2.5% @ 55	8
	Tier 2		
	PEPRA	2% @ 62	Data not publicly available

Sources: *The Irwindale Management Employees Association Memorandum of Understanding* (employment agreement), July 1, 2013–June 30, 2016; Irwindale City Employees Association employment agreement, July 1, 2013–June 30, 2016; Irwindale Police Officers’ Association employment agreement, July 1, 2013–June 30, 2016; other cities’ most current publicly available management employment agreements; other cities’ most current management benefit data available on city websites; other cities’ most current publicly available audited financial statements.

Note: Some data in the table may not be current as of August 2016 as it is based on the most recent publicly available information for each city, some of which was available only as of earlier dates.

* The benefit factor is a component of the retirement formula that the relevant city uses to calculate an employee’s retirement benefit by taking the employee’s years of service, age at retirement, and final compensation.

† Although the city previously paid the employee contribution portion of the CalPERS benefit, all employees pay the entire employee contribution of 7 percent as of the first pay period beginning on or after July 1, 2015.

‡ PEPRA generally applies to all state and local public retirement systems and to their participating employers, including CalPERS. Under PEPRA, the retirement age for the 2 percent pension benefit factor increased to 62 for new employees hired on or after January 1, 2013.

§ The most current publicly available documents for this city do not include information on employees that fall under PEPRA. However, as specified in the previous footnote, PEPRA generally applies to all employers participating in CalPERS.

Not only do key management employees receive competitive salaries and benefits, but these individuals also may cash out accumulated sick leave and some of their vacation hours. In contrast, federal and state laws do not require employers to pay employees for unused sick leave balances upon separation. Additionally, the California Department of Human Resources and the Department of Finance do not allow state employees to cash out sick leave, even upon separation. The city spent a total of almost \$336,000—representing more than 10,000 employee hours—from fiscal years 2011–12 through 2015–16 for cashed-out sick leave. In one instance, the former assistant city manager received upon separation almost \$45,000 for a sick leave balance of 983 hours. Despite its financial challenges, the city also allows employees to cash out vacation leave voluntarily, up to a limit of 100 hours per year. Moreover, in order to reduce its future liability, the city’s employment agreements and personnel policy allow management to cash out employee vacation hours in excess of a 300-hour cap and compensatory hours in excess of 40 hours for nonmanagement employees. From fiscal years 2011–12 through 2015–16, the city paid more than \$1.5 million in leave cash-outs, or just over \$300,000 per year. As a sound financial practice, we would expect voluntary leave cash-outs to be contingent upon the city having available cash, rather than being preauthorized regardless of budgetary constraints. We further believe allowing employees to cash out sick leave is not a prudent practice given the city’s financial challenges.

Like the city’s employees, Irwindale’s city council members receive generous health benefits in addition to their monthly salaries, and the members also receive expense reimbursements.

Although council members are eligible to receive pension benefits, these expenses are projected to cost the city less than \$10,000 a year. According to its municipal code, the city is required to hold two regular council meetings per month. Documentation provided by the city's human resources technician shows that in January 2016 alone, the city spent a total of \$14,000 on health benefits for three city council members, six commissioners, and their dependents. Although the nature of their work is part-time, the city covers 100 percent of the health, dental, and vision insurance premiums for these officials. The city's municipal code establishes council member salaries at \$543 per month and authorizes a flat-rate reimbursement of \$190 per month for expenses incurred within city boundaries. We believe it would be prudent for the city to collect receipts for all costs incurred by council members in carrying out city business. City council members also attend special meetings for which they are compensated separately. Further, city resolutions allow council members to receive \$50 for attending each Irwindale Housing Authority (Housing Authority) meeting and \$300 to attend each Irwindale Reclamation Authority meeting.²

The City Has Spent Almost \$1 Million Annually to Provide Prescription Medications and Vision Benefits to Residents

In spite of its long-standing budget deficits, the city has funded prescription and vision benefit programs continuously for city residents, and the combined costs for these programs have increased each year. Prescription costs make up 94 percent of this expense to the city, while the vision program costs, which decreased by 29 percent over the last five fiscal years, make up the remaining 6 percent. In contrast, the prescription costs increased by 41 percent over the five-year period. The significant costs of these programs limit the resources available for other core city services, including street repairs and other public works. The city asserted that it provides these benefits to minimize the health impacts on residents of its mining activities. In fiscal year 2015–16, Irwindale spent nearly \$1 million on prescriptions and eye care for its residents.

To participate in Irwindale's generous prescription and eye care programs, an individual must provide sufficient proof that he or she is a resident of the city and pay a \$5 fee to obtain a resident identification card. The prescription program generally allows residents to fill from a designated pharmacy provider an unlimited number of prescriptions, with some exclusions and caps, depending on the type of medication. Examples of excluded drugs include

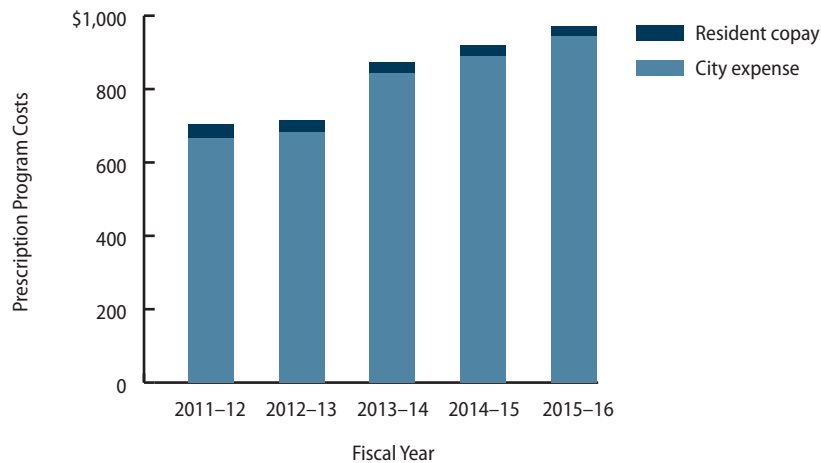
Costs for the prescription program increased by 41 percent over the last five fiscal years.

² To comply with California laws and regulations, the Irwindale Reclamation Authority is organized to receive and reassign operating rights from each of the mining companies located in the city of Irwindale.

dietary supplements and drugs designed solely to deter smoking. Each participating resident under 50 years of age is required to pay a copayment of \$10 per generic prescription or \$45 for brand-name medications; the required copayment is \$3 for both generic and brand-name prescriptions for residents 50 years of age or older. The city pays the balance regardless of the medication’s cost. For example, if a 51-year-old resident fills a prescription with a total price of \$300, the resident pays \$3, while the city pays the difference of \$297. Similarly, the vision program annually provides each resident up to \$245 for new eyeglass frames and lenses, \$120 for contact lenses, and \$49 for an eye exam. Residents may visit one of two designated optometrists who bill the city directly for these expenses.

As depicted in Figure 6, from fiscal years 2011–12 through 2015–16, the city’s share of prescription costs increased consistently each year, while residents’ copayments remained relatively stable. Over those five years, the cost of the prescription program rose 41 percent, and the city spent a total of \$4 million, while participants paid \$155,000, or only 4 percent of the program’s cost. The city paid an average of \$3,800 per participant in fiscal year 2015–16.

Figure 6
City of Irwindale Pays Nearly All of the Costs of Its Increasingly Expensive Prescription Program
Fiscal Years 2011–12 Through 2015–16
(In Thousands)



Source: City of Irwindale’s unaudited billing data for its prescription program.
Note: Irwindale’s average cost per participant in fiscal year 2015–16 was \$3,800.

Not only has Irwindale’s prescription plan created a highly imbalanced distribution of prescription costs between the city and its residents, but it has also allowed a disproportionate amount of the city’s total prescription spending to go to a relatively small number of participants. In fiscal year 2015–16 alone, 25 of the 251 total

Although the city has explored cost-cutting measures, including increasing the copayment for prescriptions, it has been reluctant to implement them.

participants in the program each received more than \$10,000 worth of prescription assistance from the city. The costs for these 25 participants totaled \$459,000, or 48 percent, of the \$943,516 that the city spent on the program that year. Because of the city's lack of limits on the dollar amount or the number of prescriptions an individual may fill at the city's expense, each resident has virtually endless potential to increase the city's costs in administering this benefit. When evaluating Irwindale's financial situation, we expected that the city would have implemented controls to effectively contain the costs of the program by placing a cap on the dollar amount of prescription assistance each resident may receive each fiscal year.

Although the city has explored cost-cutting measures, including increasing the copayment for prescriptions, it has been reluctant to implement them. In April 2009, the city manager presented a series of cost-cutting recommendations to the city council, including increasing the copayment for all participants from \$3 to \$10 for generic medications and \$35 for brand-name medications, as well as changing pharmacy providers. The city council approved these changes; however, the mayor stated that when some residents expressed concern over the change, the city council decided to revert to the \$3 copayment for residents 50 years of age and older, who constitute most of the participants. Had the copayment remained at the increased rate for all residents, the city would have saved nearly \$120,000 in fiscal year 2015–16 alone. Moreover, the city did not change its pharmacy provider, though the city council meeting agenda report from April 2009 indicated potential savings of up to 32 percent on brand-name medications. According to the mayor, an outside consultant later reviewed the prospect of switching providers for the pharmacy benefit and found that doing so would not be cost-beneficial to the city. He also stated that the consultant communicated this information to the city verbally, and we were therefore unable to assess this determination.

In light of the rising costs for the prescription program, the city hired a consultant in August 2014 to review the program and propose cost-reducing measures in order to extend the life of the program. In September 2016, the city council reviewed the consultant's recommended changes, including a proposal to require all residents to pay a \$10 copayment, but it approved only one of the recommendations. The city council approved the consultant's recommendation that the city contract directly with its pharmacy benefit manager and terminate its contract with its current third-party administrator. This change is projected to save \$100,000 in the first year in the form of reduced annual fees and commissions and increased rebates to the city from pharmaceutical companies; the administrator currently retains these rebates.

The city council, however, rejected the consultant's more substantial proposals. For example, it rejected the consultant's recommendation to increase the prescription copayment to \$10 for residents over age 50. In addition, the council rejected the consultant's proposal that the city implement a coordination of benefits under which the city's prescription program would become secondary to any other insurance a resident may have. Under such an arrangement, the city would pay only the difference, if any, between the prescription cost and the amount the other insurance plan would cover. Implementing this change would be contingent upon participants informing the city of their existing coverage. The consultant reported that such a provision could extend the funds dedicated to the program incrementally, but the extent of the cost savings could not be calculated because of data limitations. Despite the increasing costs of the program, the council did not approve this cost-saving opportunity.

Although the consultant proposed several other cost-reducing measures, the recommendations focus on the costs of administering the program and do not address the possibility of limiting the benefits available to residents. In contrast, if the city were to implement a cap of \$2,500 per resident, two-thirds the average amount spent per participant in fiscal year 2015–16, it could save more than \$300,000 per year on prescription drug benefits. Similarly, few limitations exist regarding the types of medications the city will cover.

Although the city has offered the program to residents for almost three decades, it was not until 2012 that the city council passed a resolution formalizing the program's public purpose of promoting the health and welfare of city residents negatively affected by the mining activities in the city. Given this program objective, we expected that the city would limit prescription benefits to medications for conditions related to or caused by mining activities, but the city has not done so. We further expected the city to use studies and research to demonstrate causal relationships between Irwindale's mining and its residents' health concerns, but the city has not used studies or research for this purpose.

