

February 28, 2018

2017-809

Damien Arrula, City Administrator
City of Placentia
401 East Chapman Avenue
Placentia, California 92870

Dear Mr. Arrula:

Government Code section 8546.10 authorizes the California State Auditor (State Auditor) to establish a high-risk local government agency audit program (local high risk program) to identify local government agencies—including but not limited to counties, cities, and special districts—that are at high risk for the potential of waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness.

On November 28, 2017, the State Auditor informed the city of Placentia (Placentia) that it exhibited several risk factors that would warrant an initial assessment under our local high risk program. The purpose of this initial assessment was to better understand these risk factors, which included internal control weaknesses that allowed embezzlement by the former finance services manager, concerns about long-term fiscal sustainability, and significant increases in pension and other post-employment benefit (OPEB) costs. After interviewing Placentia officials and reviewing available documentation, the State Auditor has now completed the initial assessment.

As a result of our initial assessment, the State Auditor concludes that Placentia is currently taking steps to address several of the risk factors we identified and, as a result, we will not be seeking approval at this time from the Joint Legislative Audit Committee (Audit Committee) to perform an audit. However, the State Auditor requests that Placentia provide documentation by December 1, 2018, that identifies the following:

- The progress of Placentia's recovery of the remaining funds related to the embezzlement, including any reports which identify any further control issues, and the city's actions to address further internal control weaknesses identified in those reports.
- The progress Placentia has made to generate additional revenue and contain costs. Documentation the city provides should include a copy of Placentia's budget for fiscal year 2018-19, its latest audited financial statements, and updates on its progress in implementing various revenue-generating activities, including but not limited to its progress in pursuing agreements with commercial and residential developers for planned development.
- The status of Placentia's efforts to formalize a long-term plan to address its unfunded OPEB liability and its long-term financial forecast.

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February 28, 2018
Page 2

During our assessment close-out meeting on February 27, 2018, we discussed these issues and the type of relevant documentation we would expect you to provide to us to substantiate your actions. The State Auditor will continue to monitor Placentia's progress and may subsequently consider performing additional work. This work may include conducting additional assessments and requesting approval from the Audit Committee to perform an audit. Should the State Auditor plan to perform additional work, we will notify you at that time.

We greatly appreciate the cooperation provided by Placentia officials during the initial assessment. If you have any questions, please do not hesitate to contact Tammy Lozano, Audit Principal at (916) 445-0255.

Sincerely,

A handwritten signature in cursive script that reads "Elaine M. Howle".

ELAINE M. HOWLE, CPA
California State Auditor

cc: Craig Green, Mayor, City of Placentia