

*CITY OF WEST COVINA, CALIFORNIA*  
*WEST COVINA HOUSING AUTHORITY FUND*

(A COMPONENT UNIT OF  
THE CITY OF WEST COVINA)

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2020**

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
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**June 30, 2020**

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

## INDEPENDENT AUDITOR'S REPORT

735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscca.net

The Board of Directors  
West Covina Housing Authority  
West Covina, California

### PARTNERS

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jenny W. Liu, CPA, MST

### MANAGERS / STAFF

Charles De Simoni, CPA  
Gardenya Duran, CPA  
Brianna Schultz, CPA  
Jingjie Wu, CPA  
Evelyn Morentin-Barcena, CPA  
Veronica Hernandez, CPA  
Tara R. Thorp, CPA, MSA  
Laura Arvizu, CPA  
Louis Fernandez, CPA  
Abigail Hernandez Conde, CPA, MSA  
Zoe Xinlu Zhang, CPA, MSA  
John Maldonado, CPA, MSA

### MEMBERS

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### Report on the Financial Statements

We have audited the accompanying financial statements of the West Covina Housing Authority Fund (the Housing Authority), (a component unit of the City of West Covina, California (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority, as of June 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Housing Authority and do not purport to, and do not present fairly the financial position of the City as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of that basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated February 17, 2021, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.

*Rogers, Anderson, Malody & Scott, LLP.*

San Bernardino, California  
February 17, 2021

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Balance Sheet**  
**June 30, 2020**

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**Assets**

Cash and investments	\$ 7,872,283
Notes and loans receivable, net	14,502,425
Advances to Successor Agency	2,057,833
Prepays	<u>82,420</u>
Total assets	<u><u>\$ 24,514,961</u></u>

**Liabilities and fund balance**

Liabilities:

Accounts payable	\$ 8,878
Other accrued liabilities	<u>14,267</u>
Total liabilities	<u>23,145</u>

Fund balance:

Nonspendable:	
Prepays	82,420
Restricted for:	
Affordable housing	<u>24,409,396</u>
Total fund balance	<u>24,491,816</u>
Total liabilities and fund balance	<u><u>\$ 24,514,961</u></u>

*The accompanying notes are an integral part of these financial statements.*

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the year ended June 30, 2020**

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**Revenues**

Investment income	\$	444,792
Revenues from other agencies		36,034
Other revenues		<u>52,731</u>
Total revenues		<u>533,557</u>

**Expenditures**

Current:

Public safety		189,368
Affordable housing		<u>526,695</u>

Total expenditures 716,063

Net change in fund balance (182,506)

Fund balance, beginning of year 24,674,322

Fund balance, end of year \$ 24,491,816

*The accompanying notes are an integral part of these financial statements.*

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Notes to the Financial Statements**  
**For the year ended June 30, 2020**

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**Note 1 – Organization and Summary of Significant Accounting Policies**

The City of West Covina (the City) was incorporated on February 23, 1923, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five-member City Council.

The following is a summary of the significant accounting policies of the City as they pertain to the West Covina Housing Authority Fund (the Housing Authority). Only the Housing Authority information is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City.

*Basis of Accounting*

These fund financial statements are reported using the modified-accrual basis of accounting. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both measurable and available). “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the liability is incurred, if measurable.

*Use of Estimates in the Preparation of Financial Statements*

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

**Note 2 – Cash and Investments**

Cash at June 30, 2020 consisted of the following:

	<u>Amount</u>
Pooled cash and investments	<u>\$ 7,872,283</u>

The City follows the practice of pooling cash and investments for all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

For more information on the City’s cash and investments as of June 30, 2020, please see the City’s Comprehensive Annual Financial Report.



*City of West Covina, California*  
**West Covina Housing Authority Fund**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2020**

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**Note 3 – Notes and Loans Receivable**

As of June 30, 2020, the following notes and loans receivable were outstanding:

Housing rehabilitation	\$ 353,888
First time home buyers	214,537
Housing preservation program	640,949
Home improvement program	738,213
Lark Ellen Towers	6,380,133
Executive Lodge Apartments Limited Partnership	6,271,978
West Covina Senior Villas, LLC	2,833,333
West Covina Senior Villas II, L.P.	8,513,884
Other loans	608,196
Allowance for doubtful accounts	<u>(12,052,686)</u>
Total	<u>\$ 14,502,425</u>

Several housing rehabilitation loans totaling \$353,888 have been made to qualified applicants using Community Development Block Grants received by the City and housing set-aside funds of the former Commission's redevelopment activities. These loans bear interest up to 5% and are repaid when title to the property changes. The City has included 5% of the balance in the allowance for doubtful accounts.

