

CITY OF WEST COVINA

AUDIT COMMITTEE

AGENDA

THURSDAY, JUNE 28, 2018, 4:00 P.M.
SPECIAL MEETING

WEST COVINA CITY HALL
MANAGEMENT RESOURCE CENTER, 3RD FL., RM. 314
WEST COVINA, CALIFORNIA 91790

James Grivich, Chair
Vacant, Vice Chair
Corey Warshaw, Audit Committee Member
Tony Wu, Audit Committee Member
Colleen Rozatti, Audit Committee Member
David Lin, Audit Committee Member
Marsha Solorio, Audit Committee Member

AMERICANS WITH DISABILITIES ACT

The Committee complies with the Americans with Disabilities Act (ADA). If you will need special assistance at Committee Meetings, please call (626) 939-8433 (voice) or (626) 960-4422 (TTY) from 8:00 a.m. to 5:00 p.m. Monday through Thursday, at least 48 hours prior to the meeting to make arrangements.

AGENDA MATERIAL

Agenda material is available for review at the West Covina City Clerk's Office, Room 317 in City Hall, 1444 W. Garvey Avenue South and at www.westcovina.org. Any writings or documents regarding any item on this agenda not exempt from public disclosure, provided to a majority of the Committee that is distributed less than 72 hours before the meeting, will be made available for public inspection in the City Clerk's Office, Room 317 of City Hall during normal business hours.

PUBLIC COMMENTS
ADDRESSING THE AUDIT COMMITTEE MEMBERS

Any person wishing to address the Committee on any matter listed on the agenda or on any other matter within their jurisdiction should complete a speaker card that is provided at the entrance and submit the card to the Committee Secretary.

Please identify on the speaker card whether you are speaking on an agenda item or non-agenda. Requests to speak on agenda items will be heard prior to requests to speak on non-agenda items. All comments are limited to three (3) minutes per speaker.

AGENDA

**CITY OF WEST COVINA
AUDIT COMMITTEE**

THURSDAY, JUNE 28, 2018, 4:00 P.M.
SPECIAL MEETING

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

ORAL COMMUNICATIONS - Three (3) minutes per speaker

Please state your name and city of residence for the record.

1. APPROVAL OF MINUTES

DECEMBER 7, 2017, SPECIAL AUDIT COMMITTEE MEETING MINUTES

Motion by _____, second by _____
to approve the Special Audit Committee minutes from the meeting held on
Thursday, December 7, 2017, as presented.
Motion carried by a vote of _____.

2. AUDIT COMMITTEE NOMINATIONS

RECOMMENDATION:

It is recommended that the Audit Committee nominate a:

1. Chair
2. Vice-Chair

1. NOMINATION OF CHAIR

Motion by _____, second by _____

To elect _____ for the Chair.

Motion carried by a vote of _____.

2. NOMINATION OF VICE-CHAIR

Motion by _____, second by _____

To elect _____ for the Chair.

Motion carried by a vote of _____.

3. SINGLE AUDIT REPORT ON FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Single Audit Report on Federal Awards for the year ended June 30, 2017.

4. FISCAL YEAR 2017-18 AUDIT PLANNING SESSION

RECOMMENDATION:

It is recommended that the Audit Committee recommend any specific areas to be reviewed during the Fiscal Year 17-18 audit process.

5. RECONCILIATION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT WITH THE PRELIMINARY BUDGET

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Reconciliation of the Comprehensive Annual Financial Report with the Preliminary Budget.

ADJOURNMENT

Motion by _____, second by _____

To adjourn the meeting at _____.

Motion carried by a vote of _____.



AGENDA STAFF REPORT

City of West Covina

DATE: June 28, 2018
TO: Audit Committee
FROM: Judy Lancaster
Financial Consultant
**SUBJECT: DECEMBER 7, 2017 SPECIAL AUDIT COMMITTEE MEETING
MINUTES**

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Minutes of the Special Audit Committee Meeting on December 7, 2017.

Prepared by:

Reviewed and Approved by:

Handwritten signature of Valerie Gonzales in blue ink.

Valerie Gonzales
Administrative Assistant I

Handwritten signature of Judy Lancaster in blue ink.

