



City of Blythe

Inadequate Planning and Other Ineffective Management Practices Hinder Its Ability to Provide Needed Services to Its Residents

March 2021

REPORT 2020-802



LOCAL GOVERNMENT
**HIGH
RISK**



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March 23, 2021
2020-802

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office presents this audit report regarding the city of Blythe (Blythe), which we conducted as part of our high-risk local government agency audit program.

This report concludes that Blythe is a high risk city because of the significant risks it faces related to its financial and operational management. Blythe improved the condition of its general fund dramatically over the past several fiscal years through sustained budget cuts and some increased revenue. However, the city's general fund reserve is roughly half the recommended level and would likely be insufficient to carry the city through an economic downturn. The city also has no long-term financial plan, but it does have a number of significant funding needs, such as investment in public safety due, in part, to the number of vacant buildings that are associated with crimes such as arson.

Other inadequate city management practices have created operational risks for Blythe. In particular, the city waited more than a decade to update its service fees and for years has subsidized many city services with general fund revenue. As a result, two of its enterprise funds have accumulated debts of \$2.8 million. Finally, the city also lacks sufficient contract management protocols, which puts it at risk of fraud, waste, and improper payments.

To address these concerns, we present several recommendations, such as developing a strategic plan to prepare for long-term financial and operational challenges, and developing a policy for updating rates and fees once every five years. We also recommend that Blythe identify initiatives to address risks associated with its high vacancy rate and apply for available grants to support this effort.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

Selected Abbreviations Used in This Report

CalPERS	California Public Employees' Retirement System
GFOA	Government Finance Officers Association
HUD	Department of Housing and Urban Development
OPEB	Other Post Employment Benefits

HIGH RISK ISSUES

City of Blythe, Riverside County

Risk Designation: **High Risk**

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Risks the City of Blythe Faces

In November 2019, the California State Auditor’s Office (State Auditor) informed the city of Blythe (Blythe) that it had been selected for review under the high-risk local government agency audit program. This program authorizes the State Auditor to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement or that face major challenges associated with their economy, efficiency, or effectiveness. We first identified that Blythe might be a high-risk local government entity based on publicly available information. We then conducted an initial assessment of the city in December 2019 and identified concerns about its financial stability. We found Blythe had struggled to raise sufficient revenue and, in response, reduced its

workforce by 35 positions—25 percent—and froze salary ranges for city workers during fiscal years 2008–09 and 2009–10. By fiscal year 2010–11, it had a general fund balance of negative \$3.5 million. Through sustained budget cuts and some increased revenue, the city achieved a general fund surplus of \$804,000 by fiscal year 2019–20. However, years of operating at a deficit, negative balances in funds that support city services, and pension liabilities raised concerns about the city’s ability to continue to provide services to residents. Table 1 summarizes our risk assessment of the last three years of Blythe’s financial indicators. After approval from the Joint Legislative Audit Committee (Audit Committee), we began our audit of the city in August 2020.

Table 1
Blythe’s Financial Risk Indicators Have Largely Remained the Same or Worsened Since Fiscal Year 2017–18

	INDICATOR EVALUATION		
	FISCAL YEAR 2017–18	FISCAL YEAR 2018–19	FISCAL YEAR 2019–20
Liquidity	HIGH RISK	HIGH RISK	HIGH RISK
Debt Burden	HIGH RISK	HIGH RISK	MODERATE RISK
General Fund Reserve	HIGH RISK	HIGH RISK	HIGH RISK
Revenue Trends	MODERATE RISK	MODERATE RISK	HIGH RISK
Pension Obligations	HIGH RISK	HIGH RISK	HIGH RISK
Pension Funding	MODERATE RISK	HIGH RISK	HIGH RISK
Pension Costs	MODERATE RISK	HIGH RISK	HIGH RISK
Future Pension Costs	HIGH RISK	HIGH RISK	HIGH RISK*
OPEB Obligations†	MODERATE RISK	MODERATE RISK	MODERATE RISK
OPEB Funding†	HIGH RISK	HIGH RISK	HIGH RISK

Source: Blythe’s financial statements.

* Future pension costs in fiscal year 2019–20 are based on fiscal year 2018–19 data, which we obtained from CalPERS, but will not be updated until summer 2021.

† OPEB: Other post-employment benefits.

LOCAL HIGH RISK

Blythe is a small, geographically isolated city with limited options for raising revenue to pay for the services it provides. Located in Riverside County on the border between California and Arizona, it is relatively far from other California cities and has a population of about 20,000—30 percent of whom are inmates housed at two state prisons within the city limits. In May 2020, voters approved a 1 percent sales tax increase, which city officials have estimated will generate \$1.1 million each year. In an additional effort to increase revenue, the city implemented a commercial cannabis tax in 2018 but, as of fiscal year 2019–20, the tax and related application fees had generated only \$200,000, well below estimates of about \$1 million annually. Blythe also has numerous abandoned buildings throughout the city, which decrease property values and potential tax revenue, and the city reports that squatters often occupy them, which has led to a costly increase in fires and other public safety risks and expenses.

Our audit found that Blythe also faces several significant risks related to its financial and operational management and that it could benefit from better long-term planning. Although as of June 30, 2020, the city had an \$804,000 surplus in its general fund, this amount is roughly half of the recommended level and would likely be insufficient to carry the city through another economic downturn. The city has also not made any payments on a \$400,000 loan it secured in 2004 from the city's former redevelopment agency to avert the fiscal collapse of its golf course operation. Based on the terms of the loan, the city is now obligated to pay at least \$612,000 in interest, an amount that will increase each year until the city pays down the loan. In fact, while the city has identified numerous funding needs for the additional sales tax revenue, it has not developed a long-term financial plan that outlines debt reduction strategies or that establishes priorities in the event that actual revenue falls short of projections.

The city also needs to invest in addressing its relatively high vacancy rate. The city's residential vacancy rate of 20 percent—the number of empty housing units compared to the total number of housing units within the city—and several vacant commercial buildings not only reduce potential city tax revenue but create public safety risks because the vacant buildings are associated with increased crime and fires.¹ Since 2017 violent crimes in the city have increased by nearly 50 percent—from 62 to 92 according to Federal Bureau of Investigation (FBI) statistics—more than double the increase in violent crimes in the county as reported by the Riverside County Sheriff. Further, arson increased from 23 incidents in 2015 to 40 in 2019. At the same time, the city has not had the resources to replace aging fire equipment in its volunteer fire department.

In addition to planning deficiencies, other inadequate city management and oversight practices have created operational risks for the city. For instance, the city has been slow to recover the cost of providing services. In particular, it waited more than a decade to update its service fees and thus subsidized most city service fees with general fund revenue for years before recently correcting this problem. Additionally, city management relies heavily on a long-standing staff member who has been employed as the interim city manager for almost four years while also fulfilling her responsibilities as the city clerk and the city's administrative services director. The city also lacks sufficient contract management protocols, which puts it at risk of fraud, waste, and improper payments. Given these problems, we believe the city needs to develop a strategic plan that prioritizes improvements to city management, including the hiring of a permanent city manager, and the strengthening of policies and procedures.

¹ This is an estimate based on data from the U.S. Census Bureau's American Community Survey.

To help Blythe address the risk factors we identified, we have developed recommendations the city should implement, including the following:

Develop a five-year strategic plan to ensure that the city is adequately prepared to address long-term financial and operational challenges by taking steps such as building its reserve, paying down debt, and reducing public safety risks. The plan should define the city's goals and should outline actions that align with these goals.

Develop a policy requiring staff to assess the need to update the city's rates and fees at least once every five years to ensure that it is recovering the cost of providing services.

Identify initiatives—such as programs to demolish or rehabilitate vacant buildings—the city could implement to address the risks associated with its high vacancy rate and apply for available grants to support its effort.

Immediately take steps to hire a permanent city manager to reduce the city's reliance on one staff member to perform the duties of multiple positions.

Develop a system for tracking and monitoring contracts that establishes roles, responsibilities, and procedures for designated city representatives to reduce the city's susceptibility to waste and fraud.

Agency's Proposed Corrective Action

Although Blythe did not specifically address the report's recommendations in its response to the audit, it stated that it will prepare a corrective action plan that addresses each recommendation.