Furthermore, the city has not considered alternative available programs to provide its residents with prescription assistance. For example, the League of California Cities cosponsors, with the National League of Cities, a prescription discount card program that provides prescription drugs at reduced prices to residents of participating cities who are without insurance coverage or who have insurance coverage that does not cover their prescriptions. Through this program, according to the League of California Cities' website, residents can save an average of 23 percent on prescription medications at no cost to participating cities. As of June 2016, eight of the cities we compared to Irwindale participated in this prescription discount card program, including the neighboring cities of Baldwin Park, Duarte, and Azusa.

We expected the city to use studies and research to demonstrate causal relationships between Irwindale's mining and its residents' health concerns, but the city has not used studies or research for this purpose.

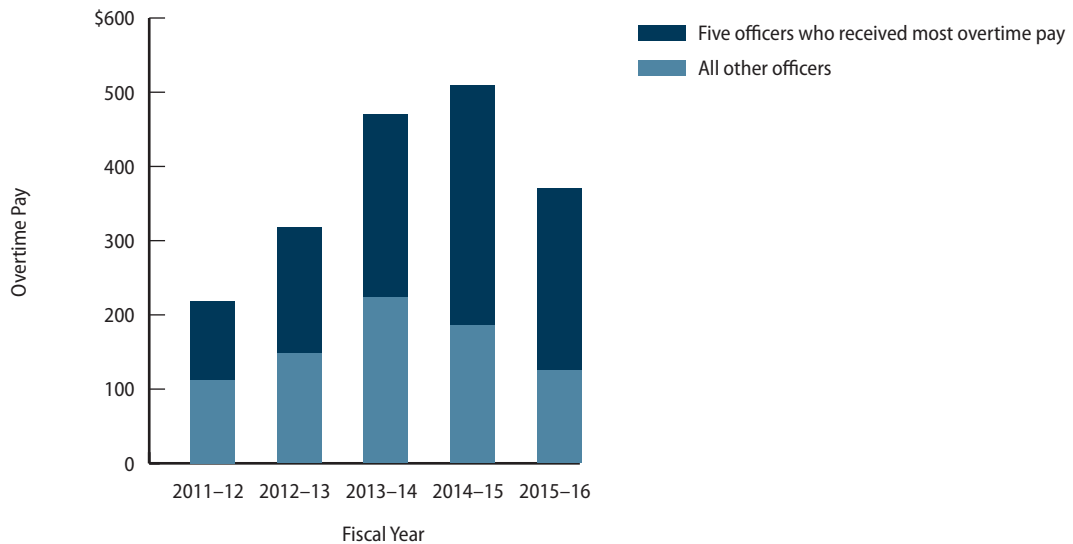
Irwindale spent \$27,000 per officer on overtime in 2015, and the next highest city (San Fernando) spent \$20,000.

Irwindale Cannot Demonstrate That Its Spending for Police Overtime Is Cost-Beneficial

The city's police department staff work significant amounts of overtime, which raises questions about public safety, adequate staffing, and the cost-effectiveness of this expense in light of the city's financial difficulties. The city spends, on average, \$525,000 per year on police department overtime, the bulk of which is attributable to overtime costs of its police officers. From fiscal years 2011–12 through 2015–16, the city spent \$1.9 million on overtime for just its police officers—excluding other police department positions such as corporals, sergeants, and administrative staff. This level of spending represents the highest amount of overtime per officer among 11 comparable cities for 2015. Specifically, Irwindale spent \$27,000 per officer on overtime in 2015, and the next highest city (San Fernando) spent \$20,000. To explain the overtime spending, the police chief cited injuries and other health-related concerns. He stated that at the beginning of 2015, eight of the city's 17 officers were out at the same time for health reasons, increasing the police department's need for overtime. In fact, for the five years we reviewed, spending for officer overtime was highest during fiscal year 2014–15, costing more than \$500,000 for 9,000 hours of overtime. However, overtime spending was also high in all the other years we reviewed, and so it cannot be attributed fully to injuries and illness. For example, our review found that some of the overtime pay was attributable to vacancies, as we discuss later.

Further, the current method that the police department uses to distribute overtime may pose a public safety risk because officers who work arduous amounts of overtime may become fatigued and may be less attentive while on duty. In September 2013, the interim police chief described these adverse effects in an email to the city manager. The interim police chief specifically explained how fatigue from working too much overtime could impair officer judgment and decision making. He stated that officer fatigue poses a liability to the city, especially in “shoot-or-don't-shoot” situations and in officer interactions with members of the public who are argumentative or under the influence. Figure 7 shows that from fiscal years 2011–12 through 2015–16, five officers received the most overtime pay, earning 66 percent of total officer overtime in the most recent year and 58 percent for the entire period. In fact, with overtime pay, two officers nearly doubled their salaries in one year. Since fiscal year 2011–12, the officer with the most overtime pay worked an average of 946 hours of overtime per year, or the equivalent of 76 extra 12.5-hour days of work each year.

Figure 7
Five Officers Received More Overtime Pay Than All Other Officers Received
Fiscal Years 2011–12 Through 2015–16
(In Thousands)



Source: Unaudited payroll data from the City of Irwindale’s Springbrook Accounting System.

The concentration of overtime among these five individuals also creates the appearance of favoritism. These five individuals are among the eight most senior officers in the police department. The police department policy manual allows senior department members to “bump” employees with less seniority from overtime assignments. Although the manual assigns the responsibility of ensuring that overtime is assigned judiciously and distributed equitably to the patrol division commander, the effectiveness of this control is unclear, given the concentration of overtime among the top five earners. Additionally, police department policy sets limits on the number of hours officers should work within the span of 24-hour, 48-hour, and 168-hour periods, at 16, 30, and 84 hours, respectively, and these limits apply to hours worked on overtime. However, the policy does not restrict the amount of overtime a single officer may work within these time frames. We expected to see that the city had set limits on the number of consecutive weeks an officer may work the maximum hours, regardless of “bumping” privileges. Alternatively, the city could implement a rotational approach that requires all officers to participate or that allows officers who are not interested in working overtime to pass shifts to the next officer in the rotation. Such an approach would help to spread the overtime among more officers so that they are not overly fatigued and their judgment and decision making are not impaired.

Despite the significant costs of police officer overtime, the city has not performed an adequate cost-benefit analysis that examines the city's use of overtime to cover shifts versus hiring more officers.

Despite the significant costs of police officer overtime, the city has not performed an adequate cost-benefit analysis that examines the city's use of overtime to cover shifts versus hiring more officers. The finance director, in preparing the midyear budget review for fiscal year 2015–16, calculated the cost savings from not hiring additional officers. However, this analysis was limited in scope and detail, as the purpose was simply to determine how much the city would save during that year on police officer salaries and retirement costs compared to how much the city would spend on officer overtime. The finance director determined that the city would exceed its police officer overtime budget for fiscal year 2015–16 by \$310,000, but that it would save \$425,000 on salaries and retirement contributions because of ongoing vacancies and extended leaves, resulting in a net cost savings of \$115,000. However, this calculation is flawed because it does not account for the total cost of overtime compared to the cost of hiring new officers, nor does it differentiate between savings from vacant positions and those attributable to temporary absences, such as those of employees out on disability. The finance director's analysis also lacks any assessment of whether the level of overtime, which was nearly twice the budgeted amount, was sustainable and safe. Further, the analysis lacks consideration of the appropriate level of staffing to address the city's policing needs.

Irwindale's comparatively high overtime expenses also raise questions about the appropriateness of police department staffing levels. In comparing the city's police officer overtime with that of 11 similar cities, and using the city's workday population of nearly 25,000, we determined that the city employs one officer for every 1,470 citizens. This amount falls within the middle of the range of officer-to-citizen ratios for the 11 other cities, and it suggests a similar workload per officer in each of these cities. However, as stated earlier, the city spends significantly more on overtime—at \$27,000 per officer—than any of the similar cities. Thus, the city needs to analyze the police department's workload and staffing levels using these factors, among others, to determine how many officers the city actually needs and how much overtime is warranted to meet the city's goals for providing police services to its residents and workday population.

In addition to performing a cost-benefit analysis of officer overtime, the city should reevaluate the possibility of contracting with the Los Angeles County Sheriff's Department (sheriff's department) or other law enforcement agencies as an alternative to operating its own police department. In 2009 the sheriff's department performed an initial study of the city's police department at the request of the city, resulting in a proposal to provide policing services to the city that would reduce its annual costs by 25 percent, or \$1.8 million at the time. According to the proposal, the arrangement would also increase the number of sworn law enforcement personnel by

11 percent. While two council members favored further pursuing the possibility of contracting, others expressed concerns over quality-of-life and liability issues. The council did not vote to explore this opportunity further. According to the mayor, the council rejected the proposal because the new arrangement would not provide adequate police coverage to the city. However, we disagree; our review of the proposal revealed that contracting with the sheriff's department would actually increase the number of police personnel. The mayor also stated that the council had concerns related to relinquishing local control over police services, and these concerns mirrored those expressed to the council by residents. However, we noted that the proposal from the sheriff's department recognized the importance of local control and how Irwindale would maintain this control if it contracted with the sheriff's department for police services.

The City Does Not Always Ensure That It Receives the Best Value for Its Contracts

The city adopted a purchasing policy that provides guidance for awarding contracts through competitive bidding; however, the city exempts many types of contracts from this competitive process. According to the *State Contracting Manual*, competition promotes sound fiscal practices, emphasizing the elimination of favoritism, fraud, and corruption in awarding contracts, as well as helping ensure best value. The text box describes the competitive bidding thresholds and requirements the city included in its purchasing policy. However, in its municipal code the city exempts from competition many professional services. The text box on the following page includes instances in which the municipal code allows the city to dispense with bidding for a wide range of services. Additionally, the purchasing policy exempts from the competitive process certain professional service contracts for continuing services—or contracts for additional work or services made on a project-by-project or retainer basis.³ The policy does not include a limit on how long the city can use this exemption;

City of Irwindale's Competitive Bidding Thresholds and Selection Requirements

Minor: Less than \$3,000

- Prudent judgment required
- Comparative pricing when practical
- Department head approval to award bid
- Purchase order (optional)

Informal: \$3,001 to \$20,000

- Department solicits at least three quotes
- Department conducts interviews (consultant services only)
- City manager or city attorney approves
- Awarded by purchase order or contract

Formal: Over \$20,000

- Formal bidding required
- Encumber via contract or purchase order
- Committee conducts interviews (consultant services only)
- City council approval to go to bid and to award bid

The thresholds apply to general purchases of supplies, equipment, operating or maintenance services, and construction projects, but exclude public works projects. They also apply to initial selection of consultants for professional services, such as legal and financial consultants, but excludes private architectural, engineering, landscape architectural, environmental impact report consultants, and bond consultants.

Source: City of Irwindale's purchasing policy.

³ Continuing services that are exempt from competitive bidding include firms providing engineering, land-surveying, transit, planning, environmental auditing, landscape architecture, and other services.