Judy Lancaster
Financial Consultant

ATTACHMENT:

Attachment No. 1 – Minutes of the Special Audit Committee Meeting December 7, 2017

CITY OF WEST COVINA

AUDIT COMMITTEE

THURSDAY, DECEMBER 7, 2017 4:30 p.m.
SPECIAL MEETING

WEST COVINA CITY HALL
MANAGEMENT RESOURCE CENTER, 3RD FL., RM. 314
1444 W. GARVEY AVENUE SOUTH
WEST COVINA, CALIFORNIA 91790

MINUTES

CALL TO ORDER – Chair James Grivich called the meeting to order at 4:30 p.m.

PLEDGE OF ALLEGIANCE – Led by Chair James Grivich.

ROLL CALL

Present: Chair James Grivich
Vice Chair Doran Barnes
Committee Member Colleen Rozatti
Committee Member Mike Spence
Committee Member Corey Warshaw

Staff Present: City Manager Chris Freeland, Assistant City Manager Nikole Bresciani,
Interim Finance Director Nicole Lugotoff, Senior Administrative
Assistant Nancy Ramos

ORAL COMMUNICATIONS

No speakers.

1. APPROVAL OF MINUTES

JUNE 7, 2017 SPECIAL AUDIT COMMITTEE MEETING MINUTES

The auditors discussed the review of the Japan Trip from 2016 and review with current travel policy. The auditors reported that all expenses were within the travel policy.

After a very long discussion between staff, the Committee Members and the auditors, a motion was made to amend the minutes of June 7, 2017, to request a recommendation from the auditors on the review of the Policies and Procedures on recording overtime salaries and being within budget.

Motion by Warshaw, seconded by Barnes to approve the amended Special Audit Committee minutes from the meeting held on Wednesday, June 7, 2017.
Motion carried by a vote of 4-1 abstain.

2. COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AND OTHER RELATED REPORTS FOR THE YEAR ENDED JUNE 30, 2017

RECOMMENDATION:

It is recommended that the Audit Committee submit to the City Council the following letters and financial reports for the year ended June 30, 2017:

- Comprehensive Annual Financial Report;
- Government Auditing Standards Letter;
- Audit Communication Letter;
- West Covina Housing Authority Fund Financial Report;
- West Covina Housing Authority Fund Addendum to the Annual Progress Report;
- Air Quality Improvement Fund Financial Statements; and
- Agreed-Upon Procedures related to the City's calculation of the GANN Limit.

After a very long discussion between staff and the Committee Members, a motion was made by Barnes, seconded by Warshaw to approve the CAFR and other related reports for the year ended June 30, 2017.
Motion carried by a vote of 5-0.

ADJOURNMENT

Motion by Warshaw, seconded by Spence to adjourn the meeting at 5:40 p.m.
Motion carried by a vote of 5-0.

Minutes taken by: Nancy Ramos, Senior Administrative Assistant – Finance Department



AGENDA STAFF REPORT

City of West Covina

DATE: June 28, 2018
TO: Audit Committee
FROM: Judy Lancaster
Financial Consultant
SUBJECT: AUDIT COMMITTEE NOMINATIONS

RECOMMENDATION:

It is recommended that the Audit Committee nominate:

1. Chair; and
2. Vice-Chair

DISCUSSION:

On June 7, 2017, the Audit Committee nominated then Committee Member Barnes as Vice-Chair, and on June 7, 2017, the Audit Committee nominated Committee Member Grivich as Chair for the Audit Committee. Annually, City of West Covina Boards and Commissions select a Chair and Vice-Chair. It is recommended that the Audit Committee select a Chair and Vice-Chair at this time. Since there are no term limits currently for the seats of Chair and Vice-Chair on the Audit Committee, the Committee may confirm the existing positions or select a new Chair and Vice-Chair.

Prepared by:



Judy Lancaster
Financial Consultant



AGENDA STAFF REPORT

City of West Covina

DATE: June 28, 2018

TO: Audit Committee

FROM: Judy Lancaster
Financial Consultant

SUBJECT: SINGLE AUDIT REPORT ON FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Single Audit Report on Federal Awards for the year ended June 30, 2017.

BACKGROUND:

As a recipient of Federal grant funds in excess of \$750,000, the City is required to be in compliance with the financial reporting requirement of the Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The Single Audit Act of 1984 (amended in 1996) pronounced the reporting process for compliance, and is commonly known as the "Single Audit". A Single Audit is intended to provide a cost-effective audit of non-Federal entities, so that one audit is conducted for all Federal grant funds in lieu of individual audits. All Single Audits are due to the Federal reporting agencies nine months after the close of the fiscal year, (i.e., March 31, 2018). The Single Audit Report for the year ended June 30, 2017, was submitted to the Federal Audit Clearinghouse on March 29, 2018.