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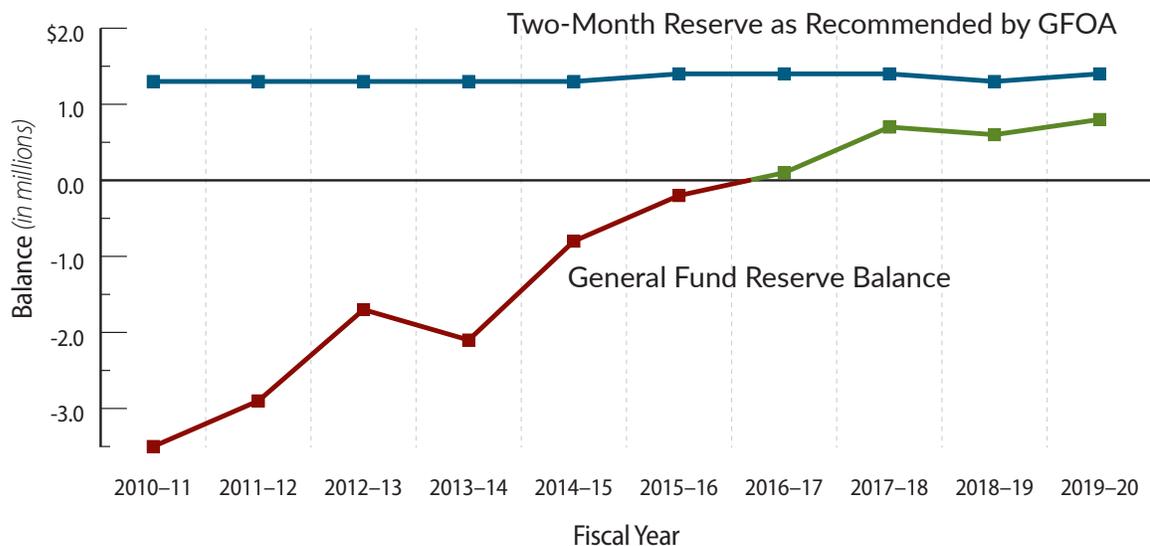
Blythe's Financial Stability Remains Uncertain Even With Recent Improvements

Favorable Economic Circumstances and Stable Spending Have Helped Improve Blythe's Finances, but Its Reserve Is Still Low

Blythe's improving finances over the past several fiscal years are not sufficient to resolve the city's continued financial weakness. Through sustained budget cuts, cost containment efforts, and increases in city revenue, Blythe achieved a general fund reserve of \$804,000 in fiscal year 2019–20, which represents a \$4.3 million improvement from fiscal year 2010–11, as shown in Figure 1. A sufficient general fund reserve is an indication of a city's ability to cover its expenditures in times of fiscal distress, and the Government Finance Officers Association (GFOA) recommends that local governments have a sufficient general fund reserve to cover at least two months of expenditures. However, despite

its efforts, Blythe closed out fiscal year 2019–20 with a little more than one month's worth of operating funds in its reserve. To its credit, halfway through fiscal year 2019–20, the city adopted a reserve policy that sets a goal of having three months' worth of operating funds in its reserve and began setting aside funds to achieve that objective. Nevertheless, according to our economic forecasting model that estimates the impact of the COVID-19 pandemic on the revenues of California cities, Blythe may experience a decrease in anticipated revenue of nearly 5 percent. With revenue of about \$8 million in fiscal year 2019–20, this could mean about \$400,000 in lost revenue, or nearly half of its available reserve. Given that a strong economy helped Blythe recover from its historical deficits, a sustained weak economy could easily wipe out its small reserve.

Figure 1
 Blythe Has Increased Its General Fund Reserve Since Fiscal Year 2010–11



Source: Blythe's financial statements and the GFOA.

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The city achieved a positive general fund balance by fiscal year 2016–17 partly through increased revenue. For example, from fiscal years 2011–12 through 2012–13, the general fund balance improved by more than \$1.2 million as a result of increased revenue from sales and hotel taxes as well as a one-time payment from the dissolution of the city’s redevelopment agency. This increased tax revenue was likely due to an increase in economic activity because, according to the finance director, the city did not raise tax rates during this period. The city had a similar \$1.3 million increase in revenue from fiscal years 2013–14 to 2014–15, largely due to increases in property tax and motor vehicle fee collections as well as some grant funding.

“*The city achieved a positive general fund balance by fiscal year 2016–17 partly through increased revenue.*”

Although the city’s efforts to control costs have also contributed to its ability to address historical deficits, future spending needs may erase that progress. Its general fund expenditures have increased by less than 8 percent, or \$601,000, from fiscal years 2010–11 through 2019–20, while inflation increased statewide by 20.5 percent during that time. The finance director attributes the city’s ability to control costs to a variety of factors, including limiting miscellaneous expenses and renegotiating employee benefits to offset other increasing costs. The city has also reduced police department spending in recent fiscal years and left positions unfilled in other departments. While the city has managed to keep its spending steady in recent years, it

has a number of large future funding needs related to public safety and infrastructure that it will have to address in the coming years, as discussed later in the report. Given these needs, including preparing for the next economic downturn, the city’s modest general fund reserve may be insufficient to cover the cost of essential city services in the future.

Although Blythe Has Sought New Sources of Revenue in Recent Years, Some Results Are Uncertain and Others Have Not Materialized as Expected

To further improve its financial stability, Blythe has recently established a local sales tax. In May 2020, Blythe voters approved a 1 percent local sales tax, which the city estimates will generate approximately \$1.1 million in new revenue annually. Based on projected revenue from that sales tax—which went into effect in October 2020—the city initially anticipates using about \$270,000 of that revenue annually for the next three fiscal years to fund road repair, improve public safety, and eliminate abandoned buildings. However, the finance director said that the city has not yet conducted long-term planning for all of the anticipated revenue. While the city has broad authority to use the revenue collected from its sales tax, this anticipated spending does not include other major obligations—such as its debt, including interest on a large outstanding loan—that the city must address in the near future, as we discuss later in the report.

In addition, following voter approval in the 2016 statewide general election of Proposition 64, which legalized the recreational use of marijuana in California, the city began the process of regulating a local cannabis industry. It established fees for businesses seeking cannabis permits that would cover the city’s costs of processing the applications, such as conducting background checks. In June 2018, Blythe voters approved a measure to tax the sale of

cannabis and charge an annual license fee to cannabis businesses within the city. However, according to the interim city manager, as of November 2020, the city had only one dispensary, which was the source of all of the city's revenue from the cannabis sales tax. In addition, according to the interim city manager, the city has also attracted a manufacturing and distribution facility and has issued licenses to 12 companies, but most are not yet operating. Thus, revenue from the city's commercial cannabis operations has been modest, amounting to about \$200,000 in fiscal year 2019–20 from all sources instead of the projected \$1 million in revenue from taxes and fees that a consultant to the city projected in March 2017. The interim city manager expects three new cannabis facilities to open by May 2021, but the city has not included that anticipated additional revenue in its projections, which only extend to the current fiscal year of 2020–21.

Finally, the city's past efforts at economic development have not been successful, and it does not currently have a plan or process to identify future development opportunities. Local governments often seek to promote local economic activity and increase sales tax revenue by attracting new businesses. For many years, local governments in California pursued economic development through the formation of redevelopment agencies, which were legally separate entities that could collect a portion of property tax and direct the funds to improvement projects, such as the elimination of blight. Economic development can include the rehabilitation or demolition of existing structures and the construction of affordable housing and public facilities, such as public buildings and other infrastructure. Before the State dissolved redevelopment agencies in 2012, Blythe's agency had spent significant resources, in the form of bond proceeds, to eradicate blight. However, that agency admitted in its 2009 implementation plan report that despite its efforts, conditions of blight continued to persist. Currently, according to the interim

city manager, city staff members are making occasional efforts to attract large retailers and other enterprises, such as casinos, to conduct business in the city; however, she stated that this outreach has not attracted any retail businesses and that the city lacks an economic development plan. Without a viable plan to provide a framework for identifying goals and actions to promote economic activity in the city—such as engaging with stakeholders to generate ideas—Blythe will continue to struggle to increase its revenue through economic development.

Recommendations to Address This Risk

- *To ensure that the city is able to continue increasing the funds in its general fund and thereby operate with an adequate reserve, Blythe should develop a plan to ensure it has needed resources in the event that revenues from the sales tax and commercial cannabis activities are below estimates.*
- *To attract retail businesses and increase revenue, the city should develop a plan to engage with stakeholders, such as city residents and local business owners, to initiate a formal economic development effort.*

The City Would Benefit From a Plan to Establish Its Long-Term Priorities

While Blythe regularly produces a balanced budget, it has no clear plan for guiding its long-term decision making. Over the past five years, the city has regularly adopted a balanced budget and has seen an improvement in its general fund reserve. However, this effort has required the city council to make difficult decisions, including cutting funding for items it had previously identified as top priorities. For example,

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in 2018 the city council froze three vacant positions—including its city manager position—to balance the city’s budget, and these important positions remain unfunded. If the city had developed a plan clearly outlining its goals and priorities, it could have reallocated the necessary funding from other lower-priority projects or sought other funding to hire for these vacant positions. Further, long-term financial planning could have helped the city identify the funding shortfall earlier, allowing the city to take corrective action prior to freezing the positions.