Exemptions From Competitive Bidding Included in the City of Irwindale Municipal Code

The city of Irwindale municipal code states that the city may exempt agreements from competitive bidding when the following conditions exist:

- When there is to be a contract for professional services such as, but not limited to, the services of attorneys, architects, or engineers, or where the service contracted for deals with public relations or promotions, elections, negotiations, or acquisition of land, trash, garbage or refuse disposal or the like, insurance, bonds and any other services of a similar nature unique and not subject to competition or other services that by law another officer or body is specifically charged with obtaining.
- When, through cooperative purchasing with the State, the county, and other public agencies, the advantages of large-scale buying may be obtained.
- When the purchase is beneficial to the interest of the city and is from a supplier who has been awarded a specific item or items in a contract resulting from a formal competitive bid process by another governmental agency within the State or by the federal government within the previous 365 days (one year).
- When purchasing from or selling to another governmental agency when such action is beneficial to the interests of the city.

These exemptions apply when no public work in excess of the state public works bidding limit of \$5,000 is involved.

Source: City of Irwindale municipal code.

instead, the policy indicates only that such arrangements may be reviewed from time to time to ensure that the city is receiving the best value under its contracts.

Because of the exceptions to competitive processes in the city's municipal code and purchasing policy, the majority of the contracts that we reviewed were deemed to be exempt from competition. We reviewed 25 contracts overall: 10 contracts individually valued between \$3,000 and \$20,000, 13 contracts valued individually at more than \$20,000, and two public works contracts totaling more than \$600,000. Of the 25 contracts, 16 with a total value of \$1.7 million were exempt from competitive bidding. Specifically, five were exempt based on the city's purchasing policy regarding continuing services and 11 were exempt based on the municipal code. In contrast, for the two public works contracts, we found that the city appropriately followed the competitive bidding requirements found in the Public Contract Code when it awarded the contracts, such as publicly advertising a request for proposals and awarding the contracts to the lowest responsible bidders.

Although many contracts we reviewed were exempt from the competitive bidding process under provisions of the city's municipal code and purchasing policy, we still expected the city to ensure that it obtained a fair and reasonable price. For example, the *State Contracting Manual* requires that purchases, although exempt by

statute or policy, must still be reasonable in cost and recommends that procurement files include documentation to support fair and reasonable pricing by performing a price analysis and preparing a cost justification form. The city finance director agreed that conducting a price analysis would be a good practice to implement. Of the 16 contracts that were exempt, we did not find any evidence that the city had ensured that it obtained reasonable prices for 11. In one instance, the city renewed an ongoing agreement for \$377,000 without using competitive bidding. In 2013 the city renewed its contract for geologic engineering services pertaining to pit mine reclamation that it last competitively bid in 2007. According to a management analyst for Irwindale, the city contracted with the winner of the 2007 bid annually from 2009 through 2013, when it renewed the contract for two years, but it did not perform a price analysis at that time to ensure that it had obtained a fair price.

As another example, the city has contracted with the same firm for auditing services for six years without going through a competitive reprocurement process. Although the city's purchasing policy exempts from competitive bidding renewal contracts for audit services consultants, the Government Finance Officers Association (GFOA) recommends that governmental entities engage in a full-scale competitive process for the selection of an independent auditor at the end of the term of each audit contract, which the GFOA recommends last at least five years. The final report issued by the 2012–13 Los Angeles County Civil Grand Jury in June 2013 contained a section that discussed the fiscal health, governance, financial management, and compensation of the 88 cities incorporated in the county. In its report, the grand jury recommended that Irwindale undertake a competitive bidding process every five years for the selection of its auditor. The city had not initiated a competitive process to select its auditors as of fiscal year 2015–16. Instead, it chose to periodically change the audit management staff. The city finance director asserted that although the city had not competitively bid the contract for its financial auditor since 2005, the prices of the renewals in fiscal year 2009–10 and in 2015 were fair and reasonable.

In addition, the city has not always evaluated whether it receives good-quality services. Selecting vendors that provide good-quality services, and monitoring their performance, can save money because the city can avoid rework of the contracted service. Our review found that the city received poor-quality services from a consulting services vendor. In fiscal year 2014–15, the city spent over \$37,000 for a benchmark compensation study that it deemed insufficient and incomplete. The goal of the study was to ensure that the city had a classification and compensation plan for the city's positions and to develop a job analysis for each position. The study compared the city's positions to those of comparable cities in the surrounding area. However, in one instance, the study included a clear mistake: instead of comparing Irwindale's deputy clerk's salary to the salaries of deputy clerks in surrounding cities, it compared the deputy clerk's salary in Solana Beach to deputy clerks' salaries in other cities. After a year of payments totaling \$37,125, the city disagreed with several aspects of the study and abandoned it. In August 2016, the city contracted with a different vendor for a new study.

As a best practice for avoiding future poor-quality services, the Public Contract Code stipulates that state agencies must conduct a post-evaluation of each consulting services contract greater than \$5,000. The agency is required to evaluate the contractor's performance in doing the work or in delivering the service specified in the contract and whether the contractor fulfilled all the requirements of the contract. According to an Irwindale management analyst, the city does not conduct such an analysis,

The city did not effectively oversee the spending on some of its contracts. As a result, it spent a total of more than \$63,000 above contracted amounts on three separate contracts.

but we believe it would benefit from doing so, in particular for those contracts for continuing services that it exempts from competitive bidding.

Furthermore, the city did not effectively oversee the spending on some of its contracts. As a result, it spent a total of more than \$63,000 above contracted amounts on three separate contracts. For example, in October 2012, the city contracted with a firm to perform internal investigations for its police department. The city structured the agreement not to exceed \$10,000, but the contract contained an option to increase the total amount to \$20,000 with the city manager's written authorization. The contract stipulates that any spending beyond \$20,000 requires city council approval. However, the city paid the consultant nearly \$67,000, exceeding both approval limits, without obtaining the city manager's or the city council's approval. The city manager explained that the reason the city spent more than contracted without proper approvals was that the contractor was extremely slow in submitting invoices and that the chief of police had difficulty tracking expenses. In another instance of ineffective oversight, the city failed to ensure that a vendor documented the actual performance of services, as required in the contract. Specifically, in October 2012, the city contracted with its former interim police chief to update its police department policies, but according to the current chief of police, staff members could not recall any specific policy that was created or updated, despite the city paying nearly \$4,000.

The City Council Made a Financial Decision That Could Have Given the Appearance of Favoritism

The city council awarded a contract to a vendor that had indicated it planned to sponsor community events, which could have given the appearance of favoritism. Specifically, in September 2011, city staff used a competitive process to solicit bids for a new contract for towing services, as the previous contract with its longtime provider was about to expire. The city contracts for services to remove illegally parked cars, to tow inoperative vehicles as a result of traffic accidents or mechanical breakdowns, and to impound or store vehicles for police investigations. The contract is a revenue-sharing agreement in which the city and the contractor each receive a percentage of the towing contractor's gross receipts that are attributable to the services the contractor provides under the contract. The request for proposals included a clause and a form for bidders to indicate how much they were willing to contribute financially to sponsor various activities in the city, such as music in the park, the annual Fourth of July fireworks show, and the senior center holiday dances. In this circumstance, we would have expected the city to separate its fundraising efforts from its contracting process to avoid the appearance of favoritism.

At the February 2012 city council meeting, staff recommended that the city council award the contract to the longtime provider, versus awarding a contract shared between two operators, which staff deemed impractical. Instead of following that recommendation, the council inquired about sharing a contract with two operators on a month-to-month rotation. Rotational tow services allow the city to maintain a list of approved tow companies that take turns providing towing and storage services on a rotating basis. The city staff recommended against a rotational contract, citing diminishing tow requests, additional workload for the 911 operators, and that such a contract would not enhance the quality of service to the community. After some discussion among the city council about the vendors' past and proposed contributions to the city, the city attorney suggested to the city council that it consider the tow companies based only on the merits of their proposals.

At the March 2012 city council meeting, the city council rejected all proposals, after a representative for one of the prospective vendors indicated it planned substantial sponsorship of city programs and the city attorney advised that there were no criteria or requirement for any bidder to participate in such sponsorship activities to be considered for a contract. The city attorney also advised that because the request for proposals did not focus on rotational tow opportunities, the city council could direct staff to issue a new request for proposals that would allow the option to choose rotational tows. The city council directed staff to issue a new request for proposals for rotational towing services with the option to choose a sole provider, and city staff issued this new request for proposals in July 2012. In May 2012, the then-mayor's son received a \$1,000 college tuition contribution from the towing contractor that had planned substantial sponsorship of city programs. The Fair Political Practices Commission later deemed the tuition contribution an illegal gift to the mayor.

At the September 12, 2012, city council meeting, the then-mayor recused himself from the discussion about vendors for towing services, and from the vote to award a contract for these services, because the tuition gift had created a potential conflict of interest for him. Staff recommended that the city award either an exclusive contract to the city's longtime provider or a rotational contract to all three qualified bidders. At the meeting, the city attorney cautioned the council that any donations to city causes or related functions should not be a factor in the decision about the contract and also indicated that it would be permissible for the city council to choose only two of the three qualified bidders. The council awarded a rotational contract to the first- and third-ranked bidders—the city's longtime provider as well as the bidder that had planned substantial sponsorship funding and given the illegal gift to the mayor. The current mayor told us that the city wanted

In May 2012, the then-mayor's son received a \$1,000 college tuition contribution from the towing contractor that had planned substantial sponsorship of city programs.

We found no unlawful conflict of interest of the former mayor related to this contract because he recused himself from discussions and activities concerning the contract.

to open the contract to more providers so that it could obtain better service, but that three providers seemed excessive. The city attorney stated that the city council is not obligated to follow staff recommendations, and two other current city officials each provided a reason why the second-ranked bidder was not selected. The city manager stated that each bidder was able to present its case to the city council, but he did not recall the presence of the second-ranked bidder at the council meetings. In addition, we found no unlawful conflict of interest of the former mayor related to this contract because he recused himself from discussions and activities concerning the contract.

The Housing Authority's Forgiveness of Loans and Preference for Longtime Residents Undermine Its Housing Programs

The Housing Authority has shortened the life of its low-income housing programs and limited the number of potential beneficiaries by forgiving loans and prioritizing longtime residents over others. Specifically, the Housing Authority has already forgiven \$9.1 million and may forgive another \$10.2 million it loaned to low-income residents for rehabilitating or purchasing their homes. These funds are particularly important given that the Housing Authority lost its major revenue source when the State dissolved redevelopment agencies. The city's plans to forgive the loans may further diminish the remaining funds available under the current Mayans housing purchase program (Mayans program), leaving limited funding to sustain future housing projects. Also, the Housing Authority gives an unfair advantage in its housing programs to residents who have lived in the city for 15 years or more.

The Housing Authority Could Do More to Provide Benefits to Additional Low-Income Residents

The Housing Authority forgives generous loans that it has issued to the few participants of its low-income loan programs, and as a result it is running out of funds for its future programs. Specifically, as part of its Olson housing purchase program, the Housing Authority from 2005 to 2007 provided home purchase loans of up to \$363,000 to each of 42 low-income recipients for a total of \$11.9 million in home loans. Additionally, between 1995 and 2009 the Housing Authority provided rehabilitation program loans of up to \$135,000 to each of 72 low-income recipients, for a total of \$6.4 million in loans. Moreover, the Housing Authority has begun issuing home purchase loans for its Mayans program; as of June 30, 2016, it had provided a total of \$1 million to three low-income recipients. Payment on these loans is deferred, and the Housing Authority's policy is to incrementally forgive

the loans over 20 years, as long as the homeowner meets certain conditions. As of June 30, 2016, the Housing Authority had forgiven \$9.1 million of the \$19.3 million in home purchase and rehabilitation loans and had approximately \$10.2 million in loans still outstanding. The city's housing coordinator stated that the Housing Authority forgives loans because it wants to provide safe housing opportunities to first-time owners who otherwise would not have the ability to purchase and own a home, and that such programs are consistent with state law and offered by housing authorities throughout the State.