DISCUSSION:

The City's Single Audit Report on Federal Awards (Attachment No. 1) reported no findings for the year ended June 30, 2017. There was one major finding in the year June 30, 2016, Finding Number 2016-004, relating to the Federal Program U.S. Department of Housing and Urban Development Community Development Block Grant. It was determined that two of the required quarterly Federal Financial Reports (SF-425) for the fiscal year ended June 30, 2016, were not submitted timely. Additionally, the financial information included in the report for the quarter

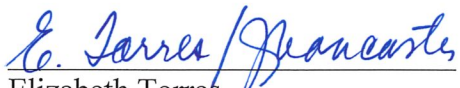
ended June 30, 2016, related to cash disbursements and cash receipts did not agree to the general ledger. This finding has been corrected during the year ended June 30, 2017.

FISCAL IMPACT:

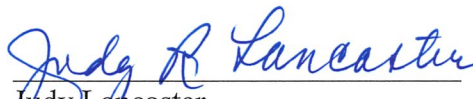
There is no fiscal impact associated with this item.

Prepared By:

Reviewed and Approved by:



Elizabeth Torres
Accounting Consultant



Judy Lancaster
Financial Consultant

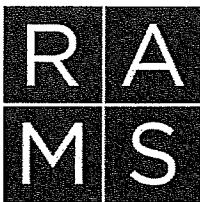
ATTACHMENT:

Attachment No. 1 – Single Audit Report on Federal Awards for the Year Ended June 30, 2017

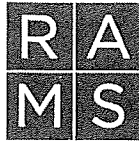
City of West Covina, California

Single Audit Report on Federal Awards

Year Ended June 30, 2017



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Lisa Dongxue Guo, CPA, MSA

To the Honorable Mayor and Members of City Council
of the City of West Covina
West Covina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Covina, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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**City of West Covina
Single Audit Report on Federal Awards
Table of Contents**

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards, in Accordance with the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs:	
Section I: Summary of Auditor's Results	8
Section II: Financial Statements Findings	9
Section III: Federal Awards Findings and Questioned Costs	9
Summary Schedule of Prior Audit Findings	10

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

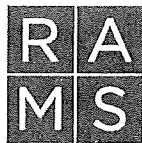
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 12, 2017



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
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To the Honorable Mayor and Members of City Council
of the City of West Covina
West Covina, California

MANAGERS / STAFF

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Brianna Schultz, CPA
Lisa Dongxue Guo, CPA, MSA

Report on Compliance for Each Major Federal Program

We have audited the City of West Covina's (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 12, 2017 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California

March 22, 2018 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 12, 2017).

**City of West Covina
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture				
<i>Passed through the State of California Department of Education</i>				
Summer Food Service Program for Children	10.559	04023-SFSP-19	\$ 8,158	\$ -
Total U.S. Department of Agriculture			8,158	-
U.S. Department of Housing and Urban Development				
<i>Direct Assistance</i>				
Community Development Block Grant	14.218*	B-11-MC-06-0532	1,419	-
Community Development Block Grant	14.218*	B-12-MC-06-0532	216,905	41,456
Community Development Block Grant	14.218*	B-14-MC-06-0532	266,787	35,653
Community Development Block Grant	14.218*	B-15-MC-06-0532	314,572	20,247
Community Development Block Grant	14.218*	B-16-MC-06-0532	737,218	24,473
Total U.S. Department of Housing and Urban Development			1,536,901	121,829
U.S. Department of Justice				
<i>Direct Assistance</i>				
Equitable Sharing Program	16.922*	CA1975	1,665,658	-
Subtotal			1,665,658	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0009	46	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0009	19,037	-
Subtotal			19,083	-
Total U.S. Department of Justice			1,684,741	-
U.S. Department of Transportation				
<i>Passed through the State of California, Department of Transportation</i>				
Highway Planning & Construction	20.205	STPL-5259(026)	9,642	-
Highway Planning & Construction	20.205	HSIPL-5259(027)	4,619	-
Subtotal			14,261	-
<i>Passed through the State of California, Office of Traffic Safety</i>				
Selective Traffic Enforcement Program (STEP)	20.600	PT 17142	7,957	-
Selective Traffic Enforcement Program (STEP)	20.608	PT 17142	12,909	-
Subtotal			20,866	-
Total U.S. Department of Transportation			35,127	-
U.S. Department of Treasury				
<i>Direct Assistance</i>				
Equitable Sharing Program	21.000	CA1975	141,011	-
Total U.S. Department of Treasury			141,011	-
U.S. Department of Health and Human Services				
<i>Pass-through from the County of Los Angeles, Department of Community & Senior Citizens Services</i>				
Special Programs for Aging, Title III, Part C, Nutrition Services	93.045	AAA-ENP1-1216-018	181,522	-
Total U.S. Department of Health and Human Services			181,522	-
U.S. Department of Homeland Security				
<i>Direct Assistance</i>				
Staffing for Adequate Fire & Emergency Response	97.083	EMW-2013-FH-00730	1,471,547	-
Subtotal			1,471,547	-
<i>Pass-through the State of California, County of Los Angeles</i>				
Homeland Security Grant Program	97.067	2015-00078	19,326	-
Subtotal			19,326	-
Total U.S. Department of Homeland Security			1,490,873	-
Total Expenditures of Federal Awards			\$ 5,078,333	\$ 121,829