Although the city adheres to many GFOA best practices related to budgeting, we identified several exceptions, including the lack of broad-based goals, long-term planning, and monitoring, that strategic and financial plans are designed to facilitate. The GFOA recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, and it further identifies financial planning as a key component of the strategic planning process. The focus of strategic planning should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. A strategic plan should include a definition of the city’s priorities,

a small number of broad goals, strategies and an action plan to achieve those goals, and performance measures to evaluate and monitor progress. A strategic plan can therefore facilitate efforts to address issues of particular concern, including infrastructure planning and financial planning to ensure that the city is able to meet its future obligations. Some cities have included goals for financial stability and sustainability, economic development, and governance and organizational effectiveness in their strategic plan. Strategy examples other cities have implemented to achieve financial stability and sustainability include creating a plan to reach a general fund surplus of 20 percent of expenditures, adopting a budget in alignment with the financial forecast and strategic plan, or developing a plan to resolve funding concerns within various city enterprise districts or funds.

Long-term financial planning works best when developed as part of an overall strategic plan because it aligns current and future financial capacity with long-term service objectives. The goal of financial planning is to use forecasts and projections to provide insight into future financial capacity so that governments can develop and deploy strategies to achieve long-term sustainability while considering service objectives and financial challenges. While Blythe’s financial forecasts and projections are generally based on reasonable assumptions, they do not project far enough into the future, nor is the city leveraging them to inform broader goals or service objectives. The GFOA recommends that all financial plans look at least five to 10 years into the future and include a comprehensive financial analysis. City governments should consider all available funds, regularly update the plan, and ensure transparency and accessibility for all stakeholders. The text box notes some of the differences between a strategic plan and a narrower financial plan.

Strategic Versus Financial Plans

Strategic plan:

A comprehensive management tool designed to help organizations envision the future, increase effectiveness, and develop strategies and objectives for achieving a common mission.

Financial plan:

A plan that aligns current financial capacity and goals to develop financial stability with long-term service objectives. It works best as part of an overall strategic plan.

Source: GFOA best practices guidance.

While the city has debt management, general fund reserve, and other financial policies in place, as well as several years of projected revenue and expenditures, it lacks a clear picture of how to address its financial and operational needs, leaving it at greater risk for unplanned expenses. For example, in 2017 the previous public works director advised the city council that the city's water, sewer, and parks master plans, prepared in 1996 and 1997, were in need of updating. However, the estimated cost to update all outdated master plans was \$385,000 and, according to the interim city manager, the city did not have the resources to proceed at the time. The following year the city experienced a number of sewer component electrical failures and as a result of additional inspections determined that another critical sewer component had reached maximum life expectancy. That same year, the State Water Resources Control Board identified additional deficiencies with the city's water treatment system. Infrastructure master plans provide guidelines for current and future planning for the city, and a master plan allows a government entity to anticipate and budget for maintenance and repairs to ensure optimal service output and avoid unplanned service disruptions due to infrastructure failures. If the city planned and budgeted to update its infrastructure master plans for systems such as water and sewer, it could better anticipate upcoming maintenance and operating costs. Figure 2 provides an example of the components of a strategic plan, including how additional plans, like financial plans or infrastructure master plans, can be incorporated to support the city's broad long-term goals.

A strategic plan would provide a framework for Blythe city officials to consider the city's numerous competing priorities when allocating any additional revenue it receives. As we note earlier, the city's current general fund reserve may not be sufficient to carry it through an economic downturn. Further, while the city's limited financial projections will serve to guide the city's annual budget,

the annual budget itself does not address long-term liabilities and systemic issues. In addition, the city does not have a policy or informal process for assessing the long-term financial implications of current or proposed policies or programs in order to establish funding priorities should the sales tax revenue fall short of targets. Thus, the city risks continuing to have to make ad hoc decisions instead of planning for eventualities and preparing for the unexpected through a vehicle such as a strategic plan.

While some local governments use consulting services to assist with planning processes, Blythe could expand on its own previous goal-setting processes to develop its strategic plan internally. The GFOA has a resource that offers a step-by-step description of the strategic planning process the city could refer to as guidance, and other cities have published their strategic plans publicly. Without a framework to guide the city's budgetary decision making, Blythe will likely continue to struggle to address its long-term needs and to achieve greater financial stability despite its increased revenue.

Recommendation to Address This Risk

To ensure that the city is adequately prepared to address long-term financial, budgetary, and operational challenges—such as deteriorating infrastructure—it should develop a five-year strategic plan by June 2022. Following the GFOA guidance, this strategic plan should define the city's priorities, adopt a small number of broad goals, establish agreement about intended outcomes, and outline strategies and actions that align with these priorities and goals. The strategic plan can be separate from the other plans recommended in this report, or the city can choose to include elements of the other plans in its strategic plan.

LOCAL HIGH RISK**Figure 2****Strong Components Can Contribute to a Successful Strategic Plan**

Source: GFOA best practices, example strategic plans from other California cities, and report recommendations.

Blythe Must Address Deficits in Its Enterprise Funds as Well as Unmet Safety and Infrastructure Needs

The City Intends to Use General Funds to Replenish Historical Shortfalls in Some of Its Enterprise Funds

Blythe has long supported financially struggling city services, such as its golf course and solid waste utility (trash collection), and it will need to address debts accrued by these enterprises. Cities use enterprise funds to track revenue and expenditures related to services for which they charge the users a rate or fee. The use of enterprise funds allows cities to track whether revenue generated from the charges cover the cost of providing the service or if the service is being subsidized by general funds. Blythe has a number of enterprise funds that track the expenditures and revenues associated with particular services provided to its residents, including utilities such as water, sewer, and trash collection. The city also has an enterprise fund for its municipal golf course. Although the water and sewer services are self-supporting, the city's trash collection and golf course funds have accumulated debts to another city fund. The accumulated debts for the golf course and trash collection funds in fiscal year 2019–20 amounted to \$1.2 million, and \$623,000, respectively.²

Blythe has failed to acknowledge that these longstanding debts are actually subsidies to certain enterprise funds and instead has recorded them as loans. The finance director has acknowledged that the golf course is

unlikely to ever repay the loans. Further, she stated the city had chosen to transfer some trash collection revenue to the general fund, as allowed, to stabilize city finances rather than repay loans made to the trash collection fund. Accounting standards indicate that cities should record internal loans that are made without expectation of repayment within a reasonable time period as transfers—because they are in effect subsidies, not loans.

Instead, the city records these loans as being from another city fund that is intended to track the city's internal charges for services among city departments (internal service fund), such as building maintenance. Accounting standards indicate that when local governments use this type of fund to track internal charges, the fund should function on a break-even basis over time. However, because the city recorded subsidies to its golf course and trash collection funds as debts owed to this fund, with an implied expectation of repayment, the internal service fund has had what appears to be a surplus in excess of \$1 million. This apparent surplus is misleading because it is not excess money available to the city for other purposes but rather is composed of loans with no clear repayment prospects. The finance director stated that former city management implemented the practice of providing these internal loans to its troubled enterprise funds, and the city continues to rely on the practice out of financial necessity.

However, by recording these transfers as loans in this manner, the city has not only failed to acknowledge that its support of its enterprise funds is, in fact, a subsidy, but it has also

² The golf course debt total presented here excludes debt related to a loan from Blythe's former redevelopment agency; we separately discuss that portion of the golf course debt later in this section.

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put off resolving these longstanding liabilities, which the city's auditors identify as a threat to its solvency. Finally, allowing the subsidies to continue to appear as loans makes the internal service fund appear to be in better condition than it actually is. The finance director stated that the city could decide to use increased general fund revenue from the local sales tax to settle both golf course and trash collection debts. That is one option available to the city, or it could also simply acknowledge that loans from the other city fund were, in fact, subsidies. Although this approach would eliminate this accumulated debt from its accounting records, Blythe will still want to focus on helping each enterprise fund be self-sufficient going forward.

“By July 2020, the balance on the loan had ballooned to more than \$1 million.”

In addition to the debts between city funds, the city has neglected to repay a substantial loan to its golf course from the city's former redevelopment agency. In 2004 the redevelopment agency loaned the golf course fund \$400,000 to avert fiscal collapse of the golf course. Since that time, the city has not made any payments on the loan and, based on the terms of the loan, in 2006 the annual interest rate increased from 3 percent to 10 percent. By July 2020, the balance on the loan had ballooned to more than \$1 million. According to city staff, the golf course has been unable to repay the loan because it is consistently unable to produce sufficient revenue, but the city now intends to adopt a plan to pay off the loan using its general funds. The redevelopment agency was dissolved by the State in 2012, and its assets and liabilities were transferred to a successor agency, pursuant to state law. The successor agency—which, though a legally separate entity, is governed by

the members of the city council—would not be able to use the loan repayment to benefit city projects, such as addressing vacant buildings. Instead, under state law, the successor agency must prioritize repayment of \$43 million in outstanding bonds that the redevelopment agency issued.