The Housing Authority has loans to first-time home buyers totaling \$214,537. Loans are secured by second trust deeds and bear interest at 5%. Principal and interest are deferred for five years and are due monthly in years 6 through 30. There were 19 individual loans outstanding at June 30, 2020 ranging from \$5,710 to \$22,407. The City has included 5% of the balance in the allowance for doubtful accounts.

The Housing Authority also has housing preservation loans to qualified applicants using housing set-aside funds totaling \$640,949. Principal and interest are deferred for ten years; after the tenth year loans bear interest at 5%. Loans are repaid after the tenth year or when title to the property changes. There were 81 individual loans outstanding at June 30, 2020 ranging from \$205 to \$10,659. The City has included 5% of the balance in the allowance for doubtful accounts.

Several housing improvement loans totaling \$738,213 have been made to qualified applicants. The loans are secured by second trust deeds. The City has included 5% of the balance in the allowance for doubtful accounts.

In May 1997, the Commission loaned \$4,270,000 to Lark Ellen Towers. The loan was transferred to the Housing Authority from the dissolved former Commission. The loan is secured by a deed of trust. The loan accrues interest at 3% per annum and requires annual payments equal to the maximum of \$35,000 or 50% of net profits earned by the project. The outstanding principal and accrued interest at June 30, 2020 was \$6,380,133.

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Notes to the Financial Statements**  
**For the year ended June 30, 2020**

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**Note 3 – Notes and Loans Receivable, (continued)**

In April 1998, the Commission loaned \$5,622,300 to Executive Lodge Apartments Limited Partnership (Promenade Apartments project). The loan was transferred to the Housing Authority from the dissolved former Commission. The loan is secured by a deed of trust. The loan was amended and restated on April 1, 2017, with a principal of \$6,056,621 accruing interest at 2.82% compounded annually and requires annual payments equal to 50% of “Available Cash Flow”. The outstanding principal and accrued interest at June 30, 2020 was \$6,271,978.

In May 2002, the Commission loaned \$4,360,000 to West Covina Senior Villas, LLC. The loan is secured by a deed of trust. The loan does not accrue interest. The loan requires annual payments of \$141,667 through May 2032 that are forgiven by the City unless the borrower defaults on the agreement. The outstanding principal at June 30, 2020 was \$2,833,333. The loan is likely to be forgiven; therefore, the City has included the entire balance in the allowance for doubtful accounts.

In May 2009, the Commission entered into an agreement with West Covina Senior Villas II, L.P. to provide \$8,600,000 for the acquisition of real property in the City and construction and maintenance of an approximately 65-unit apartment complex to be rented to low income and very low income senior citizens. The loan is secured by a deed of trust. The loan does not accrue interest and is forgiven so long as the borrower does not default on the loan. The outstanding principal at June 30, 2020 was \$8,513,884. The loan is likely to be forgiven; therefore, the City has included the entire balance in the allowance for doubtful accounts.

Other notes consist of affordable housing loans of \$400,000. The notes do not accrue interest and are forgiven unless the borrower sells or refinances the property. Additionally, the balance included a note of \$208,196 for low income housing which accrues no interest and is forgivable if the owner maintains the low and moderate income housing status. The outstanding principal of these loans combined at June 30, 2020 was \$608,196. The loan is likely to be forgiven; therefore, the City has included the entire balance in the allowance for doubtful accounts.

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Notes to the Financial Statements**  
**For the year ended June 30, 2020**

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**Note 4 – Advances to the Successor Agency of the City of West Covina**

Prior to the dissolution of the Commission's redevelopment activities on February 1, 2012, the City authorized several advances to be used for completing redevelopment projects throughout the community. As a result of the dissolution, the liabilities related to these advances were transferred to the Successor Agency. At June 30, 2020, the outstanding receivable side of these advances was as follows:

- (a) In May 2010, the Commission made an advance of \$6,529,308 from its housing assets to satisfy the Commission's Supplemental Educational Revenue Augmentation Fund (SERAF) obligation as allowed by Assembly Bill ABX4-26. The advance bears no interest. In May 2011, the Commission made an advance of \$1,344,269 from its housing assets to satisfy SERAF obligation as allowed by Assembly Bill ABX4-26. On February 1, 2012, these advances receivables were transferred to the Housing Authority. The advance bears no interest and the outstanding balance at June 30, 2020 was \$1,395,758.
- (b) The General Fund of the City has made several advances to the Commission totaling \$8,100,000 for administrative and capital improvement construction costs. Eighty percent (80%) of the balance is reported in the City's General Fund and remaining twenty percent (20%) balance is reported in the Housing Authority. The outstanding balance at June 30, 2020 was \$662,075.

