



CALIFORNIA STATE TREASURER JOHN CHIANG

NEWS RELEASE

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Treasurer Chiang and Senate Leader Kevin de León Announce Oversight Hearings into Bond Funds

*Chiang Also Appoints Special Task Force to Design
Guidelines to Safeguard Bond Funds*

SACRAMENTO – State Treasurer John Chiang today announced a partnership with Senate President Pro Tempore Kevin de León to conduct legislative oversight hearings to ensure that monies raised through the sale of government bonds are safe from fraud, abuse, and mismanagement. The Treasurer has also established a special task force charged with developing best practices guidelines on the fiduciary care of bond proceeds that will be issued to all State and local government issuers of debt.

Last month, close to \$1.3 million was discovered missing during a routine audit of bond funds held by the Association of Bay Area Governments (ABAG), an issuer of bonds for local governments, nonprofit organizations, and private entities in the San Francisco region. The *San Francisco Chronicle* [reported](#) that the bond money, which was earmarked for public parks and street improvements in downtown San Francisco, was allegedly embezzled by ABAG’s director of financial services.

The State Treasurer has broad responsibilities and authority in the areas of public investment and finance. In particular, he oversees the issuance of state debt and is responsible for crafting best practices for the sale of debt and the investment of public funds for California’s more than 4,000 local bond issuers including school districts, cities, counties, and special districts.

“Over the past decade alone, California and its local governments have issued more than \$700 billion in public debt,” Chiang said. “We rely on these borrowed moneys to build and maintain the critical infrastructure upon which our communities and economy depend – from schools and roads to levees and libraries. The ease in which one of ABAG’s leaders allegedly fleeced more than a million dollars in bond funds raises concerns regarding whether there are sufficient safeguards at the thousands of State and local agencies which are responsible for nearly three-quarters of a trillion bond dollars.”

The Treasurer will partner with the State Senate to conduct legislative oversight hearings to examine how state and local public agencies manage bond proceeds. The Senate leader has tapped Senator Bob Hertzberg, chairman of the Senate Committee on Governance and Finance to lead the hearings focused on identifying problems and finding solutions to avoid abuse and waste.

"The misuse of taxpayer funds by public officials is a violation of the public trust and will not be tolerated," de León said. "The Senate will engage in vigorous oversight to ensure fiscal safeguards are in place to protect public funds and prevent waste, fraud and abuse."

"These abuses of the public's trust are shocking and should serve as a wake-up call to local and state governments," said Hertzberg, D-Van Nuys. "As important, these abuses affect the confidence Californians have in their government. We will do everything we can so this doesn't happen again."

In addition, Treasurer Chiang has established the Task Force on Bond Accountability, which will be chaired by former Santa Cruz County Treasurer and Assembly Speaker Pro Tempore Fred Keeley. The Task Force will be co-chaired by Jay Goldstone who served as chairman of the Municipal Securities Rulemaking Board (MSRB) and was also the City of San Diego's first Chief Financial Officer. The MSRB is a national self-regulatory organization whose mission is to protect investors, municipal entities and the public interest by promoting a fair and efficient municipal market, regulating firms that engage in municipal securities and advisory activities, and promoting market transparency.

This multidisciplinary group will be comprised of current and former securities regulators, local treasurers, and public agency fiduciaries, along with academicians and finance industry experts. It will be charged with developing best practices guidelines for how bond proceeds should be managed in order to reduce the risk of fraud, waste, and abuse. Additionally, the Task Force will consider strategies to increase transparency and oversight of the use of bond funds.

"I look forward to working with the Treasurer and members of the task force," Keeley said. "I will work hard to ensure that we provide and find the best tools to reduce fraud, waste, and abuse. The public deserves transparency and accountability, and we must use every resource available to find the best anti-fraud procedures to prevent this from happening again."

State and local agencies issue debt to finance a variety of projects and services. The proceeds of the sale of debt are generally deposited into an account to be used by the public agency for specified public purposes. The arrangement between the controlling documents, the rules governing disbursements and payments, and the roles of responsible parties, however, differ greatly among public agencies depending on the type of debt, the uses of the proceeds, and the administrative practices of the agency.

"I look forward to working with Pro Tem De León, Senator Hertzberg and the task force," Chiang said. "Public agencies commonly have procedures for the fiduciary care of other governmental funds that include internal controls to protect against the misuse and fraud. I fear, however, the management and spending of bond proceeds may employ different and sometimes less rigorous practices. These practices may in some cases expose the agency to a greater risk of fraud and abuse, which could ultimately lead to the loss of public funds."

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