Although Irwindale's practice of forgiving loans might have been financially sustainable before the dissolution of the redevelopment agency, the Housing Authority no longer has a major source of revenue to sustain its programs. Nevertheless, the Housing Authority defers all repayments of both types of loans and forgives the principal and interest incrementally over 20 years, provided the borrower uses the home as a principal place of residence and does not transfer ownership in a prohibited way. For example, in 2007 a low-income recipient purchased a home through the Olson program for approximately \$383,500. This homeowner received a \$44,550 private mortgage loan and a \$337,000 purchase program loan, which was secured by a second lien deed of trust, at a simple interest rate of 3 percent with a 20-year term. As long as the homeowner meets the conditions of the loan, he or she will not need to make any monthly payments to the Housing Authority to pay down the principal or interest, and after 20 years the entire purchase program loan obligation will be forgiven. In other words, the Housing Authority will have forgiven not only the \$337,000 in principal, but also \$202,200 in interest, for a total amount of \$539,200. However, if the borrower stops residing in the home or transfers ownership in a prohibited way within the 20 years, such as selling the home to an unrelated person that is not low-income, the borrower will immediately owe a percentage of the loan amount plus interest, and he or she will forfeit 95 percent or more of the increase in equity from the date of the loan. Furthermore, if the borrower transfers ownership in a prohibited way within an additional 22 years, he or she will forfeit between 31 percent and 95 percent of the increase in equity. Of the \$19.3 million in funds that the city has loaned since 1995, more than 99 percent qualified for forgiveness of both principal and interest.

As of October 2016, the Housing Authority had begun issuing additional purchase program loans for its Mayans program. According to the housing coordinator, the Housing Authority plans to issue up to \$5.75 million in forgivable loans for this program. However, this lending will diminish its remaining funds. The Housing Authority believes that it has a sufficient housing fund balance to carry out future projects, but it currently does not have a new major source of revenue. Furthermore, the Housing Authority

As of June 30, 2016, the Housing Authority had forgiven \$9.1 million of the \$19.3 million in home purchase and rehabilitation loans and had approximately \$10.2 million in loans still outstanding.

stated that it and other housing authorities in the State hope that the State will provide a new source of funding that it removed when

it dissolved redevelopment agencies. We estimate that the Housing Authority's forgiveness of these loans will cause its remaining fund balance to plummet 39 percent over the next 20 years, from \$14.7 million to \$8.9 million, thereby limiting its funds to carry out future housing projects.

Eligibility and Priority Rating Criteria for the City of Irwindale Housing Authority's Mayan's Housing Purchase Program

To determine the applicant's numerical priority rating, the Housing Authority first assigns applications to the appropriate household income category:

Primary Eligibility Criteria*

- Extremely low-income households
- Very low-income households
- Low-income households
- Moderate-income households

Within the household income categories, the final order of the priority for each application is established by adding the numerical priority rating assigned in the secondary and final eligibility classifications below, with the smallest number assigned being the highest priority.

Secondary Eligibility Classification

- (1) Displaced person
- (2) First-time homebuyer
- (3) Disabled family
- (4) Veteran
- (5) Elderly
- (6) None of the above

Final Eligibility Classification

- (1) Category A continuous resident (15+ years)
- (2) Category B continuous resident (3 to 15 years)
- (3) Interrupted resident
- (4) Former resident
- (5) Immediate family member of resident
- (6) Employed within city limits
- (7) None of the above

In the event a tie occurs between two or more applicants, a random blind drawing will determine the applicants' priority ratings.

Source: City of Irwindale Housing Authority's Mayans housing purchase program guidelines.

* Income classifications are based on the Department of Housing and Community Development's income classifications.

The Housing Authority Gives an Unfair Advantage to Longtime Residents Who Apply to Irwindale's Housing Programs

The Housing Authority's priority rating system for its housing purchase program and senior rental program gives its longtime residents an unfair advantage over other residents who apply for the programs. Because of the large number of applications it received compared to the limited amount of low-income housing available in its Mayans program, the Housing Authority created a numerical priority rating system to rank and prioritize applicants. Additionally, all eligible applicants participate in a random lottery and receive a number that is also considered in determining their priority in the event of a tie. For example, as explained in the text box, the Housing Authority first categorizes the applicant based on his or her household income level, and it then assigns points to each applicant based on various eligibility criteria. This first categorization is important, because the Housing Authority allocates the available houses among the income level categories, so there are a set number of houses available to applicants in each category. The Housing Authority then assigns the highest priority for participation in the program to the applicant with the lowest total number of points. Notably, in the final eligibility criteria, the Housing Authority gives a higher priority to residents who have lived in the city for 15 years or more (longtime residents) and a lower priority to those who have lived there between three and 15 years (newer residents). The Housing Authority applies similar final eligibility criteria when awarding apartments for its senior rental program.

The housing coordinator stated that the Housing Authority used the guidelines from previous housing projects that had set the 15-year and three-year thresholds. Furthermore, the housing coordinator stated that the intent of the durational residency priority was to prevent those who moved to the city for a very short period of time, for the purpose of obtaining a home, from having the same priority for housing opportunities as residents. However, we believe that the Housing Authority should provide an equal opportunity for all of the city's residents in its housing programs, similar to what the federal government requires. In contrast to the Housing Authority, the federal government forbids the consideration of applicants' duration of residency when prioritizing applications under its housing programs. If the city were to copy this federal prohibition and best practice, residents' applications could still have higher priority than nonresidents' applications, but the Housing Authority could not prioritize some residents over others based on how long they have lived in Irwindale.

Because many applicants to the Mayans program had tied rankings based on their numerical priority rating, the Housing Authority used the random lottery results to determine winners. Specifically, 29 applicants scored low enough to potentially win one of the 21 housing units that were available. The lottery further assigned a priority rank order among those tied. The process consisted of each applicant drawing a numbered card from a bin. Within each income category, the applicants who drew lower-numbered cards were given priority ranking over applicants with higher-numbered cards. The Housing Authority's consultant conducted the lottery in October 2015 immediately after a public Housing Authority meeting.

Unsurprisingly, as a result of its prioritization system, longtime residents have made up the majority of the successful participants for the Housing Authority's Mayans program. Among the 21 successful participants of the Mayans program, 19 are longtime residents. In contrast, only two newer residents scored low enough to be selected; this occurred only because more housing units were available in the moderate-income category than the number of longtime resident applicants. If the Housing Authority had given the same priority ranking to both longtime and newer residents, another 10 newer residents would have had tied rankings and thus would have had the possibility to be a successful participant. The housing coordinator stated that the Mayans program is still ongoing and not yet concluded, and that if the current Mayans program lottery winners are unable to successfully qualify for the loan, they will be removed from the program and the applicant next in line will be awarded the home, thereby affording newer residents an opportunity to purchase a home through the program.

We believe that the Housing Authority should provide an equal opportunity for all of the city's residents in its housing programs, similar to what the federal government requires.

The Housing Authority's prioritization system also might prevent nonresidents from having any chance of successfully participating in the Mayans program. All 21 successful participants of the Mayans program were already residents of Irwindale. The housing coordinator and city attorney stated that the city wants to give city residents the first chance of homeownership before nonresidents, but that it will make homes available to nonresidents if an insufficient number of residents qualify in future projects when more units are available. The federal government requires housing authorities that prioritize residents to treat applicants who work in the geographic area as residents. The city should adopt this best practice and provide applicants who work in Irwindale the same residency priority as residents.

Like the Mayans program, the Las Casitas senior apartments (senior apartments) give Irwindale's longtime senior residents an unfair advantage over other senior residents. When the senior apartments have vacancies, the Housing Authority ranks and prioritizes applicants using a priority rating system similar to that of its housing purchase program, and its final eligibility criteria provide longtime residents the same advantage over newer residents. As with its other housing programs, the Housing Authority should remove the durational residency thresholds for the senior apartments and establish one single threshold for residency.

The City Lacks a Fraud-Reporting Policy That Would Help Safeguard Its Financial Resources

In addition to the fiscal challenges addressed earlier in the report, Irwindale lacks a key safeguard for its resources, making the city susceptible to fraudulent activity. Although the city has certain controls in place to protect the city's cash in its bank accounts, it lacks a formal fraud-reporting policy that would establish a consistent process for reporting, documenting, and investigating fraud. The Association of Certified Fraud Examiners indicates that the purpose of such a policy is to provide a means of developing controls that will aid in the detection and prevention of fraud. In fiscal year 2012–13, a Los Angeles County Civil Grand Jury issued a report recommending that Irwindale review and update its policies and procedures for reporting fraud, including providing a means for employees to report potential fraud anonymously. The grand jury report indicates that the city agreed to implement this recommendation, but we found that the city still does not have a fraud policy. When asked about the absence of such a policy, the finance director stated that the city has not yet developed one because of the shortage of staff in the city's finance department.

Although the city has certain controls in place to protect the city's cash in its bank accounts, it lacks a formal fraud-reporting policy that would establish a consistent process for reporting, documenting, and investigating fraud.

Given that the city was the victim of a fraudulent check scheme in 2013, we expected that it would have established adequate controls to detect and prevent future occurrences. Specifically, seven fraudulently fabricated checks were cashed in 2013, and 12 fraudulent electronic payments occurred through the city's checking account, for a total of \$30,774 in fraudulent activity. The city reported the fraud to the bank and the city's police department and the investigation was subsequently transferred to a different law enforcement agency. Because this type of fraud requires only that someone have access to a city check, which any vendor who receives a payment by check would possess, the finance director stated that it is difficult to prevent. Therefore, the city did not implement any new controls. The finance director stated that she informed the city manager of these breaches verbally and not through documented communication. The bank credited the funds back to the city's account, and the city did not suffer a loss as a result of the fraud. Although the city identified the fraud promptly and informed the bank in a timely manner, the city should have immediately developed a fraud policy that clearly outlines investigation and reporting responsibilities to ensure that future incidents are consistently reported, documented, and resolved.

Even after identifying the fraudulent checks, the city kept blank checks in a vault that was accessible to several staff members and was often left unlocked. We communicated this finding to the finance director, and she moved the checks into a locked safe. In our further discussions with the finance director, she agreed that enhancing the city's existing fraud prevention tools, such as *positive pay*—a process in which the bank requires validation of check number, date, and amount before cashing checks—would strengthen the city's controls. The city is aware of the possibility of adding each payee's name to the validation process, but it has not yet initiated any such changes with its bank.

Even after identifying the fraudulent checks, the city kept blank checks in a vault that was accessible to several staff members and was often left unlocked.

The City Has Been Prudent When Issuing Bonds, but It Needs a Debt Policy

The city lowered its debt service costs by refunding prior long-term debt issuances, with projected savings on interest costs of approximately \$1.6 million over the life of the debt, which ranges from approximately eight to 11 years. The city did not issue any new debt over the past seven years, but it refinanced three issuances. Two of these issuances were originally issued to fund low-income housing and other redevelopment activities of the former redevelopment agency, and one was issued to refinance debt related to such city facilities as the city hall, the police station, and the library, as well as to fund additional facilities such as a skate park and to make improvements to the public pool and park gazebo in Irwindale Park.