With regard to repayment of the SERAF advances, repayment was authorized to begin in the 2014-15 fiscal year and annual repayments are capped pursuant to a statutory formula.

Successor Agency and the Housing Authority management believes, in consultation with legal counsel, that the SERAF advances are enforceable obligations payable by the Successor Agency under the Dissolution Act's repayment restrictions. Therefore, the Housing Authority has not recorded an allowance for uncollectible advances. That said, the Dissolution Act is a complicated statutory scheme and the State and local agency implementation thereof has been the subject of substantial dispute and litigation. As such, repayment of the SERAF advances cannot be guaranteed.

**Note 5 – Fund Balance**

Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Fund considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Fund considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts. A City's Council Ordinance or Resolution is the formal action that would effectively commit fund balances for a particular purpose.

*City of West Covina, California*  
**West Covina Housing Authority Fund**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2020**

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**Note 5 – Fund Balance, (continued)**

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Director of Finance has the authority, granted by the Council, to assign City resources. When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed. It is also the City’s policy to consider committed amounts as being reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The Housing Authority’s governmental fund balance at June 30, 2020 is presented below:

	West Covina Housing Authority Fund
Nonspendable:	
Prepays	\$ 82,420
Restricted for:	
Affordable housing	24,409,396
Total fund balance	\$ 24,491,816

## **REQUIRED SUPPLEMENTARY INFORMATION**

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Budgetary Comparison Schedule**  
**For the year ended June 30, 2020**

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	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Investment income	\$ -	\$ -	\$ 444,792	\$ 444,792
Revenue from other agencies	-	-	36,034	36,034
Other revenues	-	-	52,731	52,731
Total revenues	-	-	533,557	533,557
<b>Expenditures</b>				
Current:				
Public safety	207,722	231,077	189,368	41,709
Affordable housing	482,158	798,080	526,695	271,385
Total expenditures	689,880	1,029,157	716,063	313,094
Excess (deficiency) of revenues over expenditures	(689,880)	(1,029,157)	(182,506)	846,651
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(33,000)	-	33,000
Net change in fund balance	(689,880)	(1,062,157)	(182,506)	879,651
Fund balance, beginning of year	24,674,322	24,674,322	24,674,322	-
Fund balance, end of year	<u>\$ 23,984,442</u>	<u>\$ 23,612,165</u>	<u>\$ 24,491,816</u>	<u>\$ 879,651</u>

See accompanying note to required supplementary information.

*City of West Covina, California*  
*West Covina Housing Authority Fund*  
**Note to Required Supplementary Information**  
**For the year ended June 30, 2020**

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**Note 1 – Budgetary Data**

The annual budget adopted by the City Council provides for the general operation of the Housing Authority. The annual budget is adopted in summary by the City Council in June of each year. The resolution sets a combined appropriation of the fund for the operation of the Housing Authority.

The City Manager is authorized to transfer budgeted amounts between departments to ensure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations, must be approved by the City Council. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements' budget to actual comparisons are the final amended amounts.

The budget is formally integrated into the accounting system and employed as a management control device during the year.

Budgets for governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Operating appropriations lapse at the end of the fiscal year.



735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscca.net

**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**

**PARTNERS**

Brenda L. Odle, CPA, MST  
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Bradferd A. Welebir, CPA, MBA, CGMA  
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*Independent Auditor's Report*

The Board of Directors  
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West Covina, California

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Zoe Xinlu Zhang, CPA, MSA  
John Maldonado, CPA, MSA

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 West Covina Housing Authority Fund (the Housing Authority), (a component unit of the City of West Covina (the City), California), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated February 17, 2020. The financial statements present only the Housing Authority and do not purport to, and do not, present fairly the financial position of the City.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Housing Authority'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 Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2020-001, 2020-002 and 2020-003 to be material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-004 and 2020-005 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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.

We noted certain matters that we have reported to management of City of West Covina in a separate letter dated February 17, 2021.

### **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 Housing Authority'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 Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rogers, Anderson, Malody & Scott, LLP.*

San Bernardino, California  
February 17, 2021

**City of West Covina  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020**

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**2020-001 – Internal Control Environment  
*Material Weakness***

Criteria

An important element of internal controls over financial reporting is for the entity to have procedures in place to ensure that all applicable financial reporting guidelines are followed and properly applied.

Condition and Context

Over the past year, the City has experienced a high turnover at all levels in the Finance Department. As a result, the request for the Actuarial Valuation report for GASB 75 Accounting Information regarding Other Post-Employment Benefits (OPEB) and GASB 68 Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 was postponed.

This matter has been the cause of significant delays in producing complete, reconciled and properly adjusted financial statements and other information.

Cause

The City did not maintain the appropriate staffing levels within the Finance Department to ensure that all financial closing procedures were performed.