* - Major Program

See accompanying notes to the schedule of expenditures of federal awards.

City of West Covina
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA), includes the federal awards activity of the City of West Covina (the City) that are reimbursable under federal programs of federal government for the year ended June 30, 2017. The information in this SEFA is presented in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a nonfederal agency or other organization. Only that portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected to use the 10-percent de minimis indirect cost rate, where applicable, allowed under the Uniform Guidance.

3. OUTSTANDING LOANS

The City has made several housing rehabilitation loans to qualified applicants using Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) funding. These loans bear interest up to 5% and are repaid when title to the property changes. There were new loans funded in the current year of \$144,015. The outstanding balance of these loans at June 30, 2017 is \$3,777,285.

4. SUBRECIPIENTS

During the fiscal year ended June 30, 2017, the City disbursed \$121,829 of federal awards to a subrecipients for the Community Development Block Grant (CFDA No. 14.218).

**City of West Covina
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017**

Section I: Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

Material weakness identified?	_____	Yes	_____	X	No
Significant deficiencies identified?	_____	Yes	_____	X	None Reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

Federal Awards

Internal control over major programs:

Material weakness identified?	_____	Yes	_____	X	No
Significant deficiencies identified	_____	Yes	_____	X	None Reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	Yes	_____	X	No
--	-------	-----	-------	---	----

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant
16.922	Equitable Sharing Program

Dollar threshold used to distinguish between type A and type B programs:	_____	\$750,000
--	-------	-----------

Auditee qualified as low-risk auditee?	_____	Yes	_____	X	No
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**City of West Covina
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

Section II: Financial Statement Findings

No findings to be reported.

Section III: Federal Awards Findings and Questioned Costs

No findings to be reported.

**City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

CURRENT STATUS OF PRIOR YEAR FINANCIAL STATEMENTS FINDINGS

Finding Number 2016-001

Significant Deficiency

Criteria

An important element of internal control over cash is the reconciliation process which enables City staff to identify any differences between the bank and general ledger balances and resolve such differences in a timely manner.

Condition and Context

Bank reconciliations were not completed timely during the first part of fiscal year 2015-16. During the interim and yearend fieldwork, the auditor noted that the Finance Department had an employee specifically hired to correct the problem and was diligent in improving their internal controls. The auditor also noted that the Finance Department has a daily cash management review in order to mitigate the risk of monthly bank reconciliations not being reviewed in a timely manner. This finding was considered a material weakness in the prior year and has now been downgraded to a significant deficiency as a result of the Finance Department's improvement in internal controls.

Cause

The City did not have procedures in place to ensure the timeliness of performing bank reconciliations.

Effect

The cash balances were not stated accurately until the bank reconciliations were prepared and necessary adjustments were made.

Identification as a Repeat Finding

This finding was previously reported as finding number 2015-002.

Recommendation

To improve internal control over the City's cash, we recommend that the monthly bank reconciliation process be completed and reviewed on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Management acknowledges the importance of bank reconciliations that are completed, reviewed and approved timely. A new and improved bank reconciliation format is in place and is reviewed upon completion by the Accounting Manager. Staff has begun to reconcile each bank account separately and all but the general checking are reconciled through July 2016. While staff has performed parts of the bank reconciliation for the general account through July 2016, the bank reconciliation for the general checking account has only been reconciled through December 2015 with a variance of less than \$1,000. On October 17, 2016, the consultant that is familiar with the software and who last reconciled the general checking account provided training to the Accountants to help resolve the remaining variances. It is anticipated that the bank reconciliations will be completed and timely by June 2017.

