

October 19, 2015

2015-806

Gary Thornhill, Interim City Manager  
City of Hemet  
445 East Florida Avenue  
Hemet, California 92543

Dear Mr. Thornhill:

The 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 July 1, 2015, the state auditor informed the city of Hemet that it exhibited certain risk factors—in particular a persistent budget deficit and high retiree medical benefit costs—that would warrant an initial assessment under our local high risk program. The purpose of the initial assessment was to better understand these risk factors and to identify the city's current and planned actions to address these issues. We provided you with a draft copy of our initial assessment on August 10, 2015.

Based on our assessment, we identified several risk factors that support our initial concerns about the city's ability to address its budget deficit. As a result, in August we recommended that the Joint Legislative Audit Committee (audit committee) approve an audit of the city of Hemet. However, as you may know, due to constraints in the legislative calendar the audit committee hearing to consider the audit proposal was cancelled. Nevertheless, the state auditor will continue to monitor the city's progress in addressing certain risk factors. Accordingly, the state auditor requests that the city provide documentation by December 31, 2015, that identifies its progress in the following areas:

- Efforts made to address the budget deficit, including progress on options for generating additional revenue.
- Actions to reduce retiree medical benefit costs.
- Reductions in the cost of providing services including any efforts to streamline or outsource city functions.
- Efforts to address turnover in city staff, including the city manager and director of community investment positions.
- Any measures taken by the city's ad hoc revenue committee to address the city's financial concerns.

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- Changes in city operations resulting from the efforts of the recently hired management consultant.
- Actions resulting from the fire department's strategic plan including any assessments of the cost of needed investments.

Upon receipt of the information requested above, we will conduct additional analyses which may include returning to Hemet. Furthermore, based on our analysis and assessment of the information provided, we may request approval from the audit committee to perform an audit of Hemet when the Legislature reconvenes in early 2016. Should the state auditor plan to perform additional work on site, 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,



ELAINE M. HOWLE, CPA  
State Auditor