This is a repeat finding from prior year identified as finding 2019-001.

Effect

Delay in the completion of the audit and release of the Comprehensive Annual Financial Report.

Recommendation

We recommend the City maintain appropriate staffing in the Finance Department which will ensure that the policies and procedures in the year-end review process are properly carried out.

Management's Response

Turnover of staff at all levels in the City's Finance Department has been volatile over the past few years. The COVID-19 global pandemic has exacerbated this problem. The Finance Director has been diligently recruiting key personnel and has recently hired a Purchasing Manager and two new accountant positions. In addition, the City is currently recruiting for an Assistant Finance Director position. Once the Finance Department is fully staffed and trained, this finding will be resolved.

**City of West Covina  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020**

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**2020-002 – Errors in Pension Census Data  
*Material Weakness***

Criteria

In order for the City to record its liability for providing supplemental pension benefits to eligible participants, it must submit census data to actuaries who use this information to calculate the City's liability.

Condition and Context

During the audit, we were unable to vouch participant information from the census data to source documents.

Cause

Due to the turnover of key staff, there is a lack of appropriate documentation maintained in personnel files.

Effect

The City's pension liability could be improperly calculated and misstated.

Recommendation

We recommend the Finance Department review the participant files, ensure only eligible participants are included in the census data to be submitted and maintain proper documentation for the information provided to actuaries.

Management's Response

The census data that City staff was unable to locate was for employees that have not been employed with the City for quite some time. Human Resources will review and verify that all participants included in the census data are eligible employees. Staff will also make every attempt to update the files with current information.

**City of West Covina  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020**

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**2020-003 – Internal control over federal grant reporting  
*Material Weakness***

Criteria

An important element of internal controls over financial reporting is for the entity to have procedures in place for the accurate completion of the Schedule of Expenditures of Federal Awards (SEFA).

Condition and Context

Over the past year, the City has experienced a high turnover at all levels in the Finance Department. As a result, the SEFA has not been prepared by a consistent person and has required multiple revisions.

Cause

The City did not maintain the appropriate staffing levels within the Finance Department to allow for the proper preparation of the SEFA, including a responsible individual to perform a review of the completed SEFA.

This is a repeat finding from prior year identified as finding 2019-002.

Effect

The City could be under/over stating expenditures on the SEFA.

Recommendation

We recommend the City maintain proper staffing levels within the Finance Department to allow for the proper preparation of the SEFA, including a responsible individual to perform a review of the completed SEFA.

Management's Response

Turnover of staff at all levels in the City's Finance Department has been volatile over the past few years. The COVID-19 global pandemic has exacerbated this problem. The Finance Director has been diligently recruiting for key personnel and has recently hired a Purchasing Manager and two new accountant positions. In addition, the City is currently recruiting for an Assistant Finance Director position. Once the Finance Department is fully staffed and trained, this finding will be resolved.

**City of West Covina  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020**

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**2020-004 – Purchasing Approvals  
*Significant Deficiency***

Criteria

A system of purchasing approval should be established, maintained and updated in a timely manner.

Condition

During our audit of the City, we noted that a listing of authorized purchasing approval limit signatures was not updated to reflect changes in authorized personnel.

Cause

The City did not update authorized purchasing approvals in a timely manner.

Effect

Approval for payments could be completed by individuals without the appropriate authorizations.

Recommendation

We recommend that the City perform an annual review of authorized purchasing approvals on record and make any necessary updates as soon as possible.

Management's Response

City staff has reviewed and updated the list of authorized purchasing approvals and will continue to review and update the list on an annual basis.

**City of West Covina  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020**

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**2020-005 – Bank Reconciliation Review  
*Significant Deficiency***

Criteria

Bank reconciliations should be prepared, reviewed and approved in a timely manner.

Condition

During our audit of the City, we noted that bank statements for various accounts were not reviewed or approved in a timely manner.

Cause

Even though the bank reconciliations were prepared, there was no documentation for the date of completion and no indication of a review had been completed.

Effect

Errors in the reconciliations can go undetected for a period of time without the appropriate review and approval procedures.

Recommendation

We recommend that the City ensure that all bank reconciliations are reviewed in a timely manner and documentation of when the preparation and review are completed.

Management's Response

The City has multiple bank accounts for various functions. Each bank account is reconciled individually, signed and dated by the individual that prepared the account, and reviewed, signed, and dated by the supervisor. After the individual bank reconciliations are completed, a summary report is completed to combine all bank accounts. The summary sheet was not signed and dated by the preparer or the reviewer. Earlier this year, the City implemented a procedure to have both preparer and reviewer sign and date the summary sheet indicating that the preparation and review had been completed.