We found that the city appropriately used the proceeds of the refunding bonds by funding escrow accounts to pay off the debt. We also found that the proceeds from the original issuances were generally used for the stated purposes.

Nonetheless, the city lacks a formal debt management policy. The GFOA recommends as a best practice that local governments adopt a comprehensive written debt management policy to guide decisions involving the debt issuance process, management of a debt portfolio, and adherence to laws and regulations. The GFOA also recommends that the policy at least address limits or acceptable ranges of debt and practices for structuring, issuing, and managing debt. Further, the policy should reflect local, state, and federal laws and regulations and should be periodically reviewed and updated, if necessary. The city manager stated that Irwindale's lack of a policy was probably an oversight, and that a policy was discussed with the city's bond financial advisor in the past, but that creating a policy was not a priority for the city, given its current staffing levels.

Recommendations

To address the structural deficit in its general fund, the city should seek long-term solutions to balance its budget so that its expenditures do not exceed its revenues. These solutions should include eliminating the reliance on one-time gains to fund ongoing expenses and identifying opportunities to further reduce spending. The city should document its approach in a long-term financial plan that should account for the following:

- A forecast of at least five to 10 years into the future.
- Updates to long-term planning activities as needed to provide direction to the budget process.
- An analysis of its financial status; revenue and expenditure forecasts; strategies for achieving and maintaining financial balance; and plan-monitoring mechanisms, such as a scorecard of key indicators of financial health.

To ensure that employee compensation aligns with job statements, the city should review its salary incentives and modify the eligibility criteria so that they match the job requirements.

Considering that the city's retirement benefits are more generous than those of most comparable cities, and in light of its financial situation, the city should reduce its employee benefits costs by negotiating with employee bargaining groups and key management

employees for the elimination of further city contributions to the PARS supplemental benefit plan or at least an increase in participant contributions to cover the full employee share of the plan's costs, recognizing that under California case law the city may not destroy vested pension rights legislatively.

To minimize the use of its reserves to reduce long-term liabilities, the city should annually determine whether it has sufficient funding to cash out employee leave balances. Additionally, in future labor negotiations, the city should explore the possibility of eliminating or reducing voluntary leave balance cash-outs by employees, and eliminate sick leave cash-outs altogether.

As a prudent fiscal practice, the city should collect receipts for all reimbursable council expenses and update its expense reimbursement policy to eliminate exceptions to this rule.

To reduce costs, the city should consider eliminating its current resident prescription drug benefit program and replacing it with the prescription discount card program offered by the League of California Cities that would provide discounts on prescriptions to residents at no cost to the city.

If the city chooses not to participate in the prescription discount card program offered by the League of California Cities, it should at least take the following two steps related to its current prescription drug benefit program:

- Align its prescription drug benefit program with its established purpose—to treat conditions proven to be caused or worsened by the city's mining activities—and limit the availability of benefits to only those medications approved for the treatment of such conditions.
- Reduce the cost of its prescription drug benefit program by enacting limits—similar to those in its resident vision benefits—on the number or dollar amount of prescriptions an individual can receive each year.

To reduce the cost of its resident prescription drug benefit program, the city council should follow the recommendations of its consultant by approving the following:

- Align copayments by increasing those paid by residents 50 years of age and older to the same level as those paid by residents who are 49 or younger.

- Implement coordination of benefits provisions, where applicable, to designate the city as a secondary payer to residents' primary insurance coverage.

To eliminate the need for police officer overtime, the city should evaluate the possibility of contracting for police services with the Los Angeles County Sheriff's Department or another law enforcement agency as an alternative to operating its own police department.

While the city is considering this, and if it should choose not to contract for police services, it should take the following two steps related to its police department:

- Ensure that its police department is adequately staffed by performing a staffing analysis that includes a determination of the costs and benefits of officer overtime versus hiring additional officers.
- Promote public safety and equity among police officers by implementing a rotational order for scheduled overtime to prevent some officers from working excessive shifts.

To help ensure that it receives the best value for contracts it exempts from competitive bidding, the city should revise its purchasing policy to require its staff to perform a price analysis and prepare a cost justification form and place the document in each contract file as evidence that the contract price is fair and reasonable.

To help ensure that it receives good-quality services, the city should monitor all spending for contracted services. The city should also require its staff to perform post-contract evaluations of professional services contracts, particularly for those continuing services contracts it exempts from competitive bidding.

The Housing Authority should consider options to provide low-income housing opportunities to more people. Additionally, if the Housing Authority intends to continue providing low-income housing opportunities in the future, the city should examine the available funding mechanisms to continue providing low-income housing before it exhausts its Housing Authority Fund balance.

To ensure that all residents have an equal chance to participate in the Housing Authority's housing programs, the city should remove the long-term residency priorities from any future housing programs.

To help identify and prevent potential fraud, the city should develop and implement a fraud policy, following the guidelines provided by the Association of Certified Fraud Examiners.

To ensure that it continues to properly manage its debt, the city should prioritize developing and implementing a debt management policy.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: November 29, 2016

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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November 8, 2016

Via email: jordanw@auditor.ca.gov

Ms. Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Audit of the City of Irwindale

Dear Ms. Howle,

On behalf of the City Council of the City of Irwindale (“City” or “Irwindale”), this letter is Irwindale’s response to the November 2, 2016 draft of the California State Auditor’s (“CSA”) Report entitled, “City of Irwindale: It Must Exercise More Fiscal Responsibility Over Its Spending so That It Can Continue to Provide Core Services to Residents,” as such draft is amended by the November 4, 2016 email from Jordan Wright to Irwindale Finance Director Eva Carreon (“Report”). We understand and expect that this letter will be made public as a part of the Report.

①

Irwindale prides itself on its commitment to being transparent and following best practices that meet or exceed industry standards. We welcome any suggestions to improve Irwindale’s operations; provided the suggestions are constructive and based on accurate facts. Regrettably, many suggestions in the Report are based on incorrect statements of fact, state law, and, as such, much of it fails to yield constructive advice beyond the generic statements in the Recommendation section of the Report.

②

The Report identifies 11 objectives, with one catch-all objective. We note that through the extensive review of Irwindale’s files, electronic and hard copies, the Report does not find that Irwindale violated any law. Nor does the Report find any mismanagement or fraud as to any part of the City’s operations. It also does not find any issue with the City’s governance structure. Instead, it predominately criticizes and disagrees with spending priorities of the City, a role that is beyond the CSA’s assigned objectives. As explained below, the main conclusion of the Report, which forms the title of the Report, is flawed and renders the audit undertaken by the CSA, at California taxpayer expense, of questionable value.

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Recommendations in Report:

The Report includes 11 recommendations, 3 of which are specifically focused on a perceived budget crisis that the CSA argues Irwindale has not adequately addressed. Although Irwindale generally accepts most of the Recommendations of the Report, as explained below, those Recommendations do not match many of the Report’s unfounded criticisms. Indeed, the

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* California State Auditor’s comments begin on page 65.

Elaine M. Howle, California State Auditor
Page 2

- ⑧ Recommendations do not seem unique to Irwindale, but rather general suggestions applicable to virtually all municipalities in California. Although the CSA has provided us only a few days to respond to the Report, the following addresses various points of the Report in the order of the Recommendations.

Recommendation No. 1:

The Report makes the following recommendation related to the City's financial situation:

“To address the structural deficit in its general fund, the city should seek long-term solutions to balance its budget so that its expenditures do not exceed its revenues. The city should document its approach in a long-term plan.”

- ⑥ By itself, the recommendation is welcomed and Irwindale does not take issue with its wording. In fact, well before the draft Report was presented, the City Council had already directed the City Manager to “[r]efine and finalize a five-year financial model for effective budget planning” as part of his employment contract amendment approved on September 14, 2016.

- ⑨ The Report, however, goes on to paint a contorted picture of Irwindale being fiscally irresponsible. Irwindale is proud of - and indeed believes it should be commended for - having weathered the Great Recession, commencing in 2008, which still has lagging effects on municipalities nationwide. Irwindale did so by prudently putting money away in its general fund reserves for many years before 2008.

- ⑩ Irwindale experienced positive operating revenues before the Great Recession and has realized the return of this trend as of Fiscal Year 2015-16, and going forward into Fiscal Year 2016-17 and beyond. This will be demonstrated in the City's audited financial statements expected to be completed this month. Indeed, the City's Finance Director provided the CSA with the chart enclosed as Exhibit A from the City's auditors, Lance, Soll & Lunghard, LLP demonstrating that the City expects to enjoy an operating surplus in the current year just ended Fiscal Year 2015-16.

- ⑫ The CSA has refused to acknowledge that Irwindale expects positive operating revenues, which started Fiscal Year 2015-16 because the audited financial statements have yet to be finalized to prove these representations. However, the CSA refused to wait another two weeks to finalize the Report to allow Irwindale's audited financial statements to be finalized. We question what the CSA's motivation is to rush the Report, other than to avoid the discredit of having spent over 7 months and hundreds of thousands of California taxpayer dollars on a report that had little to criticize beyond making general statements applicable to any municipality in this State.

- ⑬ Irwindale was able to develop significant general fund reserves to be available for tough economic times by undertaking several difficult, yet innovative measures. It adopted special and general taxes on Irwindale's abundant mining, processing and recycling operations to pay for the repair and upkeep of the City's infrastructure impacted by such operations, as well as medical

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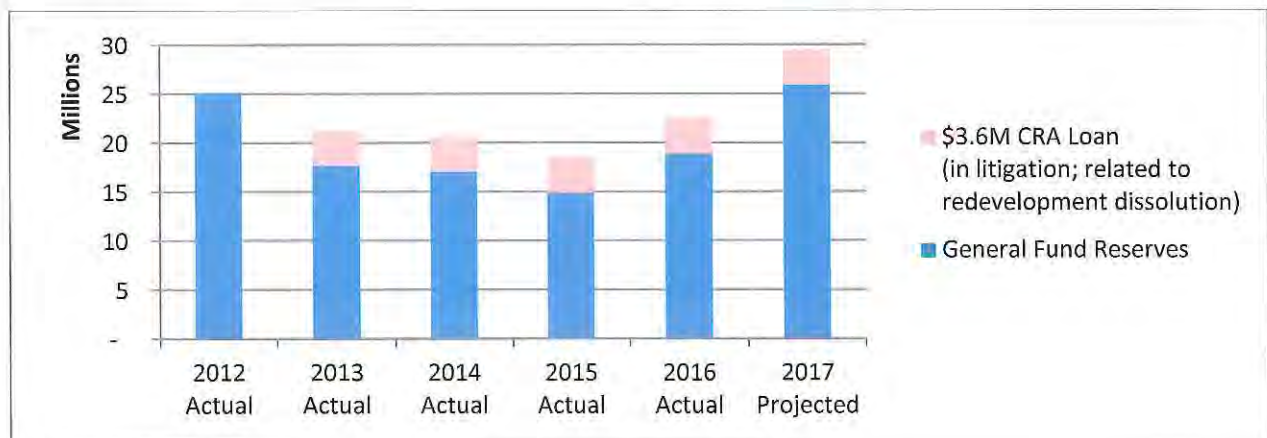
prescription care for its residents directly impacted by the dust, emissions, noise and other pollution from such operations. Irwindale further aggressively pursued redevelopment projects to transform unproductive land to beneficial uses, including the award-winning 2.2 million square foot Irwindale Business Center, a former mining operation turned commercial and industrial complex. Moreover, Irwindale purchased former mining quarries, which has allowed it to yield both one-time sales revenues as well as mining taxes and royalties for the next 20 years. These prudent actions allowed Irwindale to operate during the Great Recession, without interruption to resident services, cutting resident programs or benefits, laying off any of its labor force, or allowing its infrastructure to deteriorate.

