



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 Calexico

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 Calexico (Calexico).

Located roughly 100 miles east of San Diego on the United States-Mexico border in southern Imperial County, Calexico has a population of approximately 40,000. Calexico operates under a City Council/City Manager form of government. Its mayor is chosen from among the five council members and rotates on an annual basis. The city manager oversees the day-to-day operations of the city that provides a number of services, including law enforcement, fire protection, recreational activities, public facilities and infrastructure, and building safety and inspection services. Calexico faces a number of challenges: its unemployment rate in 2019 was 31 percent; its per capita income is approximately \$17,000 per year—less than half the State’s average; and almost 23 percent of its residents live in poverty. In 2019 the State Controller’s Office published a report (SCO report) that identified several problems with Calexico’s financial governance and expressed concerns about its financial condition.

In November 2020, my office identified Calexico as the third most fiscally challenged city in the State because of issues with its general fund reserve balance, liquidity level, debt burden, and level of post-employment benefit funding. We conducted an assessment in February 2021 and determined that, although Calexico has made some progress, it may be a high-risk entity because it has not sufficiently increased its general fund reserves, its debt still exceeds its government-wide revenues, its most recent projections expect revenues to decrease in fiscal year 2020–21, and it does not have a corrective action plan to fund its growing other post-employment benefits (OPEB) liabilities. Unless it addresses them, these factors may endanger

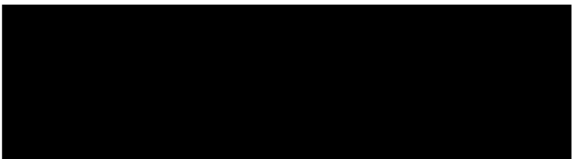
The Honorable Rudy Salas, Chairman
Joint Legislative Audit Committee
May 25, 2021
Page 2

Calexico's ability to provide essential services and make debt payments during times of fiscal distress. Thus, we believe it is necessary to perform detailed audit work to determine whether Calexico has started to address these issues and assess how it plans to do so.

An audit of the city of Calexico 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 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. How does the city allocate funds for pension and OPEB liabilities during its budget process? Based on its most recent financial projections, does the city have sufficient resources to begin addressing its past funding shortfalls for pension and OPEB liabilities?
6. What efforts has the city made to address the deficiencies identified by the State Controller's Office in 2019, and by any other relevant audits during the last five years?

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



ERINE M. HOWELL, CPA
California State Auditor