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Costly Capitola — 1990 errors plague Capitola

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CAPITOLA — A pattern of errors and undocumented accounting transactions may indicate a lack of oversight or even an intentional falsification of city records involving a troubled 1986 bond deal, according to an accountant recently hired by Capitola.

The probe has revealed more than \$2 million in improprieties during a five-year period ending last year, reports Richard Standridge, who has delved into city books in an attempt to retrace steps taken in the bond project.

Meanwhile, Capitola has begun to feel the fallout from the troubles as it cuts about \$200,000 from its budget between now and the end of June.

City leaders said they will drop plans to spend \$33,000 on restoring the Rispin Mansion gardens, \$50,000 to purchase new vehicles and \$40,000 on renovation projects related to the Americans with Disabilities Act. They also will freeze several smaller accounts for travel and training this fiscal year.

The city, which in the past has prided itself on its sound finances, is forced to change the spending plans because it will not receive about \$200,000 from the Capitola Redevelopment Agency as expected, said City Manager Susan Westman.

Officials are also left with the reality that significant and costly errors were made in past years, according to Standridge's early findings.

An extensive audit revealed a number of serious problems with a \$10.2 million bond deal from 1986. The result is the city will likely owe the Redevelopment Agency between \$500,000 and \$1 million, officials estimated this week.

While the city is making cuts for this fiscal year ending in June, greater service reductions may take place next fiscal year.

Mayor Margaret Fabrizio warned residents of the possibility of cuts last week in a state of the city address. That same night, the city hired the law firm McDonough, Holland and Allen to work on legal issues related to the debt.

The bond money was supposed to pay off two earlier debts as well as pay for about \$4.8 million in new projects, including several by the Redevelopment Agency, a separate branch of city government which works to stimulate economic growth in the 41st Avenue area. The City Council sits as the agency's board of directors.

In January, Capitola officials reported that the city misspent more than \$2 million in funds from the deal, including \$1.45 million to buy property at Wharf Road and Clares Street, \$700,000 to acquire the Monterey Avenue park site and about \$266,000 to pay other debts.

These projects were not among those listed in 1986 when Capitola issued its certificates of participa-

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tion, a form of bond financing. At the same time, \$2 million in projects that should have been completed under the agreement were not.

Standridge has found numerous other problems with the project.

A pattern emerged where the agency underestimated revenues while overstating its costs, he reported this week.

An examination of records between 1989-90 and 1993-94 "revealed numerous errors, undocumented accounting transactions, and unsubstantiated charges to the agency. For that five-year period, more than \$2 million of such improprieties exist," he wrote in a memo to Westman.

"Erroneous transactions included significant annual allocations (ranging from 25 to 35 percent) of the salaries, benefits and automobile allowances of various city management personnel to the agency," the report continued. Standridge said no time records exist to verify the expenses.

In addition to salary costs being undocumented, they are "disproportionate to any reasonable effort which might have been expended on agency business," he wrote.

The problems, he said, may indicate one or more of the following, "lack of oversight; intentional falsification of accounting records, ineptness of responsible staff, conscious disregard for legal and contractual requirements; disregard or ignorance of reasonable, appropriate accounting principles, standards and procedures."

The city was simply charging the agency a flat amount, for example 15 percent of an employee's salary, if he or she also worked on redevelopment business, explained Westman, who replaced longtime city manager Steve Burrell last year.

The percentages might not necessarily be wrong, but there is no

documentation to validate them, she said.

The accountant's report goes to the City Council on Thursday.

Westman and others acknowledge that records were not kept as they should have been.

Officials, however, have been careful not to point the finger at anyone as they sort through the troubles.

City staff will wait until all the reviews are completed, put them together and then take it to the City Council to decide the next step, Westman said.

Officials have been critical of Pacific Trust Co. of San Jose, which is no longer in business. The firm was required to establish separate accounts for each allowed project of the redevelopment agency, but failed to do so, according to reports.

Since his election in 1992, City Treasurer Glenn Hanna has criticized city leaders for failing to provide proper oversight of its accounts.

"None of this would have happened if the rules were followed," he said, noting the city and Redevelopment Agency should have kept separate accounts.