Curiously, the Report not only fails to recognize Irwindale for such innovative, prudent, well-planned actions, but instead criticizes Irwindale for not doing more and not having a long term financial plan. Certainly, the actions that protected the City from having to implement drastic cuts following the Great Recession seem to be a far more valuable investment of City resources than the creation of a plan, as if such plan would prove to be a panacea in avoiding the unprecedented impacts on Irwindale (along with other municipalities nation-wide) during the Great Recession. The CSA is no doubt aware that, unlike Irwindale, many other municipalities had to implement drastic cuts, layoffs, bankruptcy protection and other measures with devastating effects on the lives of those impacted.

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Irwindale recognizes that it faced several years of deficits in its general fund operations, beginning immediately after the Great Recession. However, and despite those deficit years, Irwindale still enjoys a \$18.9 million General Fund Reserve, representing 97% of the annual operating expenses for Fiscal Year 2015-16. We suspect many cities would be envious of Irwindale’s ability to achieve this result, while avoiding any painful cuts to resident services or staffing. Furthermore, in the current Fiscal Year 2016-17, the City has already finalized transactions which will realize one-time financial gains of \$7 million, effectively increasing its General Fund Reserves to \$25.9 million and surpassing its pre-recession levels. See the chart below showing these projected General Fund Reserves, which presents a vast contrast to the dire picture portrayed in Figure 5 of the Report:

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Recommendation No. 2.

- ⑩ The Report irresponsibly suggests Irwindale is overly generous to its employees in the following recommendation:

“Considering the city’s retirement benefits are more generous than those of most comparable cities, and in light of its financial situation, the city should reduce its employee benefits costs by negotiating with employee bargaining groups and key management employees.”

- ⑪ In the abstract, this recommendation would seem reasonable if it were not that Irwindale currently pays salaries that are in the lower range of comparable cities, as the Report recognizes (*See Report, at Table 4, entitled “City of Irwindale’s Salaries for Key Management Rank Mostly in the Middle to Low Ranges Among the Generally High Salaries for Comparable Cities’ Management Positions, Calendar Year 2015”*). The Report should be more balanced in making a **total** comparison of employee compensation. Certainly, the City should be able to offer competitive benefits to offset these lower salaries so that overall compensation to its employees remains sufficient to retain and attract experienced personnel. The failure of the Report to acknowledge this should make readers suspicious of the Report’s genuineness and value.
- ⑫

Irwindale further questions the Report’s conclusion that its employee benefits are generous. Such a statement must be made in terms of benefits relative to surrounding cities. For example, the Report criticizes the City’s payment of an in-lieu fee of \$309 to employees who opt out of medical benefits, which in-lieu fee represents one-half of the average monthly cost of single-employee medical insurance. However, *the Report then compares these payments to those paid by the State* to its employees. A more candid comparison should be to that of comparable cities. That comparison, to the contrary, confirms that Irwindale actually pays in-lieu benefits at the lowest range of comparable cities. In fact, *Irwindale’s in-lieu medical cash benefit is the second-to-lowest out of 13 nearby cities*, as demonstrated in the table below.

⑬ Again, the Report’s misleading and dishonest comparisons put in question its overall value.

City of Irwindale’s Cash In Lieu of Health Benefits Was Low Compared to Other Cities

CITY	CASH IN LIEU BENEFIT	RANK
Irwindale	\$309	12
Azusa	\$823*	7
Baldwin Park	\$1,325*	2
Claremont	\$1,154*	6
Covina	\$483*	9
Glendora	\$1,275*	3
Monrovia	\$448*	10
San Gabriel	\$1,568	1
Diamond Bar	\$1,235*	4
Duarte	\$406*	11
Montclair	Not Available	-
San Fernando	\$769*	8
South El Monte	\$100	13
Arcadia	\$1,226*	5

Sources: Other cities’ most current, publicly available management employment agreements; other cities’ most current benefit data available on cities website

Note: Some data in table may not be current as it is based on the most recent publicly available information for each City

*Average amount as cash in lieu varies by classification and/or hire date

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Moreover, the Report criticizes Irwindale for failing to reign in retirement expenditures for its work force. It takes issue with Irwindale's payment of a California Public Employee's Retirement System ("CalPERS") pension of 2% at age 55 and a Retirement Enhancement Plan supplement from Public Agency Retirement Services ("PARS") of 1% at age 55, for a 3% total pension at age 55. The Report acknowledges that the PARS is only available for those hired before January 1, 2013. What the Report fails to acknowledge, despite the repeated efforts of Irwindale staff and City Attorney to point out, is that the Irwindale City Council proactively eliminated the PARS benefit. Instead, it argues that Irwindale only did so when facing State legislation to eliminate this benefit. This is simply disingenuous. Even before the introduction of the California Public Employees' Pension Reform Act of 2013 ("PEPRA") in 2011, and by July 1, 2010, following lengthy employee negotiations, Irwindale employees were required to begin contributing toward this benefit. New employees hired after July 1, 2010, were required to contribute 50% toward this benefit.

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As for the PERS contributions, the Irwindale City Council negotiated and implemented the following costs savings: All new employees hired after July 1, 2010 were required to pay the full employee contribution. Additionally, effective November, 2010 current employees were required to pay 1% of employee contribution, by July 1, 2011, that increased to 2% of employee contribution, by July 1, 2014, that again increased to 4% of employee contribution and finally, by July 1, 2015 current employees pay the full 7% of employee contribution. This demonstrates the Irwindale City Council's initiative in aggressively reigning in these retirement benefits. The Report should acknowledge rather than criticize Irwindale in this regard.

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Recommendation No. 3.

The Report attempts to sound alarm bells by suggesting Irwindale will somehow deplete its reserves in paying employee leave balances in the following recommendation:

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"To ensure it does not deplete its reserves to reduce long-term liabilities, the city should annually determine whether it has sufficient funding to cash out employee leave balances. Additionally, in future labor negotiations, the city should explore the possibility of eliminating or reducing voluntary leave balance cash outs by employees, and eliminate sick leave cash outs altogether."

Irwindale does not take issue with any suggestion that the City Council should continue to negotiate with its employee associations with the City's budget in mind. To this end, the Council habitually reviews its reserves and encourages cash outs so that leave balances do not grow to be too large and cashed out at higher amounts in future years when employee salaries grow over time. This further reduces the City's future long-term liabilities.

Additionally, the Report fails to mention that cash-outs of sick leave time has become a common negotiated benefit amongst cities. In fact, 9 out of the 13 cities surveyed by the CSA itself provide for sick leave cash out payments. In 2009, the City Council further restricted the maximum amount of hours that can be cashed out in any given fiscal year to 100 hours total.

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Sick leave hours are not cashed out at 100%, rather the employees can cash out sick leave at the following percentage of their basic rate of pay:

25%	over 100 days
50%	61-100 days
75%	1st 60 days

- ② This demonstrates that Irwindale is implementing appropriate restrictions and follows practices common to the majority of the cities surveyed by the CSA. Why the CSA fails to disclose that this is a common benefit paid to municipal employees remains a mystery. The Report should instead be objective and hold Irwindale to the same standards as other cities, especially the very ones the CSA surveyed.

Recommendation No. 4.

As to Irwindale's resident benefit program, the Report recommends that:

“To reduce the cost of its prescription drug benefit program, the city should enact limits on the number or dollar amount of prescriptions an individual can receive each year.”

- ③ Irwindale accepts this recommendation and notes that the Report acknowledges the City Council has made significant strides at reducing the resident benefit program costs as recently as this year. The Report correctly explains that the Irwindale City Council hired a consultant in August 2014 to review the program and propose cost-reducing measures to extend the life of the program. That effort resulted in an approximately 10% annual savings in the program.

- ④ The Report nevertheless criticizes Irwindale for providing its residents with generous prescription care benefits and suggests it should implement a generic benefit discount program, such as the one provided through the California League of Cities and available to all cities in the State. This policy opinion ignores impacts Irwindale residents endured from the effects of mining, beginning before its incorporation and for over a century. Those very mining operations were the source of the vast majority of crushed rock and gravel used to develop Los Angeles County's freeways and other thoroughfares. While Los Angeles benefitted from the mining activities, Irwindale residents did not. They experienced only the negative health benefits of hosting the dust, pollution and noise attendant with such mining operations.

- ③ The decision to repay its residents with more than generic benefits available to anyone in California is not within the objectives assigned to CSA, nor is its role to second guess the policy makers of Irwindale or question whether Irwindale can produce reports directly linking such mining operations to health impacts of its residents. The catch all objective of the Report to “Review and assess any other issues that are significant to the audit” should not be used as a ruse by the CSA to delve into matters of policy entrusted to the Irwindale City Council, especially given the City's Charter recognizing the ongoing effects of mining to its residents. Indeed, if Irwindale spent that money to bolster other programs for its residents, such as improved recreational facilities, an enhanced library or other services or programs the CSA values as more

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traditional for a municipality, there would not be such criticism. However, this policy decision is not one for the CSA to make, let alone espouse its opinion. (24)

Despite the Report's criticism, the Irwindale City Council remains committed to continuing its efforts to further reduce the costs of its resident benefit program. Irwindale staff remains vigilant in reviewing options for the program to be more cost effective, without compromising Irwindale's mission of repaying its residents for the years of exposure to the effects of mining. (23)

Recommendation No. 5.

The Report takes issue with the City's distribution of overtime pay to its officers in the following recommendation:

"To promote public safety and equity among police officers, the city should implement a rotational order for scheduled overtime pay to prevent some officers from working excessive shifts."

The body of the Report goes further to criticize Irwindale for not hiring more police officers to reduce the cost of overtime pay. Irwindale generally accepts the recommendation that it try to reduce the cost of overtime pay to its police personnel. However, the Report ignores some key facts. (25)

First, as the response from Irwindale's Finance Director enclosed herewith as Exhibit B demonstrates, the majority of police overtime is attributed to multiple police officers being out on medical leave. To control spending, Irwindale has not hired additional officers to cover these leaves due to a hiring freeze, a measure imposed by the City Council to address the City's deficit spending. Although several officers may be out on medical leave at any given time, they must legally remain on the City's payroll. If the City hired additional officers to cover temporary leaves, it would then be overstaffed and extremely over budget. (11)

The majority of the officer vacancies leading to overtime pay expenditures is due to approximately 5 vacancies that were filled in the last 2 years, for which new recruits had to undergo a 3 month training process. Although the Irwindale Police Department does not often experience vacancies, when they occur, the recruitment process, background checks, and 3 month training, takes several months before a new officer can be fully utilized on the force. This vacancy time also needs to be covered by overtime in addition to the officers out on medical leave.

