



January 13, 2020

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

RE: Local Government High Risk Audit Program – City of Lindsay

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 Lindsay.

Lindsay is a charter city in Tulare County with a population of roughly 13,000 and is largely known for agriculture. City staff provide services to residents, such as utilities, planning and development, and recreation, including an indoor sports complex that provides sporting activities for residents. Lindsay also operates an integrated public safety department, with 14 officers who provide both police and fire protection services. The city had general fund revenue of \$7.5 million for fiscal year 2018–19, but also reported a \$4.2 million deficit in its general fund.

In October 2019, my office identified Lindsay as the fourth most fiscally challenged city in the State due to its current financial condition, financial forecast, and rising pension and post-employment benefit costs. The general fund had a positive fund balance until fiscal year 2016–17, when the city forgave loans of over \$17 million from the general fund to construct and operate the sports complex. Compounding its current general fund deficit, Lindsay also may need to repay up to \$3.3 million in grant funds that it improperly used, and it anticipates its pension and other postemployment benefit costs to at least double to \$1 million annually by fiscal year 2025–26. Lindsay has no plan to increase revenues or reduce expenditures to address its general fund deficit or these future costs.

The city council may not provide effective governance to ensure Lindsay complies with laws, regulations, and financial best practices because of insufficient training and inadequate policies and procedures. Some of Lindsay's city councilmembers told us they were not fully aware of their oversight responsibilities and did not always understand the information city management presented to them before they made decisions, such as the risk associated with forgiving money owed to restricted funds. Further, based on the previous and ongoing financial concerns, it is not clear whether key management

personnel possess the qualifications needed to administer the city efficiently and effectively. Finally, Lindsay's public safety department may be understaffed as it has only 14 officers who provide both police and fire protection services. The officers act as police officers until a fire emergency occurs, at which time they suspend their law enforcement duties to respond to the emergency, leaving the city without law enforcement.

An audit of the city of Lindsay will determine whether it has effective processes and procedures to protect city funds and assess whether it uses its funds in the best interests of its residents. The proposed audit will address the following questions:

- What is Lindsay's current financial position, and what is its ability to meet its short- and long-term financial obligations? What steps can Lindsay take to address its general fund deficit and rising pension costs?
- Are Lindsay's uses of monies from restricted funds compliant with applicable laws and best practices, and does the city have the ability to repay monies to these restricted funds?
- What efforts has Lindsay made or could it make to increase revenue and reduce expenditures, such as reviewing its rates and fees for services to ensure they are commensurate with the costs of providing those services, as required by state law?
- What steps does Lindsay take, including training of council members and requiring key management to possess minimum qualifications, to ensure effective city governance?
- What impact does Lindsay's integrated public safety model and resources have on its ability to protect its citizens?

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