



May 25, 2021

The Honorable Rudy Salas, Chairman  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, California 95814

Received  
05/25/2021

**RE: Local Government High Risk Audit Program – City of Richmond**

Dear Chairman Salas:

Government Code section 8546.10 permits the California State Auditor's Office (office) to develop a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local government agency, including a city, county, special district, or other publicly created entity, that the office identifies as being at high risk for the potential of waste, fraud, abuse, or mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. Pursuant to this provision, I am respectfully requesting the committee's approval of an audit of the city of Richmond.

Located approximately 16 miles northeast of San Francisco, Richmond has a population of more than 111,000. The city is governed by a city council composed of seven elected officials, including a mayor, which appoints a city manager who has authority to manage the administrative and fiscal operations of the city. City staff provide services including law enforcement, fire protection, street construction and maintenance, library services, storm water and municipal sewer systems, and wastewater treatment.

In November 2020, my office identified the city of Richmond (Richmond) as the 5<sup>th</sup> most fiscally challenged city in the State, primarily because it had a compromised ability to pay for employee retirement benefits and insufficient general fund reserves. We conducted an assessment in February 2021, and determined that Richmond is potentially a high-risk entity as its financial forecasts indicate a future negative general fund balance due to rising costs, including for retirement benefits. As a part of our assessment, we also reviewed Richmond's fiscal year 2019-20 audited financial statements and determined that the city remains at high risk of the same fiscal challenges as well. During our assessment, we identified concerns with the impacts of budget reductions on the city's ability to provide services to residents as well as financial and management control issues, particularly related to the Richmond Housing Authority. Thus, we believe it is necessary to perform detailed audit work to evaluate whether Richmond will be able to address these conditions.

An audit of the city of Richmond will determine whether the city has an effective plan in place to address its ongoing financial and operational deficiencies. The proposed audit will address the following questions:

1. What is the city's current financial condition and does it have the ability to meet its short-term and long-term financial obligations, while continuing to provide services to its residents.
2. What are the city's financial challenges and what efforts has the city made to improve its financial condition by increasing revenues and reducing expenses?
3. Do the city's budgeting practices comply with best practices? Has the city developed effective forecasts to assess its ability to meet its long-term financial obligations?
4. What is the city's process for setting, increasing, or decreasing fees or rates, to ensure that it complies with applicable laws, rules, ordinances, regulations, and best practices?
5. What efforts has the city made to address the deficiencies identified by its external auditor and the Department of Housing and Urban Development in their audits of the city's housing authority?

If you have any questions regarding this audit proposal, please contact me or Paul Navarro, Chief Deputy State Auditor, Operations, at (916) 445-0255.

Sincerely,



ELAINE M. HOWLE, CPA  
California State Auditor