A cost analysis performed by the City confirms that paying overtime is significantly more cost effective than hiring additional officers. This analysis compares the fully-burdened cost of an officer on the force, which includes all compensation and benefits costs against the overtime rate. The analysis demonstrates that paying the overtime rate would cost significantly less than the fully-burdened cost of hiring a new officer. For example, the fully burdened cost of a newly-hired officer at a lower salary step is \$61.08 per hour. The overtime pay for an officer at the same salary step is \$51.45 per hour. The overtime rate is paid at "time and a half" and is derived (25)

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based on the officer's hourly wage, plus additional factors, including certificates, special assignment pay, bilingual pay, etc., which vary per officer. Thus, the fully-burdened hourly rate of a full-time officer, even a newly hired officer, is about 19% higher than the overtime rate of an existing officer at the same salary range.

②6 Additionally, the overtime shifts and maximum allowable work hours were created through negotiations between the City and Irwindale Police Officers Association and are reflected in an approved memorandum of understanding between the parties. They are based on a policy created to maintain officer safety levels and wellness per the Lexipol policy and procedure manual, which is adopted by 1,400 agencies, representing 81,000 law enforcement and fire personnel nationwide. As such, the overtime hours worked do not exceed the amounts that have been studied and fully vetted as being within safe levels. Thus, the Report's conclusion to the contrary, and that these shifts are "excessive," is unsupported.

Recommendation No. 6.

The Report then takes issue with the City's purchasing policy exempting professional services from strict bidding requirements stating:

"To help ensure it receives the best value for contracts it exempts from competitive bidding, the city should revise its purchasing policy to require its staff to document in the contract file evidence that the price is fair and reasonable."

②7 The practice of exempting professional services from the bidding requirements aimed at awarding bids to the lowest-responsible bidder is based on the need to assure the City secures professionals with appropriate qualifications. Further, ***there is no evidence whatsoever provided by the Report that Irwindale pays anything other than competitive rates in its award of bids.*** As Irwindale staff has explained to the CSA repeatedly, purchasing policies such as Irwindale's exempting professional services are adopted by the majority of public agencies in California and for good reason. Irwindale, for example, must hire engineering firms with demonstrated expertise to oversee the appropriate method to reclaim former mining quarries, which are often hundreds of feet deep, and convert them to productive end uses. Few firms have this expertise and, as such, considerations other than price are tantamount.

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②7 Nevertheless, despite the need to find experienced professionals to best advise the City, the City still negotiates with successful bidders to assure the applicable compensation is equal to that of the low bidder. Irwindale staff has provided the CSA with this explanation in the context of the geologic engineering contract services that the Report criticizes. (See Exhibit C) The CSA refused to acknowledge this response in its Report. The City will nevertheless consider revisions to its Purchasing Policy to reflect the practice described in Exhibit C; namely that the responsible staff member securing proposals for professional services be required to negotiate a fair price with the selected firm, which price can be based on any lower cost proposals received, survey of the market for such services or other applicable pricing structures.

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Recommendation No. 7.

The Report makes the following recommendation as to the Irwindale Housing Authority's low-income housing programs:

“The Housing Authority should consider options to provide low-income housing opportunities to more people. Additionally, if the Housing Authority intends to continue providing low-income housing opportunities in the future, the city should examine the available funding mechanisms available to continue providing low-income housing before it exhausts its Housing Authority fund balance.”

As discussed below, Irwindale takes issue with the first statement in this recommendation insofar as the Report criticizes Irwindale's decision to give long-term residents - who are able to qualify for a loan under its First Time Homebuyer Programs - greater priority in purchasing low-income housing produced using Housing Authority funding. Insofar as this recommendation suggests that Irwindale is not doing enough to create more opportunities for low-income housing programs, Irwindale has continuously developed low-income housing in such large numbers so as to allow it to meet or exceed its State-mandated Regional Housing Needs Assessment (“RHNA”) for all income levels, ranging from extremely low to moderate income – an accomplishment most jurisdictions in California cannot claim. As explained to CSA staff by the City Attorney and is demonstrated in various closed session agendas, the Housing Authority tries to purchase any available land for development or existing homes to rehabilitate using Housing Funds whenever Housing Authority staff learns of the availability of residential properties for sale.

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The second part of this recommendation, suggesting the Housing Authority preserve its funding is well taken, with some caveats. Namely, given Irwindale's prudent investments of its Housing Fund, Irwindale has sufficient funding to continue to offer low income housing programs for approximately 20 more years, as the report acknowledges. We suspect few housing authorities in the State are so well situated to continue to provide for the needs of its low-income families, let alone meet or exceed its RHNA allocation through its own efforts and funding.

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Recommendation No. 8.

The Report then again delves into policy issues entrusted solely to the Irwindale Housing Authority Board:

“To ensure that all residents have an equal chance to participate in the housing authority's housing programs, the city should remove the long-term residency priorities from any future housing programs.”

It is unfortunate the CSA finds the need to interject itself into how Irwindale should structure its housing programs, a policy decision that is completely outside the stated mission of the CSA. Since the Report finds no violation of law, there is no other explanation for the CSA expressing opinions in this regard.

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③② The Report suggests that State law is not a good practice for Irwindale to follow by recommending Irwindale follow federal law in implementing its housing programs. Federal law, it argues, does not allow preferential treatment to area residents. The CSA should perhaps take this issue up with the State legislature rather than suggest that State law is not a best practice. Indeed, there is nothing nefarious in granting residents priority in receiving municipal services and benefits, as has been confirmed by the United States Supreme Court, California Courts of Appeal and California Attorney General Opinions.¹

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③④ Throughout Irwindale's history of providing low-income housing programs, there has never been a single claim that Irwindale's policy of prioritizing its residents, regardless of the length of residency imposed by its Housing Authority, somehow discriminates on the basis of race, religion, or other protected class. Any long-term resident of Irwindale, regardless of such protected class, will receive the first priority in securing a subsidized home. Shorter-term residents, again regardless of their membership in any protected class, will receive the next priority. If the interested residents are unable to ultimately qualify for a loan to purchase the home, non-residents have opportunities to purchase a home, as has been the case in virtually every housing program developed by the Irwindale Housing Authority. In the Olson First Time Homebuyer Program, for example, over 12% of the successful applicants were non-residents.

Irwindale does not take issue with the remaining three recommendations that it update its expense reimbursement policy, implement a fraud policy and implement a debt management policy. Indeed, Irwindale City Council will consider adopting a fraud policy at its regular Council meeting of November 9, 2016. Staff is working with its City Attorney to update its expense reimbursement policy and develop a debt management policy, and anticipates presenting these to the City Council before the end of the present fiscal year.

③③ ¹ A representative sampling of such cases are:

Califano v. Torres, (1978) 435 U.S. 1, 5, where various old age and disability benefits under the Supplemental Security Income Act were payable only while the claimant resided in one of the 50 states or the District of Columbia. In response to an Equal Protection challenge, the court concluded that laws providing for governmental payments of monetary benefits are entitled to a strong presumption of constitutionality. "So long as its judgments are rational, and not invidious, the legislature's efforts to tackle the problems of the poor and the needy are not subject to a constitutional straitjacket."

McClain v. City of South Pasadena, (1957) 155 Cal.App.2d 423, where the court upheld a municipal regulation restricting use of a public pool to residents of the city. The court there explained that such a distinction is reasonable where (1) the pool is maintained with the use of city taxpayer funds, (2) the pool is of such size and capacity that there was a need to assure the orderly use of the pool for maximum usefulness during the high season, and (3) the regulation excludes all nonresidents regardless of race, color or creed or similar illegal bases.

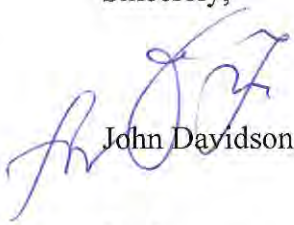
41 Ops. Cal. Atty. Gen. 39 (1963), where the California Attorney General's Office upheld a city's rule prohibiting access to some portions of its beaches in front of private residences. The Attorney General explained that so long as the larger beaches and areas at the end of public streets are kept open, the public was provided adequate alternative access to the beaches and ocean. As such, it was reasonable to prohibit the use of beaches in front of private residences or to charge non-residents a fee to use same.

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Conclusion:

We hope this response is accepted by the CSA and produces appropriate changes in the Report. Irwindale remains open and willing to further discuss the Report and corrections pointed out in this response. Please feel free to contact the undersigned should you wish to discuss this further.

Sincerely,



John Davidson, City Manager

Enclosures

cc: Irwindale City Council

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COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CITY OF IRWINDALE

To provide clarity and perspective, we are commenting on the city of Irwindale's (Irwindale) response to the audit. The numbers below correspond to the numbers we have placed in the margin of Irwindale's response.

Subsequent to sending Irwindale the draft copy of our report, we had two lengthy conference calls with city officials during which we agreed to make certain changes to our report to add their perspective on certain issues. Unfortunately, notwithstanding our efforts to address the city's concerns, it has chosen to repeat these concerns in its response.

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We conducted this audit according to generally accepted government auditing standards and the California State Auditor's thorough quality control process. In following audit standards, we are required to obtain sufficient and appropriate evidence to support our conclusions and recommendations. Thus, we stand behind our conclusions and recommendations, which are based on clear and convincing evidence.

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We are troubled by Irwindale's suggestion that the decisions of its city council are somehow not to be questioned and beyond the scope of this audit. On the contrary, we believe the purposes for which Irwindale uses taxpayer funds, whether from residents or businesses, require diligent scrutiny. In fact, Irwindale's spending priorities were of such concern to the Joint Legislative Audit Committee (Audit Committee) that it directed us to address three separate audit objectives—audit objectives 4, 5, and 6 shown in Table 1 on page 15—that required us to examine Irwindale's spending practices.

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We follow generally accepted government auditing standards in conducting our work. In following audit standards, we are required to obtain sufficient and appropriate evidence to support our conclusions and recommendations. As is our standard practice, we engaged in extensive research and analysis for this audit to ensure that we could present a thorough and accurate representation of the facts. Facts led us to our conclusion that Irwindale must exercise more fiscal responsibility over its spending so that it can continue to provide core services to residents. Thus we stand by the report's title, which is based on clear and convincing evidence. We are also disappointed that the city fails to recognize that our

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recommendations could lead to significant cost savings for the city. For example, if Irwindale implements our recommendation to replace its expensive prescription drug benefit program with the discount program offered by the League of California Cities, the city could save nearly \$1 million each year.

- ⑤ Our report contains more than 11 recommendations, but Irwindale did not respond to all of them. We look forward to receiving Irwindale's 60-day response, which should describe its actions to address all of our recommendations.
- ⑥ Irwindale fails to acknowledge in its response that for each of the last six fiscal years, Irwindale's city council has approved annual budgets that contained structural deficits (budgeted expenditures that exceed budgeted revenues). We do not consider this to be a "perceived" budget crisis, but rather an actual and lengthy budget crisis. As Table 3 shows on page 20, Irwindale overspent both its budgeted and actual revenue. Notwithstanding these ongoing structural deficits, the city has not developed a long-term financial plan for balancing its budget, which should include projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables. In addition, the city council did not direct the city manager to prepare a five-year financial model until the end of our audit—months after we began discussing these issues with the city.
- ⑦ Our conclusions and recommendations are based on sufficient and appropriate evidence in accordance with audit standards. Therefore, we find it perplexing that Irwindale generally accepts our recommendations and yet asserts that our report includes unfounded criticisms.
- ⑧ As is our standard practice, we provided Irwindale five business days to review our draft report and prepare a response. However, as is also our standard practice, we met with Irwindale representatives on multiple occasions to share our conclusions and recommendations and showed them most of the report's text at our exit conference prior to sending the city our draft report.
- ⑨ Irwindale's city council approved annual budgets that for each of the last six fiscal years contained structural deficits, which we believe was fiscally irresponsible. As a result of those deficits, the city has had to rely on its general fund reserves, which have declined significantly. As we describe on pages 19 and 20 of our report, if the city continues to use its general fund reserves to finance its deficits, it will no longer be able to use those funds for their intended purposes, such as funding its \$11.8 million outstanding liability for retiree health benefits.