The city's lighting district fund is also in a deficit. Although state law allows cities to pay the cost of providing street lighting using general funds, Blythe established two lighting districts to fund street lighting services through property assessments. However, expenses for electricity and maintenance of streetlights have exceeded the revenue collected through the assessments since fiscal year 2010–11, when the lighting district fund recorded a deficit of \$71,000. According to the finance director, the city has made several attempts to address this issue. For example, the city attempted to consolidate the two districts, but voters rejected the plan. The city has also made technological upgrades in an attempt to achieve some cost savings. As of fiscal year 2019–20, the fund had accumulated deficits totaling \$325,000. As with the enterprise funds for the golf course and trash collection, which the city supported through internal loans, the city has also recorded transfers to its lighting district fund as loans instead of recognizing them as subsidies.

Recommendations to Address This Risk

- *To ensure that the city is accurately representing its financial condition, it should record its internal loans to the golf course, trash collection, and lighting district funds as transfers. The city should include these updated transactions in its fiscal year 2021–22 financial statements.*
- *To eliminate its outstanding golf course loan owed to the successor agency, by June 2021 the city should adopt a payment schedule for paying down the loan in a timely fashion.*

Blythe’s Pension Burden May Exceed Available Resources

The city will also face growing annual pension and OPEB payments. Based on projections from CalPERS, the city can expect its annual contribution for pensions across all its job classifications to be nearly \$2 million by fiscal year 2023–24. However, in order to calculate its total annual costs, the city must add the annual contribution for pensions to its obligation for OPEB payments. For fiscal year 2019–20, the city’s total OPEB cost, which it funds as needed each year out of available general fund revenue, was about \$450,000. As seen in Table 2, the city’s combined pension and OPEB costs for the next three fiscal years may be more than it was projecting to expend for those benefits. Thus, the city’s annual pension and OPEB costs will likely be an expense it must also address in the coming years.

Blythe’s Future Public Safety Needs Will Require Substantial Additional Resources

The city operates its own police and fire departments and will need to consider and plan for potential cost increases associated with these public safety services. The city reduced the budget of the police department to \$4.4 million for fiscal year 2020–21, a decrease of more than \$730,000 since fiscal year 2014–15. The interim city manager

noted that the city was able to make these reductions without reducing the staffing levels of the department. Nevertheless, we note that in fiscal year 2016–17 the police department’s budget lost a part-time sworn officer and in fiscal year 2018–19 the number of sworn positions dropped from 21 to 20. The police department is still Blythe’s largest expense, making up 42 percent of its total fiscal year 2020–21 budgeted general fund expenditures. Over the same time period, certain crimes have increased disproportionately in the city. Although violent crimes in Blythe initially decreased after 2015, they increased by nearly 50 percent between 2017 and 2019—from 62 to 92 according to FBI statistics—more than double the increase in violent crimes in the county, as reported by the Riverside County Sheriff for the same time. Arson in Blythe has also increased dramatically, from 23 incidents in 2015 to 40 incidents in 2019, whereas arson reported by the county sheriff has decreased significantly, down 55 percent over the same period. We are not suggesting that decreases to the budgets of Blythe’s police department caused these crime increases; rather, it is apparent that Blythe needs to address and respond to these disturbing trends, and future increases to the police department’s budget may be necessary for it to do so.

The police chief states that, although the department has never undergone an operational analysis to help it make better

Table 2
CalPERS Estimates of the City’s Combined Annual Pension and OPEB Costs Exceed the City’s Projections

FISCAL YEAR	CALPERS PENSION	OPEB*	TOTAL	PROJECTED BY BLYTHE†	DIFFERENCE
2021–22	\$1,700,661	\$447,890	\$2,148,551	\$2,064,000	(\$84,551)
2022–23	1,870,800	447,890	2,318,690	2,223,000	(95,690)
2023–24	1,976,800	447,890	2,424,690	2,322,000	(102,690)

Source: CalPERS annual valuation reports, Blythe financial statements, and other budget documents.

* OPEB costs are the average of actual annual city OPEB costs from fiscal years 2017–18 to 2019–20.

† These amounts are the costs the city estimated to spend in its budget projections.

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use of its available resources, it applied to a program run by the Commission on Peace Officer Standards and Training (Commission) that provides management consulting services at no cost to departments. Those services address operational areas such as organizational structure and staffing, patrol workload and staffing allocation, communications dispatch function, and records function, as well as a general assessment. Although the commission did not accept the police department's application, it did recommend that the department reapply in spring 2021, and the police chief indicated the department plans to do so.

“**Blythe’s fire department is essential, but it faces critical funding issues.**”

Likewise, the Blythe fire department is essential to the city’s public safety, but it faces critical funding issues. The city has a long-standing volunteer fire department to meet its fire and other emergency service needs, and the department currently relies on trucks that are older than industry standards for lifetime use. Specifically, the National Fire Protection Association recommends that departments take trucks older than 15 years out of first response service and retire trucks older than 25 years. The department’s ladder truck is more than 30 years old—manufactured in 1988—and its fire engines range from five to more than 25 years old. The cost for replacing the ladder truck averages from \$500,000 for a used truck to nearly \$1 million for a new one. Because the city has other competing spending needs, replacing its ladder truck is a major expense for which it must plan, even if it were to finance the purchase over several years. The interim city manager stated that, although

the city is aware of the need to replace the ladder truck, it has not been able to plan for such a significant expense because of financial constraints. However, under the city’s nonbinding reserve policy, implemented in December 2019, it aims to set aside at least \$750,000 for the replacement of capital assets. According to the interim city manager, the city could use this funding source, along with the local sales tax revenue, to finance a replacement ladder truck. As of fiscal year 2019–20, the capital reserve fund had \$140,000. Although the city’s initial efforts to set aside funds for large equipment purchases are reassuring, it will need to balance its reserve goals amid competing spending priorities it has identified and a possible economic downturn in order to continue meeting its public safety needs.

Recommendations to Address This Risk

- *To better assess the police department’s efficiency and effectiveness, the city should follow through with its plan to reapply to obtain management consulting services from the Commission.*
- *To ensure that Blythe’s fire department has equipment that meets industry standards, the city should develop a long-term plan to schedule and fund replacement of its fire vehicles.*

The City Could Do More to Address Vacant Buildings, Which Pose Public Safety Risks and May Strain City Resources

Vacant buildings within the city may strain its limited resources. Vacant and abandoned properties are linked to increased crime and public safety risks and generally increased expenditures for code enforcement and public safety. For example, the United States Fire Administration stated that nationally,

about 23,800 fires in vacant residences are reported each year; intentional actions—including arson—are the leading cause of both residential and nonresidential vacant building fires.³ In addition to Blythe's relatively high residential vacancy rate, which we discuss below, the city also has several vacant commercial properties that could discourage the establishment of new businesses and suppress economic development. According to the Department of Housing and Urban Development (HUD), research shows that foreclosed, vacant, and abandoned properties may result in reduced property values and increased crime, risks to public health, and costs to municipal governments. According to HUD, one study found that vacant properties in one city reduced the sale price of nondistressed homes by about 2 percent. This can result in a decrease to a city's property tax revenue.

While Blythe does not have a reliable way to measure the effect of its relatively high vacancy rate on city resources, it has experienced fires associated with trespassers, and it identified the need to remove dilapidated buildings as one of the reasons for increasing its sales tax. In October 2020, the chief building inspector estimated that the city had about 20 vacant properties that posed a risk of fire or unsafe conditions. He also stated that his department spends about 12 to 15 hours per week on code enforcement cases related to vacant buildings. He explained that one of these cases has been open for 12 years and the structure has caught fire four times since the case first opened. The city has been unable to close the case because, after the owner died, the city had not identified the new owner of the property and it lacked the resources to address the vacant buildings on

the property. The property was recently sold because of unpaid property taxes and the city is now working with the purchaser.

Blythe's residential vacancy rate is higher than the state average and higher than in two comparable cities. According to the U.S. Census Bureau, public and private sector organizations use housing vacancy data to evaluate the need for new housing programs and initiatives. Based on housing data from the American Community Survey (ACS) estimates for 2010 through 2019, Blythe's average vacancy rate was 20 percent, whereas the state average was 8 percent. According to the interim city manager, the city's utility billing data, which is based on an inventory of water meters, showed that the current vacancy rate is closer to 6 percent. However, we noted discrepancies between the number of water meters in Blythe and the Riverside County assessor's data on the number of properties. Nevertheless, while the interim city manager disagreed that the vacancy rate was 20 percent, she acknowledged that vacant buildings have been an issue for Blythe because the city has struggled to recover from the last recession. She explained that it has been difficult to attract major retail stores or franchises because of Blythe's small population; at the same time, it is difficult to increase the population without such businesses because people expect to have them nearby.