City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

CURRENT STATUS OF PRIOR YEAR FINANCIAL STATEMENTS FINDINGS (Continued)

Finding Number 2016-001 (Continued)

Status

This finding has been corrected.

Finding Number 2016-002

Significant Deficiency

Criteria

Inter-fund charges should be allocated in consideration of the relative benefits received.

Condition and Context

In the fiscal year ended June 30, 2015, a significant deficiency related to the allocation of overhead costs based on budget instead of actual costs was reported. During fiscal year ended June 30, 2016, the City was making an effort to correct its allocation of overhead costs, however, the correction was not fully implemented until after June 30, 2016.

Cause

An allocation and reconciliation of actual amounts was not performed.

Effect

Related costs that were allocated to the funds may not be in accordance with relative benefits received.

Identification as a Repeat Finding

This finding was previously reported as finding number 2015-003.

Recommendation

We recommend the City develop, document, and implement policies and procedures to ensure expenses are allocated in accordance with relative benefits received and in accordance with standard accounting practices.

Views of Responsible Officials and Planned Corrective Action

City staff issued a Request for Proposal (RFP) to hire a consultant to develop a new cost allocation plan for the City. The contract was awarded in September 2015 and the plan was completed in time to be incorporated into the Fiscal Year 2016-17 budget. Staff are also tracking their time on timesheets as opposed to being allocated automatically in payroll. In June 2016, Finance staff conducted a timesheet audit and has incorporated proper internal controls to ensure approved timesheets are submitted to Finance.

**City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

CURRENT STATUS OF PRIOR YEAR FINANCIAL STATEMENTS FINDINGS (Continued)

Finding Number 2016-002 (Continued)

Status

This finding has been corrected.

Finding Number 2016-003

Significant Deficiency

Criteria

Inter-fund charges should be allocated in consideration of the relative benefits received.

Condition and Context

In fiscal year ended June 30, 2015, a significant deficiency related to the allocation of wages and fringe benefits based on budget instead of actual costs was reported. During fiscal year ended June 30, 2016, the City was beginning to allocate wages and fringe benefits based on employee timesheets. However, the new policy wasn't fully implemented until after June 30, 2016.

Cause

An allocation and reconciliation of actual amounts was not performed.

Effect

Related costs that were allocated to the funds may not be in accordance with relative benefits received.

Identification as a Repeat Finding

This finding was previously reported as finding number 2015-004.

Recommendation

We recommend the City implement procedures to allocate wages and fringe benefits based on actual time worked for the City.

Views of Responsible Officials and Planned Corrective Action

The City's practice of allocating employees' wages and fringe benefits based on percentages that are reviewed during the budget process has been a long standing practice of the City. During Fiscal Year 2016-17, staff is now tracking their time on timesheets as opposed to being allocated automatically in payroll. In June 2016, Finance staff conducted a timesheet audit and has incorporated proper internal controls to ensure approved timesheets are submitted to Finance.

Status

This finding has been corrected.

**City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

CURRENT STATUS OF PRIOR YEAR FEDERAL AWARDS FINDINGS

Finding Number 2016-004

Significant Deficiency and Noncompliance

Federal Program U.S. Department of Housing and Urban Development - Community Development Block Grants; Direct Assistance; CFDA No. 14.218; Grant Identification Numbers: B-13-MC-060532, B-14-MC-060532, and B-15-MC-060532.

Criteria

Federal regulations require the submission of quarterly financial reports on the program. The format and content of this report is specified by the grantor.

Condition and Context

We determined that two of the required quarterly Federal Financial Reports (SF-425) for the fiscal year ended June 30, 2016, were not submitted timely. Additionally, the financial information included in the report for the quarter ended June 30, 2016, related to cash disbursements and cash receipts did not agree to the general ledger.

Questioned Costs

None

Cause

Staff turnover resulted in a miscommunication on the responsibility for submitting the Federal Financial Reports (SF-425).

Effect

The City did not comply with reporting requirements which could result in the grantor taking certain punitive actions.

Identification as a repeat finding

This finding was previously reported as finding number 2015-006 (previously reported as finding number 2014-004).

