

August 24, 2017

2017-803

Daniel E. Keen, City Manager
City of Vallejo
555 Santa Clara Street, Third Floor
Vallejo, California 94590

Dear Mr. Keen:

California 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 June 14, 2017, the State Auditor informed your city 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 significant increases in pension costs, projected general fund deficits, and concerns about public safety staffing levels. The State Auditor has now completed the initial assessment after interviewing city officials and reviewing available documentation.

As a result of our initial assessment, the State Auditor concludes that the city of Vallejo 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 the city provide documentation by May 31, 2018, that identifies the following:

- The progress Vallejo has made regarding its current efforts to review and adjust its citywide fee schedule.
- The progress Vallejo has made to strengthen internal controls over contract administration and procurement as recommended by the city's recent external audit.
- An operational plan containing details on how Vallejo intends to sustainably address its projected budget deficits without relying on savings that may result from staffing vacancies. The plan, or related document, should also contain strategic approaches to confronting unanticipated fiscal challenges, such as those arising from sudden and significant revenue disruptions.

During our assessment close-out meeting on August 22, 2017, we discussed these issues and the type of relevant documentation we would expect you to provide us to substantiate your actions. The State Auditor will continue to monitor the city's progress and may subsequently consider

Daniel E. Keen, City Manager

August 24, 2017

Page 2

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 city officials during the initial assessment. If you have any questions, please do not hesitate to contact Linus Li, 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: Bob Sampayan, Mayor