



Local High Risk Program

The State Auditor Is Removing Its High-Risk Designation From Four Cities and Retaining the Designation for Three Others

Background

Government Code section 8546.10(e) requires that the California State Auditor issue a report on high-risk local government entities every three years, unless we have removed them from the high-risk program. Our prior audits of the cities of Blythe, El Cerrito, Lindsay, Lynwood, Montebello, San Gabriel, and West Covina identified areas of high risk related to the cities' financial conditions, financial stability, and oversight of city contracts, among other issues.

For this audit, we evaluated these seven cities to determine the extent to which each city has addressed prior audit recommendations. We also assessed trends in the city's financial condition and determined whether we should continue to designate any of these cities as high-risk local government agencies.

Key Findings

- The cities of Blythe, El Cerrito, Lynwood, and San Gabriel have taken satisfactory corrective action and addressed key deficiencies we identified in our prior reports. Therefore, we are removing their high-risk designations.
- Although the cities of Lindsay, Montebello, and West Covina have taken steps to improve their overall financial health, we are not removing the high-risk designation from those cities at this time.
 - » The city of Lindsay has a negative general fund reserve level and deficits in key enterprise funds.
 - » The city of Montebello has continued deficit spending in its general fund.
 - » The city of West Covina's approach to addressing its general fund reserve level increases its risk for future financial instability.

Key Recommendations

- The city of Lindsay should continue to implement our prior audit recommendations: It should adopt a policy for long-range financial planning that identifies efforts the city will make to increase revenues and decrease expenditures, and it should develop a plan to build and maintain its enterprise fund balances.
- The city of Montebello should adopt a financial plan with specific strategies to reduce its expenditures and to build and maintain its revenue.
- The city of West Covina should establish a general fund reserve level that is sufficient to mitigate current and future risks.