“Blythe's residential vacancy rate is higher than the state average and higher than in two comparable cities.”

³ The United States Fire Administration is an entity of the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA), it collects data from a variety of sources to provide information and analyses on fires in the United States.

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We compared Blythe to other cities with similar attributes using census estimates. The city of Brawley in Imperial County is located in the same region about 90 miles away from Blythe, but it generally has had a somewhat lower vacancy rate—14 percent on average from 2010 through 2019, according to ACS estimates. The city of Shafter in Kern County is similar in size and population but also had a significantly lower vacancy rate of 5 percent over the same period. These examples suggest that there may be opportunities for Blythe to lower its vacancy rate.

The city could also benefit from securing grants or developing community initiatives for abatement of blight. Federal grants are available to fund abatement and rehabilitation of vacant buildings. Other cities with high vacancy rates have implemented a variety of strategies to reduce vacancy or repurpose land use. For example, Cleveland, Ohio, partnered with nonprofit and for-profit organizations to establish programs that seek to demolish or rehabilitate vacant properties and sell them to qualified buyers. Many cities have used federal community development block grant (CDBG) funds for demolition because removing vacant buildings can be costly. The interim city manager stated that since the dissolution of the redevelopment agency, the city has not had funds to proactively address the issues that blighted and vacant buildings pose and that the city's main defense is code enforcement with the owners. Although Blythe has used CDBG funds in the past, according to the interim city manager, it has not used this grant to remove vacant buildings because the city has had other needs that have taken priority—such as funding a community food pantry and improving city parks. Blythe has allocated \$80,000 to pay for building abatement in its fiscal year 2020–21 budget, but given the uncertainty of its future revenue, the city should attempt to secure and use available grant funds to supplement its efforts.

Recommendation to Address This Risk

To address the risks associated with its high vacancy rate, the city should identify initiatives it could implement—such as programs to demolish or rehabilitate vacant buildings—to reduce the number of vacant buildings. To support its effort, the city should identify and apply for available federal, state, or county grants.

The City Needs More Effective Management Practices to Improve Its Financial Stability and Its Ability to Provide Services to Residents

Blythe Has Not Ensured That the Utility Rates and Service Fees It Charges Consistently Cover the Cost of Providing Services

Until recently, Blythe had not been charging enough to cover the cost of providing city services or water and sewer utility services. It is generally a best practice for cities to recover the cost of providing services to residents to avoid an unnecessary or unintentional subsidy from its general fund. The GFOA recommends reviewing and updating rates and fees periodically to decrease volatility in charges for customers as well as adopting formal policies to clarify cost recovery goals. The text box describes the types of services for which the city charges rates and the city departments that charge fees for services. Nevertheless, Blythe has not established a policy to regularly review its rates or fees. The city experienced significant multiyear deficits in its water utility before it conducted a rate study and updated its rates in 2016. It lost other opportunities to recoup the costs of providing city services until it conducted a fee study in 2019 and increased fees accordingly. Blythe's interim city manager explained that to improve the city's overall financial position, staff members asked for and the city council approved a comprehensive fee study because some fees had not been updated for more than 20 years. Based on the resulting fee study, the city learned it had been subsidizing an average of about 50 percent of the costs associated with more than 350 distinct service fees. Table 3 provides an overview of the study's findings.

Blythe Charges Rates for Utilities and Fees for City Services

Blythe charges rates to provide the following utility services:

- Water
- Sewer
- Trash collection*

Blythe charges fees to provide an array of services in the following departments:

- Administrative
- Development Services (Building and Planning)
- Police
- Public Works

Source: Auditor analysis of Blythe's administrative documents.

* Blythe contracts with a third party to provide these services. However, the city manages a portion of the billing and collection of fees.

Blythe lost general funds to these subsidies by waiting more than a decade to update its service fees. Aside from recreation center and dog license fees, the city had not updated service fees since 2009. The consultant who conducted the fee study recommended increasing more than 170 existing fees and implementing 40 new fees to bring the city closer to full cost recovery. In aggregate, the consultant recommended almost \$19,000 in increases to the city's base fee amounts. The consultant also provided a worksheet for the city to monitor cost recovery. The finance director stated that the worksheet would be used to justify the fees and any annual increases. Since the majority of the costs for providing these services stems from

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Table 3
Based on Blythe's 2019 User Fee Study, It Had Been Heavily Subsidizing the Cost of Some of Its Services

PROGRAM AREA	TOTAL FEES IDENTIFIED	AVERAGE SUBSIDY IDENTIFIED
Administrative	8	18%
<i>Examples of fees in this area: returned check, administrative hearing, copies, etc.</i>		
Building	98	78%
<i>Inspections, permits, development, etc.</i>		
Cannabis	6	16%
<i>Background check, permits, zoning verification, etc.</i>		
Parks	4	0%
<i>Day use, boat launch, annual use, etc.</i>		
Planning	50	10%
<i>Plan review, plan amendments, environmental documentation, etc.</i>		
Police	56	40%
<i>Parking violations, pet licenses, etc.</i>		
Public Works	115	28%
<i>Commercial water and sewer, construction plan review, equipment, etc.</i>		
Recreation	22	20%
<i>Day use, rental, custodial, etc.</i>		
TOTAL	359	

Source: Analysis of Blythe's 2019 Comprehensive User Fee Study.

Note: This table excludes fees that are determined by other entities, such as the State of California, and new fees adopted as a result of the study.

staffing and overhead costs for more than 350 services, it is difficult to reliably quantify the total amount the city lost in subsidies over the past decade. Nonetheless, given that the city issues an average of 34 building-related permits per month, we estimate that it may have subsidized up to \$250,000 for these building inspection and permitting services in 2019 alone. Without a policy to ensure that the city regularly reviews and adjusts its fees, the city risks unintentional subsidies from its general fund in the future.

The city was also slow to address ongoing revenue deficits in its water utility. That utility experienced at least five years of deficits—with expenditures exceeding revenue—before the city hired a consultant to review its water and sewer utility rates. From fiscal years 2009–10 through 2013–14, the city's water utility saw losses of \$250,000 on average each year. According to the finance director, these deficits were one of the reasons staff requested and the city council approved a rate study in 2015. Nonetheless, in 2016, at the recommendation of the consultant, the city used a loan from another fund to cover the water utility's negative cash balance caused by insufficient rates. Although the sewer utility did not experience similar deficits, the consultant who performed the rate study recommended a rate increase over a period of five years for both the water and sewer utilities, which the city council adopted in 2016. Before the 2015 rate study, however, the city had not updated water rates in more than 10 years.

Blythe does not have a policy or procedure in place to conduct a comprehensive review of its utility rates. The consultant also recommended that to ensure that revenue remains sufficient, the city annually update the revenue analysis the consultant provided—because the assumptions used in the rate study would likely change. However, according to the finance director, she was not aware of that recommendation and thus has not done this analysis. Based on our review of the rate study and financial statements, although the city corrected the deficit through the rate increases, revenue still fell short of the study's projections. For example, in fiscal year 2018–19, the city generated \$190,000 less than the study projected. Although the city council budgeted for another rate study in fiscal year 2020–21, the city also needs to ensure that it regularly assesses the need to adjust its rates going forward.

As we discuss above, the city cannot afford to let its utility funds experience significant multiyear deficits or unintentionally subsidize those services. It cost the city about \$50,000 to hire a consultant to conduct the 2015 utility rate study and \$35,000 to conduct the 2019 fee study—less than it lost in water utility revenue and likely less than it cost the city to subsidize building inspection and permitting services. If the city regularly conducts these reviews, it will help to ensure that it has sufficient revenue to cover the cost of providing critical utilities as well as city services.

Recommendation to Address This Risk

To ensure that the city is adequately recovering its costs of providing services to residents, it should develop a policy to assess the need to update its utility rates and service fees at least every five years, and adjust them if necessary.

The City's Contract Management Practices Rely Too Heavily on Institutional Knowledge, Increasing the Risk of Fraud, Waste, and Improper Payments

Blythe lacks adequate policies, procedures, and tools to support proper contract management. Contract management best practices include, among other things, monitoring contract expenditures, ensuring that only authorized personnel make changes to the contract, and verifying that all work is completed and accepted before the contract expiration date. Blythe's financial system lacks contract management functionality, and the city has not developed a method to compensate for this deficiency. For example, the city's financial system does not tie contract-related purchases to the contracts that authorize them, which hinders the city's ability to monitor expenditures. Moreover, the city has not developed a method to track

how many contracts are active or established procedures to close out contracts. Instead, city staff members rely heavily on informal practices and institutional knowledge when they review purchases to ensure that they are appropriate. Without sufficient policies and procedures to support contract management, the city increases the risk of human error and fraud.