Recommendation

We recommend the City develop and implement procedures to ensure compliance with the reporting requirements of the grant.

**City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

CURRENT STATUS OF PRIOR YEAR FEDERAL AWARDS FINDINGS (Continued)

Finding Number 2016-004 (Continued)

Views of Responsible Officials and Planned Corrective Action

Management has developed and implemented procedures to ensure compliance in submitting the Federal Financial Reports (SF-425) in a timely manner. The Fiscal Year 2014-15 Single Audit was completed in March 2016, but the City had already submitted the SF-425 reports for the quarters ending September 2015 and December 2015. Subsequent to the findings reported, the City has properly submitted the SF-425 reports for the quarters ending March 2016 and June 2016 in a timely manner. Management also recognizes the importance of stating the financial information in the SF-425 reports to agree with the general ledger. Management will develop and implement procedures to ensure compliance with the reporting requirements of the grant.

Status

This finding has been corrected.



AGENDA STAFF REPORT

City of West Covina

DATE: June 28, 2018

TO: Audit Committee

FROM: Judy Lancaster
Financial Consultant

SUBJECT: FISCAL YEAR 2017-18 AUDIT PLANNING SESSION

RECOMMENDATION:

It is recommended that the Audit Committee recommend any specific areas to be reviewed during the Fiscal Year 2017-18 audit process.

DISCUSSION:

On July 16, 2018, the City's auditors, Rogers, Anderson, Malody & Scott, LLP will begin their interim testing for Fiscal Year 2017-18. During this phase of the audit, their principal objectives are to gather information about the City and its environment so they can conduct their audit planning and internal control testing.

In order to achieve the desired objectives of this phase of the audit, the auditors will:

- Hold brainstorming sessions with City staff to discuss the susceptibility of the City's financial statements to material misstatement and fraud.
- Review and evaluate the City's accounting and reporting processes by reviewing the prior year's audit workpapers, any City-prepared documents such as budgets, in-house financial reports, policies and procedures manuals, minutes of City Council Meetings, any other documents necessary to be in accordance with government auditing standards, and by using various analytical procedures. Analytical procedures will enhance their understanding of the City and will help them identify areas that may need further assessment and additional testing.

- Review and retain copies of any pertinent local, state and federal statutes, regulations, or charters that apply to the City.
- Evaluate the design of controls that are relevant to the audit by obtaining a thorough understanding of the City's internal controls over financial reporting and compliance by documenting key internal control components, utilizing questionnaires, walkthroughs, inquiring of the City's personnel, and observing and reviewing key supporting documentation.
- Test controls, if control risk is assessed below the maximum, by selecting a sample of transactions within the audit area being tested and reviewing supporting documentation, and evaluating the completeness of the documentation tested, as well as the adequacy of support and approvals as they appear on the support.
- Document and review with management, any findings noted during the testing of internal controls and provide a preliminary management letter that will include our recommendations for improving any weaknesses in operations. The letter will also include suggestions for improving the efficiency of the City's operations.
- Review the Policies and Procedures on recording overtime salaries and being within budget, and make appropriate recommendations.

Staff recommends that the Audit Committee ask any questions they may have of the auditors and discuss specific areas they may want the auditors to look into during their fieldwork.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

Prepared By:

Reviewed and Approved by:


Elizabeth Torres
Accounting Consultant


Judy Lancaster
Financial Consultant



AGENDA STAFF REPORT

City of West Covina

DATE: June 28, 2018

TO: Audit Committee

FROM: Judy Lancaster
Financial Consultant

SUBJECT: RECONCILIATION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT WITH THE PRELIMINARY BUDGET

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Reconciliation of the Comprehensive Annual Financial Report with the Preliminary Budget.

DISCUSSION:

There were differences noted between the Comprehensive Annual Financial Report (CAFR) and the Preliminary Budget. The CAFR consolidates two funds (110 and 219) while the Budget consolidates three funds (110, 219, and 120). In addition, the CAFR separates out Transfers In and Out while the Budget includes them in revenues and expenditures. The difference between the CAFR revenues and the Budget actual revenues of \$688,593.75 is an adjusting journal entry provided by the external auditors to write-off an old investment loss which was not amortized. The investment was retired by the City in prior years.

Prepared by:


Elizabeth Torres
Accounting Consultant

Reviewed and Approved by:


Judy Lancaster
Financial Consultant