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BY:

BETTY T. YEE
California State Controller

August 25, 2015

Mr. Bill Lindsay, City Manager
City of Richmond
450 Civic Center Plaza, Suite 300
Richmond, CA, 94804

Dear Mr. Lindsay:

This is to notify you that I have directed my Division of Audits to conduct an investigation of the financial practices and reporting of the City of Richmond. The investigation will be conducted pursuant to Government Code (GC) 12464(a). The basis for this investigation is as follows:

City of Richmond Financial Transactions Report for Fiscal Year (FY) 2012-13

- Total Expenditures were understated by \$52,150,470 (reported \$220,904,229; actual \$273,054,699).
- Total Revenues were understated by \$37,148,833 (reported \$227,046,158; actual \$264,194,991).
- General Fund – Total Liabilities were overstated by \$1,703,322 (reported \$8,908,053; actual \$7,204,731).
- Governmental Activities unrestricted net position had a deficit of \$117,821,846.
- Business-type Activities unrestricted net position had a deficit of \$6,282,570.
- Enterprise Fund –
 - Total Assets were understated by \$113,755,938 (reported \$143,446,817; actual \$257,202,755).
 - Total Non-Current Assets were understated by \$76,343,190 (reported \$120,650,212; actual \$196,993,402).
 - Total Cash and Investments were understated by \$35,953,202 (reported \$12,542,544; actual \$48,495,746).
 - Total Liabilities were understated by \$101,820,110 (reported \$82,062,072; actual \$183,882,182).
 - Total Net Position was understated by \$18,495,388 (reported \$61,384,745; actual \$79,880,133).
 - Total Fixed Assets were understated by \$76,343,190 (reported \$108,678,781; actual \$185,021,971).
- Municipal Sewer Enterprise Fund was not included in the report.
- The city did not report the discontinuation of the Richmond Housing Authority Properties Operations.

City of Richmond Financial Transaction Report for FY 2013-14

- The city did not report the restatement of certain balances related to property held for resale, cash and investments, capital assets, deposits payable, and pensions.
- The city did not report the discontinuation of the Richmond Housing Authority Properties Operations.
- Governmental Activities unrestricted net position had a deficit of \$148,961,106.
- Business-type Activities unrestricted net position had a deficit of \$3,096,845.
- Total Expenditures were understated by \$65,706,189 (reported \$216,287,858; actual \$281,994,047).
- Total Revenues were understated by \$45,432,262 (reported \$215,764,903; actual \$261,197,165).
- General Fund – Cash and Investments were overstated by \$4,060,174 (reported \$19,852,139; actual \$15,791,965).
- Enterprise Fund –
 - Total Assets were understated by \$116,116,509 (reported \$132,598,778; actual \$248,715,287).
 - Total Non-Current Assets were understated by \$76,928,246 (reported \$116,493,383; actual \$193,421,629).
 - Total Cash and Investments were understated by \$39,687,094 (reported \$10,044,304; actual \$49,731,398).
 - Total Liabilities were understated by \$100,630,353 (reported \$71,670,216; actual \$175,300,569).
 - Total Net Position was understated by \$18,679,360 (reported \$60,928,562; actual \$79,607,922).
 - Total Fixed Assets were understated by \$77,172,593 (reported \$103,613,784; actual \$180,786,377).
- Internal Service Fund – Total Cash and Investments were overstated by \$18,761,961 (reported \$21,658,302; actual \$2,893,341).
- Marina Enterprise Fund – Total Operating Revenues were understated by \$137,760 (reported \$319,196; actual \$456,956).
- Housing Enterprise Fund – Total Operating Revenues were overstated by \$864,961 (reported \$3,503,795; actual 2,638,834).
- Municipal Sewer Enterprise Fund was not included in the report.

City of Richmond Independent Auditor's Report for FY 2012-13

Richmond Housing Authority (RHA) Properties were sold to Menlo Capital Group LLC for the disposition of Westbridge at Hilltop Apartments for \$40 million. The disposition of Westridge at Hilltop Apartments, its primary asset, will cause the liquidation of RHA Properties and discontinuation of business operations. This transaction raises substantial doubt about RHA Properties' ability to continue as a going concern.

City of Richmond Independent Auditor's Report for FY 2013-14

Emphasis of Matter – General Fund Cash and Fund Balance and Other Cash Balances:

- The General Fund's unrestricted cash balance represented less than ten days of General Fund expenditures.
- The unassigned fund balance represented the available fund balance and equates to approximately twenty-one days of General Fund expenditures.
- General Fund expenditures in FY 2013-14 exceeded revenues by \$9.5 million.
- The RHA Enterprise Fund, Port of Richmond Enterprise Fund, and other Non-Major Enterprise Funds borrowed \$40.4 million from the General Fund and other funds.
- The city continues to issue Tax Revenue Anticipation Notes to supplement cash temporarily during the fiscal year. If deficit spending continues, it reduces the likelihood that the city will be able to continue as a going concern.

There were also seven Federal Award audit findings and 24 financial statement findings related to the city, and two financial statement audit findings related to RHA (a component unit of the city), included in a separately issued Memorandum on Internal Control report.

After considering the above information, I have concluded that there is reason to believe that the Annual Reports of Financial Transactions by the city are false, incomplete, or incorrect. Therefore, under GC 12464(a), I have directed my Division of Audits to conduct an investigation and gather information needed to validate information provided in the above reports. Also, under GC 12464(b), the costs of this investigation, including preparing a report of the results and transmitting copies to the city council, will be borne by the city.

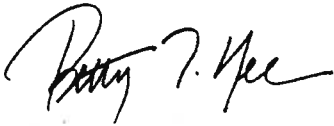
The investigation will include an analysis of the administrative and financial internal controls of the city, including the impact of any findings on selected local, state, and federal programs administered by the city. While the focus of the review will be on FY 2012-13 and FY 2013-14, issues may arise where a review of financial activities will necessitate a review of transactions in current and/or prior periods.

My Division of Audits team will contact you to schedule an entrance conference and provide information regarding the specifics of the investigation, including a list of materials that will need to be made available. We expect the entrance will be held in September with the fieldwork to begin thereafter.

Mr. Bill Lindsay
August 25, 2015
Page 4

If you have any questions about the investigation, please contact Jeffrey V. Brownfield, Chief of my Division of Audits, by telephone at (916) 324-1696.

Sincerely,



BETTY T. YEE

BTY/gl

cc: ✓ The Honorable Thomas K. Butt, Mayor, City of Richmond
Jael Myrick, Vice Mayor, City of Richmond
Nathaniel Bates, Councilmember, City of Richmond
Jovanka Beckles, Councilmember, City of Richmond
Eduardo Martinez, Councilmember, City of Richmond
Gayle McLaughlin, Councilmember, City of Richmond
Vinay Pimple, Councilmember, City of Richmond
George Lolas, Chief Operating Officer, State Controller's Office
Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office
Mike Spalj, Chief, Local Government Audits Bureau, Division of Audits, State Controller's Office