Blythe Needs Better Administrative Tools to Properly Manage Its Contracts

Blythe's financial system does not link contract-related payments to their corresponding contracts, which hinders the city's ability to ensure that those payments are appropriate. We reviewed the *State Contracting Manual*, which provides guidance for managing contracts to state agencies, to identify best practices that may be applicable to the city. The manual explains that effective contract administration activities include monitoring contract expenditures and ensuring funding availability when contracts extend over multiple years. To monitor costs, Blythe's finance director reviews contract-related invoices to ensure that they align with the purpose of the funds used to pay the invoice, as specified in the city's budget. However, the city's budget is organized by categories of expenditures—not specific contracts—and the city has not developed a process to reliably link invoices to their specific contracts. According to the finance director, the city would need to purchase a contract management module from the software company that developed the city's financial system. However, while the finance director believed that it may be beneficial, because the city had other critical financial needs, she had not researched implementing the option until we brought this system deficiency to her attention.

Nonetheless, the ability to prompt city staff to process contract payments on time, to generate a report that aggregates the amount

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spent on a certain contract, and to track the duration of a contract would allow the city to monitor its contracts as well as ensure that it is making timely and valid payments. For example, we identified an instance in which the city paid a \$2,000 fee for a late payment on a lease agreement that specified payment due dates. However, staff explained that the city's practice is to wait to receive an invoice before processing a payment, and the city does not have a process to initiate payment without one. In this instance staff stated that the city did not receive the invoice in time to deliver the payment by the due date. Consequently, city staff did not make a timely payment on a lease the city was obligated to pay. Without a method to ensure that it can properly manage its contractual obligations, the city risks paying wasteful and avoidable late fees.

Moreover, the city has not implemented a clear or reliable method to compensate for these contract management deficiencies. The city creates purchase orders to document contract expenditures before issuing payment. In fact, although the city uses a numbering system to file its contracts, it does not include these numbers in its financial system or on the physical contract documents. Instead, its financial department uses a coding system that aggregates annual budgeted expenditures by type or project and source of funds but not by contract. As a result, the city's current process makes it difficult to reliably link contracts to the payments the contracts authorize or ensure that payments correlate to a valid contract. This practice also makes it difficult to identify the amount outstanding on a specific contract. However, the city has not developed any processes to ensure that its staff reliably links these purchase orders to their corresponding contract.

Blythe also has no way to ascertain how many of its contracts are still active. To support effective contract management, agencies must be able to identify the person responsible for administering a particular contract as well as

its total cost and duration. Blythe's city clerk maintains a list of its contracts, but this list lacks important information. For example, the contract list does not identify the project manager, duration, or cost of each contract. One entry we reviewed identifies a 2015 franchise agreement for sanitation services but does not indicate that the agreement will remain active until 2034—19 years later—or that it automatically renews. As a result, it is unlikely that a staff member will remember to renegotiate this contract. The contract list also is not complete. For example, we noted a lease agreement for police vehicles that cost the city more than \$180,000 over a four-year period, but it was not included in the contract list. Without a reliable method of identifying and tracking contracts, the city could miss opportunities to renegotiate contract terms or to budget appropriately for multiyear expenditures, and it could also risk making a payment for an expired contract.

“The city’s current process makes it difficult to reliably link contracts to the payments the contracts authorize.”

The city's informal practices are not adequate to ensure that the city's contracts are managed and monitored in a consistent manner. The city's municipal code states that the city manager is responsible for city purchases, but it does not specify responsibilities for managing contracts after they have been awarded. The interim city manager stated that she expects the finance director to conduct a thorough review of expenditures and notify her of any issues. However, instead of a system to ensure that finance staff can easily identify the contracts

that authorized purchases, the finance director has developed informal practices to inform her review. She stated that she uses a physical binder to keep track of information that informs the budget and her review of purchases; this includes city council meeting minutes that pertain to finance and correspondence that is shared with her. In addition, she has developed her own tracking spreadsheets to monitor contract expenditures. However, she explained that she determines what information to retain on a case-by-case basis in an effort to supplement her existing knowledge of the city's expenditures—generally consisting of what she can retain in her memory. Further, we found that her spreadsheets did not contain enough information to support effective monitoring without heavy reliance on institutional knowledge. Although the spreadsheets identify budget categories, they do not identify specific contracts, or the start and expiration dates and total amount of those contracts. Given that the city entered into at least 100 contracts from 2016 through 2020, it is not reasonable to expect that staff members would remember all of the necessary details to effectively monitor contract performance and ensure that expenditures are appropriate for that number of contracts over multiple years. Further, informal practices performed outside of the financial system create a risk that oversight will be inconsistent, and they increase the risk of fraud and human error, which could result in improper payments.

Blythe Needs Sufficient Policies and Procedures to Protect It From Making Improper Payments or Questionable Decisions

Blythe also lacks policies or procedures to ensure that only individuals with proper authority make changes to existing contracts. The city's municipal code authorizes only the city manager to make purchases under \$15,000 and requires city council approval for purchases above that amount. It does not assign approval authority to any other staff member or provide guidance on how city

“Our review of city expenditures identified two instances that demonstrate Blythe's need to develop clear guidance.”

staff should handle changes, amendments, or extensions to contracts. Further, the finance director stated that the city does not have any contract management policies outside of the municipal code. Our review of city expenditures identified two instances that demonstrate Blythe's need to develop clear guidance. In 2019 a city contract designated the former public works director—a position that does not have purchasing authority established in the city's municipal code or by council approval—as both the project manager and the designated city representative for a street rehabilitation project. Neither the municipal code nor the contract clearly indicate what authority, if any, he had to increase the amount of the contract. Nonetheless, he signed a contract change order that increased the contract by \$33,500 when he was not explicitly authorized to do so. In total, the contract's five change orders exceeded the city council's approved budget of \$1,064,662 for the contract by more than \$40,000. Although the city's actual expenditures on the contract—\$1,019,518—fell slightly below the city council's approved budget, these contract change orders might have exposed the city to unplanned expenditures.

In June 2020, the interim public works director made a questionable decision to extend a contract for waste water services despite acknowledging that the services were inadequate and that the contractor was not performing as expected. The contract approved by the city council contained a clause that allowed the city to extend the services for two

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years and a clause that allowed the project manager to approve additional services. The interim public works director sent a letter to the contractor dated 15 days before the contract expired stating that the city would continue the services. This decision could have committed Blythe to pay up to another \$117,000 for the services. Moreover, when we brought this to the attention of the interim city manager and finance director, they stated they were not aware of the letter and that the interim public works director was not authorized to extend the contract. After we brought this issue to the city's attention—six months after the date of the letter—the interim city manager sent notice to the contractor that because the former interim public works director had acted without authorization, the contract had expired pursuant to its own terms. Nonetheless, if the city had more robust contract management practices, it might have identified the need to end the contract sooner.

Blythe has not developed contract close-out procedures that could help reduce risks. Effective contract management practices include reallocating unused funds and documenting information regarding the contractor's performance. These practices help to ensure that the city does not enter into another contract with an entity that performed poorly or that the city does not process payments on an expired contract. For example, the interim city manager ended a contract to recruit staff because the city could not afford to pay for additional staff in the following fiscal year. However, she could not provide documentation to demonstrate that the contractor received notice ending the contract, and there was no indication of the closure in the city's records. Although the city made only one of five payments on the contract, when the city fails to document such decisions, it risks the possibility that contractors may continue to perform work and bill for services the city no longer needs or cannot afford.

Collectively these deficiencies create an unnecessary reliance on institutional knowledge that increases the risk of fraud,

waste, or improper payments. In the absence of reliable tools, staff must rely on their own understanding of the city's expectations, which increases the risk of error and limits their ability to process expenditures efficiently with adequate oversight. Further, as staff with institutional knowledge retire or separate, the city risks losing information that could help it make prudent financial decisions. The finance director agreed that there were some deficiencies in the city's policies as it relates to contract management after we brought these issues to the city's attention. As a result, staff began drafting new policies and procedures to address our concerns.

Recommendations to Address This Risk

- *To ensure that it can effectively monitor contracts, the city should develop procedures to clearly identify in its financial system the contract authority for a contract-related purchase and procedures to close out expired contracts.*
- *To ensure that it can properly manage its contracts, city management should develop a system for tracking contracts that identifies the total contract amount, the time period, and any relevant special terms.*
- *To ensure that changes to contracts are appropriate, city management should develop a policy that provides guidance for making changes to existing contracts and clearly establishes roles, responsibilities, and approval authority for designated city representatives.*

The City Has Needed a Permanent City Manager for Years

Blythe has needed a permanent city manager for years, but it abandoned its 2018 recruitment contract for hiring one and has not prioritized

the use of financial resources to relaunch its efforts. The city manager serves as the chief executive officer of the city and is responsible for administering and evaluating its activities and operations. This includes developing and implementing the city’s goals, preparing long-term financial plans and budgets, and reporting on such processes to the city council. The current interim city manager has been in the role of city manager since the city council appointed her in July 2017 after the previous city manager resigned. The interim city manager also held the position as the result of a prior interim appointment from March 2015 to July 2016. By hiring a permanent city manager to focus on the core responsibilities outlined above, Blythe would ensure that it has stability in this critical administrative oversight role. Filling the position would also remove some of the work burden from the current interim city manager and allow the city to more effectively plan its next steps for improving its financial stability and its ability to continue providing services to residents in the long term.