As we discussed with city officials previously, we describe the one-time gains and other revenue that the city realized in fiscal year 2015–16 and 2016–17 on pages 21 and 22 of our report. In addition, we included the finance director’s assertion that the city’s general fund reserves will increase by \$4 million by the end of fiscal year 2015–16. Nevertheless, the city has not developed a long-term financial plan that describes how it will use these one-time gains and revenue to fund its ongoing expenses and eliminate future structural deficits.

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The exhibits referenced in the city’s response are available upon request from the California State Auditor.

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Irwindale is mistaken in its assertion that we did not acknowledge its recent positive operating revenues. As we discussed with city officials previously, we describe the one-time gains and other revenue that the city realized in fiscal year 2015–16 and 2016–17 on pages 21 and 22 of our report. We also note on page 22 that the \$1.8 million in new mining revenue helped to cover the nearly \$1 million gap between fiscal year 2015–16 revenue and expenditures. In addition, we included the finance director’s assertion that the city’s general fund reserves will increase by \$4 million by the end of fiscal year 2015–16. Nevertheless, the city has not developed a long-term financial plan that describes how it will use these one-time gains and revenue to fund its ongoing expenses and eliminate future structural deficits.

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Our report contains numerous findings that support our overall conclusion that Irwindale should exercise more fiscal responsibility over its spending so that it can continue to provide core services to residents. Further, our findings are not “general statements applicable to any municipality in the state” as the city contends. For example, it is highly doubtful that all other municipalities in the state carry budget deficits for years without creating any kind of a long-term plan for balancing such budgets. We are also disappointed that the city fails to recognize that our recommendations could lead to significant cost savings for the city. For example, if Irwindale implements our recommendation to replace its expensive prescription drug benefit program with the discount program offered by the League of California Cities, the city could save nearly \$1 million each year.

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We are troubled that city officials do not see the obvious benefit in developing a long-term financial plan for balancing Irwindale’s budget. Irwindale’s city council approved annual budgets for each of the last six fiscal years, that contained structural deficits, which we believe was fiscally irresponsible. As a result of not taking appropriate actions to balance its budgets, the city has had to rely on its general fund reserves, which have declined significantly.

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As we describe on pages 20 and 21 of our report, if the city continues to use its general fund reserves to finance its deficits, it will no longer be able to use those funds for their intended purposes, such as funding its \$11.8 million outstanding liability for retiree health benefits.

- ⑮ We are confused as to why Irwindale would suggest that this information is in vast contrast to the information presented in our report. Specifically, the city's general fund reserves, as shown in its response for fiscal years 2011–12 through 2014–15, mirror the amounts shown in Figure 5 of our report on page 21. In addition, on page 22 of our report, we include the finance director's assertion that the city's reserves will increase by \$4 million in fiscal year 2015–16, which equates to approximately \$18.9 million. We did not provide information in our report on the level of reserves for fiscal year 2016–17, because the year is far from complete, and the amount shown in the city's response is a projection.
- ⑯ As we state on page 27, Irwindale provides key management and all full-time staff with pensions that are more generous than any of the other comparable cities.
- ⑰ Irwindale misconstrues our point. Table 4 on pages 24 and 25 shows that, while many of Irwindale's salaries for its key management positions are in the middle to low range, the city is similarly in the middle to low range of comparable cities in terms of expenditures, population, and size. Thus, Irwindale's salaries are competitive with comparable cities. We make no recommendations related to Irwindale's salaries, but rather find that Irwindale's pension benefits are high compared to other cities. In particular, as shown in Table 5 on pages 28 and 29 of the report, most of Irwindale's full-time employees are eligible to receive a pension of 3 percent for each year of service at age 55. This is the highest pension benefit among all the cities shown in Table 5.
- ⑱ Irwindale's comment that our report contains misleading and dishonest comparisons is entirely unfounded. We discuss Irwindale's "cash in-lieu of health benefits" payment because the Audit Committee asked us to examine all employee benefits. Although we point out in our report that the city's payment is higher than what the State offers its employees in similar circumstances, we did not make any recommendations that the city change this small benefit. Rather, we focused on the more significant benefits that the city offers its employees, such as the pension benefits that are the highest of those offered by comparable cities.

- ⑲ Irwindale’s assertion that it proactively eliminated the PARS benefit is inaccurate. As we explain on page 27 of our report, the city required employees hired before January 1, 2011 to contribute 0.4 percent of their salaries toward this benefit and those hired on or after January 1, 2011 and before January 1, 2013 to contribute 7.485 percent of their salaries (the full employee share of the total contribution). The Public Employees’ Pension Reform Act of 2013 prohibits employees hired after January 1, 2013 from participating in PARS. Finally, Irwindale fails to mention in its response that the majority of its employees—52 of 76— were hired before January 1, 2011 and thus continue to receive the generous PARS benefit while only contributing to a very small portion of the cost of this benefit.
- ⑳ Contrary to Irwindale’s assertion, in Table 5 on pages 28 and 29 of our report and in the text on page 27 we acknowledge that as of July 2015 the city requires all employees to pay the entire employee portion of the CalPERS required contribution.
- ㉑ As we state on page 29, as a sound financial practice, we would expect that voluntary leave cash-outs would be contingent upon the city having available cash. Instead, from fiscal year 2011–12 through 2015–16, the city paid more than \$1.5 million in leave cash-outs while budgeting for deficits in each of those years that ranged from nearly \$1 million to as high as \$3.9 million.
- ㉒ Regardless of whether other cities provide this benefit, Irwindale has faced continued budget deficits, as Table 3 on page 20 shows. As a sound financial practice, we would expect Irwindale to make voluntary leave cash-outs contingent upon the city having available cash.
- ㉓ Irwindale overstates its efforts to reduce costs. In fact, on pages 32 and 33 we explain that the city has been reluctant to implement changes to its prescription drug benefit program. Specifically, we note that the city council rescinded increases it had previously made to the copayment requirement and rejected the consultant’s more significant recommendations to increase the copayment for all participants to \$10 and to implement a coordination of benefits that would make Irwindale’s program a secondary payer to residents’ private health insurance.
- ㉔ We are puzzled by Irwindale’s vehement defense of its prescription drug program. It would be irresponsible for us not to call attention to a program for which the city spends nearly \$1 million each year, and that disproportionately benefits a very small segment of its population, as we explain on page 31. Additionally, as we state on pages 32 and 33, the city has neither adequately demonstrated the need for the program nor made sure it is cost-effective. Finally, as

we describe on page 33, there is a cost-free alternative program offered by the League of California Cities that Irwindale could put in place. Thus, we believe it is an issue appropriate to the objectives of the audit.

- ②⑤ Irwindale mischaracterizes our conclusion. We do not criticize the city for not hiring more police officers. Instead, as we state on page 36, the city has not performed an adequate analysis to determine whether the police overtime is cost-effective or whether police department staffing levels are appropriate for addressing its policing needs. Further, Irwindale did not address our recommendation that it evaluate the possibility of contracting with the Los Angeles County Sheriff's Department for police services, which would reduce costs by an estimated \$1.8 million and increase sworn law enforcement personnel by 11 percent. Additionally, Irwindale did not provide us the cost analysis it refers to in its response; it only provided the analysis we describe on page 36.
- ②⑥ As we state on page 35 of our report, the police department policy does not address the effect of consecutive weeks of overtime, and on page 34 we discuss how the city's own police chief at the time expressed concern about the overtime being unsafe. It is surprising to us that the city would ignore the concerns of its police chief and instead continue to allow five individuals to perform the bulk of the overtime. Finally, Irwindale provided no evidence to support its assertion that the overtime hours worked do not exceed the amounts indicated in the Lexipol policy.
- ②⑦ Irwindale could provide no evidence that it performed a price analysis to ensure it received fair and reasonable prices for the 11 contracts we refer to in the last paragraph on page 38. Irwindale's contention that the lack of evidence showing prices were not competitive somehow ensures they were competitive is illogical. Further, as we explain on page 38 of our report, the city did not perform a price analysis to ensure it obtained a fair price when it renewed this contract for geologic engineering services in 2013.
- ②⑧ Irwindale misunderstands our critique. We do not criticize the Housing Authority's decision to give a preference to residents over non-residents; however, we do take issue with the Housing Authority giving preferences to residents based on how long they have lived in Irwindale. The durational residency preferences that the city has established are arbitrary and forbidden by the federal government under its programs. The city has not established a compelling reason for giving preferences to some residents over other residents and non-residents based on three and fifteen-year residency thresholds.

Irwindale misses our point. As we state on page 42, the city spent nearly \$1 million dollars in its Mayans program to provide forgivable housing loans to three individuals. Given its limited funding, we believe the Housing Authority should consider options to provide opportunities to more people. During our fieldwork, we reviewed housing programs in other cities and could find none that provided anything close to the amount of funds Irwindale does—many offer loans of less than \$80,000 dollars per household.

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Irwindale misinterprets our statement. We do not acknowledge that the Housing Authority has sufficient funding to continue its housing programs for 20 more years. Instead, as we state on page 44, the Housing Authority's fund balance will decrease 39 percent over the next 20 years as a result of it forgiving its housing loans, thereby limiting its ability to carry out future housing projects. Although the loans will not be completely forgiven until then, the Housing Authority has already loaned the funds and thus can no longer use them unless the homeowner breaches the agreement and Irwindale recovers the funds.

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We are troubled by Irwindale's assertion that the decisions of the Irwindale Housing Authority are somehow not subject to the audit's objectives. On the contrary, we believe that the purposes for which the Housing Authority uses taxpayer funds require diligent scrutiny, which extends beyond just determining whether there were any violations of law. In fact, housing was of such concern to the Audit Committee that it directed us to address a specific audit objective—Objective 10 shown in Table 1 on page 16—that required us to examine Irwindale's ownership of residential property, including rental practices and property sale practices.

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Irwindale grossly mischaracterizes our report by asserting that somehow our recommendation that the city remove the long-term residency priorities from any future housing programs suggests that state law is not a good practice for Irwindale to follow. Nor do we state or imply that Irwindale's housing program is nefarious. On numerous occasions the U.S. Supreme Court has invalidated durational residency preferences or requirements in connection with public benefits on constitutional grounds. The California Supreme Court has cited these cases and incorporated their principles. Our recommendation that Irwindale remove the long-term residency preferences from any future housing programs as a best practice is a means for the city to avoid the risk of litigation and help to ensure equal opportunity in its housing programs.

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- ③③ The antiquated cases and attorney general opinion that Irwindale cites in its response are simply not on point because they do not address durational residency preferences—where the preferences are based on how long a person has lived in the jurisdiction—which is what we questioned.
- ③④ We are mystified by Irwindale’s argument. The city’s assertion that no claims of discrimination have been made in the past is not a justification for not taking steps to help ensure equal opportunity in its housing programs.