The interim city manager is a long-time staff member who was already responsible for a large workload before taking on the additional interim city manager responsibilities. She has been employed with the city for more than 15 years, during which time she has taken on increasing responsibilities. In 2014 she was promoted to the position of deputy administrative services director. According to the interim city manager, a prior city manager created this position in an effort to consolidate the responsibilities of multiple roles lost during staffing reductions dating back to 2008, including the city’s personnel manager and recreation department director. In addition to these two positions, she also serves as the city clerk.

The city council’s continued appointment of its current interim city manager risks burning out a dedicated, long-standing staff member—who has a wealth of experience and institutional knowledge—with an overburdened workload. The city council generally praised the interim city manager’s efforts, but some council

members have also expressed concerns that her workload is excessive. Best practices indicate that managers need to have time to carry out their duties and responsibilities as a component of conscientious management. Managers and supervisors also should not fill the roles of more than one employee as this negatively affects their ability to effectively perform their responsibilities within an organization. In addition to the roles already discussed, the interim city manager also serves as the city clerk. Moreover, the city has other vacant management positions whose responsibilities the interim city manager is ultimately accountable for until they are filled, as demonstrated in Figure 3. These

Figure 3
Blythe’s Interim City Manager Holds Numerous Positions and Responsibilities



Source: City personnel records, organization charts, staff directory, city municipal code, and interviews with city management.

* The city is actively recruiting for a public works director, and the city planner position is still frozen.

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duties demand time and attention beyond those already required by her role as interim city manager, and it is unreasonable to expect that one person could effectively perform all of the responsibilities of these roles.

In March 2018, the city council contracted with a firm to search for a new permanent city manager but abandoned the effort when it reallocated the necessary funding to balance the budget for fiscal year 2018–19. Hiring a permanent city manager would require the city to increase spending on personnel costs to cover a full city manager salary. The city pays the interim city manager about \$35,000 above her regular annual salary under the current arrangement, and it would need to spend an additional \$165,000 plus the cost of any benefits provided to hire a full-time, permanent city manager. While the

current arrangement saves the city money in personnel costs, the city should consider the greater long-term cost and lasting operational and financial risks—such as the continued lack of long-term planning and the continued dependence on one individual to perform the duties of several executive managers—should it continue without a permanent city manager.

Recommendation to Address This Risk

To ensure that the city has a critical administrative component in place that will allow it to plan its next steps to improve its financial stability and continue providing services to residents, it should begin the process for hiring a permanent city manager by June 2021.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
California State Auditor

March 23, 2021

Appendix A

Scope and Methodology

In February 2020, the Audit Committee approved a proposal by the State Auditor to perform an audit of Blythe under the local high risk program. We conducted an initial assessment of Blythe in December 2019, in which we reviewed the city's financial and operating conditions to determine whether it demonstrated characteristics of high risk pertaining to the following six risk factors specified in state regulations:

- The local government agency's financial condition has the potential to impair its ability to efficiently deliver services or to meet its financial or legal obligations.
- The local government agency's ability to maintain or restore its financial stability is impaired.
- The local government agency's financial reporting does not follow generally accepted government accounting principles.

- Prior audits reported findings related to financial or performance issues, and the local government agency has not taken adequate corrective action.
- The local government agency uses an ineffective system to monitor and track state and local funds it receives and spends.
- An aspect of the local government agency's operation or management is ineffective or inefficient; presents the risk for waste, fraud, or abuse; or does not provide the intended level of public service.

Based on our initial assessment, we identified concerns about Blythe's financial condition and financial stability as well as aspects of its operations that were ineffective or inefficient. The table lists the resulting audit objectives and related procedures that address these risk factors.

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Table
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Identified and reviewed relevant laws, regulations, and other background materials applicable to Blythe.</p>
<p>2 Review and evaluate Blythe's current financial condition and ability to meet its short-term and long-term financial obligations while continuing to provide services to its residents.</p>	<ul style="list-style-type: none"> • Evaluated the city's financial statements to determine its financial condition based on local high risk program financial indicators. • Reviewed financial statements to determine all outstanding bonds, loans, and leases, and worked with the finance director to calculate annual payments and balances. Determined that the city is largely using dedicated revenue for bond and loan or lease payments; however, in the report we discuss a loan to the golf course that does not have a dedicated revenue source. • Reviewed the city's former redevelopment agency's implementation plans. • Reviewed outstanding pension and OPEB liabilities and projections of those liabilities.
<p>3 Identify the causes of Blythe's financial challenges and determine whether the city has developed an adequate plan for addressing those challenges, including the following:</p> <p>a. Determine whether the city uses revenue generated for specific purposes appropriately.</p> <p>b. Assess the city's efforts to improve its financial condition by increasing revenue and reducing expenses.</p>	<ul style="list-style-type: none"> • Identified the city's dedicated revenue sources; determined the legal authority to increase tax revenue; and evaluated revenue estimates, actual amounts, and projections. • Assessed the city's procedures for tracking restricted funds and determined they were reasonable. • Evaluated the two tax proposals approved by voters, reviewed projections and, as available, actual amounts collected. • Consulted with the interim city manager to identify the city's attempts to pursue and promote economic development opportunities. In particular, we evaluated the former redevelopment agency's attempt to eliminate blight by reviewing implementation plans. • Reviewed the city's financial statements and consulted the finance director to identify significant expense reductions.
<p>4 Determine whether Blythe's budgeting processes comply with best practices. Evaluate the city's procedures and underlying assumptions for projecting future revenue and expenditures, and determine whether they result in balanced budgets and accurate financial forecasts.</p>	<ul style="list-style-type: none"> • Reviewed GFOA budgeting best practices and identified key practices that the city should follow. • Reviewed the city's documentation and interviewed city staff to compare Blythe's budget practices to the budgeting best practices we identified, and determined whether Blythe is following each. • Evaluated the city's process to establish financial forecasts and projections.
<p>5 Assess Blythe's process for setting, increasing, or decreasing fees or rates to ensure that it complies with applicable laws, rules, ordinances, regulations, and best practices. For a selection of these fees and rates, determine whether they cover the city's costs of providing services.</p>	<ul style="list-style-type: none"> • Determined the city's process for assessing rates and fees, and if necessary, changing its water and solid waste utility rates. • Reviewed financial statements and reports and interviewed key personnel to determine whether the city's rate-setting strategy is on track to cover the cost of its water and solid waste utilities. • Determined the city's process for setting, increasing, or decreasing user fees for city services. • Determined whether the city complied with applicable laws, policies, and best practices when changing its user fee rates for the selected program areas.
<p>6 Examine Blythe's efforts to fill key management and staff positions and maintain organizational and leadership continuity within city operations.</p>	<ul style="list-style-type: none"> • Reviewed the city's staffing records for the past five fiscal years to determine when the city had an interim city manager or finance director. • For a selection of other key positions, identified when there were vacancies and how general staffing levels have changed from fiscal years 2015–16 through 2019–20. • Evaluate whether turnover among Blythe's finance director, city manager, or overall staffing correlates with any issues identified in the city's efforts to reduce expenses, resolve negative fund balances in enterprise and nonmajor governmental funds, or the process to establish financial forecasts and projections.

AUDIT OBJECTIVE	METHOD
<p>7 Determine the effectiveness of Blythe’s financial and organizational internal controls.</p>	<ul style="list-style-type: none"> Reviewed the U.S. Government Accountability Office’s (GAO) guidance for internal controls and identified key internal controls for good city governance. Determined whether the city has implemented key controls by reviewing applicable city documentation and interviewing city staff. For a selection of five major city expenditures within the last three fiscal years, reviewed city contract and financial documentation to evaluate whether the city complied with applicable requirements.
<p>8 Evaluate the financial viability of Blythe’s police and fire departments and its ability to provide effective public safety services to its residents, given its resource constraints.</p>	<ul style="list-style-type: none"> Reviewed the city’s financial reports for the police and fire departments to determine changes in each department’s funding levels. Interviewed relevant staff to identify any outstanding needs the departments have and how they determined those needs. Identified best practices in a selection of cities that have experienced and ameliorated issues with vacant buildings and associated crime.
<p>9 Review and assess any other issues significant to the audit.</p>	<p>Not applicable.</p>

Source: Analysis of information and documentation identified in the column titled Method.

Assessment of Data Reliability

The GAO, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that is used to support our findings, conclusions, and recommendations. In performing this audit, we relied on data from Blythe’s financial accounting system for the purposes of evaluating the city’s budget assumptions. We verified the accuracy and completeness of these data by comparing the amounts reported to the city’s actual revenue and expenditures and other supporting documentation. Accordingly, we found the city’s financial accounting system to be sufficiently reliable for the purposes of the analysis we conducted. Further, we relied on electronic reports we obtained from the city’s personnel system for the purposes of evaluating employment history. We performed dataset verification and testing

of key data elements in these reports and did not identify any issues. We therefore determined that the personnel records used in our analysis are sufficiently reliable for the purposes of the analysis we performed. We also obtained and relied on electronic contract data for the purposes of evaluating Blythe’s internal controls. We performed dataset verification and testing of key data elements and identified issues with these data. To assess completeness, we obtained physical files on-site and identified further inconsistencies with these data. Therefore, we determined that these contract data were of undetermined reliability, and we describe these limitations in the report. Although we recognize that these limitations may affect the precision of numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

LOCAL HIGH RISK

Appendix B

The State Auditor's Local High Risk Program

Government Code section 8546.10 authorizes the State Auditor to establish a local high risk program to identify local government agencies that are at *high risk* for potential waste, fraud, abuse, or mismanagement or that have major challenges associated with their economy, efficiency, or effectiveness. Regulations that define high risk and describe the workings of the local high risk program became effective on July 1, 2015. Both statute and regulations require that the State Auditor seek approval from the Audit Committee to conduct high risk audits of local entities.

To identify local entities that may be at high risk, each year we analyze audited financial statements and pension-related information for more than 470 California cities. This detailed review includes using financial data to calculate indicators that may be indicative of a city's fiscal stress. These indicators enabled us to assess each city's ability to pay its bills in both the short and long term. Specifically, the indicators measure each city's financial reserve, debt burden, cash position or liquidity, revenue trends, and ability to pay for employee retirement benefits. In most instances, the financial indicators determined in 2019 rely on information from fiscal year 2016–17.

Based on our analysis from 2019, we identified several cities, including Blythe, which appeared to meet the criteria for being at

high risk. We visited each of these cities and conducted an initial assessment to determine the city's awareness of and responses to these potential high-risk issues as well as to identify any other ongoing issues that could affect our determination of whether the city was at high risk. After conducting our initial assessment, we concluded that Blythe's circumstances warranted an audit. In February 2020, we sought and obtained approval from the Audit Committee to conduct an audit of Blythe.

If a local agency is designated as high risk as a result of an audit, it must submit a corrective action plan. If it is unable to provide its corrective action plan in time for inclusion in the audit report, it must provide the plan no later than 60 days after the report's publication. It must then provide written updates every six months after the audit report is issued regarding its progress in implementing its corrective action plan. This corrective action plan must outline the specific actions the local agency will perform to address the conditions causing us to designate it as high risk and the proposed timing for undertaking those actions. We will remove the high risk designation when the agency has taken satisfactory corrective action.

LOCAL HIGH RISK



CITY OF BLYTHE

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Phone (760) 922-6161 • Fax 760-922-4938

March 4, 2021

Elaine M. Howle, CPA*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Response to State Auditor's Draft Report Titled "City of Blythe: Inadequate Planning and Other Ineffective Management Practices Hinder Its Ability to Provide Needed Services to Its Residents"

Dear Ms. Howle:

Thank you for the opportunity to respond to the above-referenced Draft Audit Report prepared as part of the State's Local High-Risk program and provided to the City of Blythe on February 26, 2021. Although we appreciate the time the State's audit team dedicated to preparing this report, we do not believe it does enough to illustrate how far the City has come over the past 12 years to ensure needed services will continue to be provided to residents. During that time, a substantial amount of work was undertaken to improve the financial health of the City. That work will continue until all issues have been addressed and/or corrected.

In 2008, the City faced a \$3.4 million deficit in the General Fund. There were additional funds in a deficit position as well. From that time on, City staff, prior City Councils and the current City Council have worked tirelessly to correct these issues, most likely avoiding bankruptcy, and instead putting the City on a path to solvency. It should be highlighted that most of the City's deficit funds were corrected during the worst recession since the Great Depression.

As the City faced a number of challenges, priorities had to be set. The City could not afford to correct everything at once. The City made significant expenditure reductions, but revenue adjustments were prioritized based on the community's willingness and ability to pay increased taxes and/or fees for service. During this time, the City adjusted utility fees, user fees and added additional sales tax and cannabis tax revenue. Cannabis was a new industry the City championed to spur economic development in the City. The report does not reflect two additional attempts the City made to increase revenue through a Transient Occupancy Tax Ballot Measure in 2009 and Transient Occupancy Tax and Sales Tax Ballot Measures in 2014. The voters did not approve any of these proposed ballot measures. ①

While the City worked to improve its financial health, there was little ability to do long-term planning. The City was in survival mode. As the financial condition improved, the City began long term planning efforts. In 2019, the City Council adopted a Reserve Policy to allocate budget ②

* California State Auditor's comments begin on page 33.

LOCAL HIGH RISK

surpluses to unfunded pension liabilities, future capital purchases, address natural disasters, and have three months of operating reserve on hand to weather revenue shortfalls. City staff is currently working on a five-year plan to replace aging equipment and infrastructure and address deferred maintenance. Although a formal plan may not be in place, it does not mean efforts have not been made to plan for the City's future.

- ③ The report alludes that an increase in crime is tied to Police Department funding. The report states that the Police Department's budget was reduced by \$730,000 between Fiscal Year 2014-15 and Fiscal Year 2020-21. This was not due to reductions in staffing levels or the level of service provided to the community, which remain unchanged. This was due to changes in pension budgeting and the loss of grant funding, which give the appearance that City expenditures are less.
- ④
- ⑤ The report states violent crimes in the City have increased nearly 50% since 2017. Although we have seen increases in certain violent crimes, other violent crimes such as rapes and assaults have decreased, per the FBI's Uniform Crime Reporting Statistics. During this reporting period, there was only one homicide in the City, which occurred in 2018. The City of Blythe remains a safe place to live. Suggesting there was an overall increase in crime of 50% is misleading when the actual number of crimes committed remains low.

- ⑥ The report states that the City's contract management practices rely too heavily on institutional knowledge, increasing the risk of fraud, waste, and improper payments. However, during the audit, no instance of fraud or improper payments was found. In fact, the auditors found the City generally adhered to GFOA's best practices for budgeting and internal controls and that the City's methods for tracking restricted funds were reasonable. This is an important finding we would like to highlight.

The City intends to further address the concerns of the State Auditor's Office in the corrective action plan. The City will address each recommendation and provide a response, with the ultimate goal of eliminating the "High Risk" designation.

Should you have any questions or wish to discuss this further, do not hesitate to contact me at (760) 922-6161.

Sincerely,



Mallory Crecelius
Interim City Manager
City of Blythe

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CITY OF BLYTHE

To provide clarity and perspective, we are commenting on Blythe's response to the audit. The numbers below correspond to the numbers we have placed in the margin of Blythe's response.

The city notes its attempts to improve its financial condition through tax ballot measures in 2009 and 2014, which voters rejected. Although we included some historical information in the report, we focused on more recent years and on the city's successes in adopting cannabis and sales taxes, which voters approved.

We acknowledge the city's implementation of a reserve policy on page 5 of the audit report.

The city states that we are implying a connection between higher crime and reduced police funding. In fact, on page 13 we clearly state that we are not suggesting that the decreases in police department funding caused crime increases. Rather, we state that the city may have to commit additional resources to address recent increases in violent crimes.

The city states that the decrease in funding for its police department since fiscal year 2014–15 was the result of changes to pension budgeting and the loss of grant funding, not staffing reductions. Although we note that the city budget for police officers did drop from 21 to 20 full-time positions during that time, we generally agree with the city's statement. Thus, to provide greater clarity, we added a sentence on page 13 to note that these budget reductions for the time period in question were generally made without staffing reductions.

The city objects to our use of aggregate statistics for violent crime in the city and states that our statistics are misleading. However, the crime statistics we present in the audit report are accurate. The FBI's Uniform Crime Reporting Statistics show an overall increase in violent crimes for Blythe of nearly 50 percent. This does not mean that certain types of violent crimes have not decreased or remained relatively constant, but rather that the city will need to address this overall trend of increasing crime and that doing so may require additional resources.

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LOCAL HIGH RISK

- ⑥ Although the city is correct that we found no instances of fraud or improper payments, the city's lack of adequate policies and procedures related to contract management—a condition we describe in pages 19 through 22—increases the risk of fraud.