

***CITY OF WEST COVINA
AIR QUALITY IMPROVEMENT
SPECIAL REVENUE FUND***

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

JUNE 30, 2020

City of West Covina
Air Quality Improvement Special Revenue Fund

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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
ramscpa.net

The Honorable Mayor and
City Council of the City of West Covina
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
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Report on the Financial Statements

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund (the Fund) 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 City's preparation and fair presentation of the Fund's 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 City's internal control related to the Fund. 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 Fund of the City, 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 2, the financial statements present only the Fund 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 City'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 related to the Fund. 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 Fund's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
February 17, 2021

City of West Covina
Air Quality Improvement Special Revenue Fund

Balance Sheet
June 30, 2020

Assets

Cash and investments	\$ 261,910
Accounts receivable	<u>200,000</u>
Total assets	<u>\$ 461,910</u>

Liabilities and fund balance

Liabilities:

Accounts payable	<u>\$ 145,600</u>
Total liabilities	<u>145,600</u>

Fund balance:

Restricted for:

Public works	<u>316,311</u>
Total fund balance	<u>316,310</u>

Total liabilities and fund balance	<u>\$ 461,910</u>
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The accompanying notes are an integral part of these financial statements.

City of West Covina
Air Quality Improvement Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2020

Revenues	
Investment income	\$ 1,523
Revenue from other agencies	<u>657,470</u>
Total revenues	<u>658,993</u>
Expenditures	
Public works	<u>146,001</u>
Excess of revenues over (under) expenditures	<u>512,992</u>
Net change in fund balance	512,992
Fund balance (deficit), beginning of year	<u>(196,682)</u>
Fund balance, end of year	<u><u>\$ 316,310</u></u>

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

City of West Covina
Air Quality Improvement Special Revenue Fund

Notes to the Financial Statements
For the year ended June 30, 2020

Note 1 – General

California Assembly Bill 2766 authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects the fees and subvenes the amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar subvended to SCAQMD is allocated to the cities and counties in the South Coast District proportionately based upon population. The amounts attributable to the City of West Covina (the City), are maintained in the City's Air Quality Improvement Special Revenue Fund (the Fund).

Note 2 – Summary of Significant Accounting Policies

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

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under Assembly Bill 2766 (AB2766) are recorded in the Fund that is used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act.

Basis of Accounting

The Fund is accounted for 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.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are transactions that result in the consumption of assets in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position. Deferred inflows of resources are transactions that result in the acquisition of assets in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position.

City of West Covina
Air Quality Improvement Special Revenue Fund

Notes to the Financial Statements
For the year ended June 30, 2020

Note 3 – Cash and Investments

Cash at June 30, 2020 consisted of the following:

	<u>Amount</u>
Pooled cash and investments	<u>\$ 261,910</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.

Note 4 – 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.

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 fund; 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 fund.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a General Fund.

City of West Covina
Air Quality Improvement Special Revenue Fund

Notes to the Financial Statements
For the year ended June 30, 2020

Note 4 – Fund Balance (continued)

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balance first. When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

The Fund's governmental fund balance at June 30, 2020 is presented below:

	Air Quality Improvement
Restricted for:	
Public works	<u>\$ 316,311</u>
Total fund balance	<u><u>\$ 316,311</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

City of West Covina
Air Quality Improvement Special Revenue Fund

Budgetary Comparison Schedule
For the year ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Investment income	\$ -	\$ -	\$ 1,523	\$ 1,523
Revenue from other agencies	695,200	1,249,399	657,470	(591,929)
Total revenues	695,200	1,249,399	658,993	(590,406)
Expenditures				
Current:				
Public works	17,264	161,665	146,001	15,664
Excess (deficiency) of revenues over (under) expenditures	677,936	1,087,734	512,992	(574,742)
Net change in fund balance	677,936	1,087,734	512,992	(574,742)
Fund balance (deficit), beginning of year	(196,682)	(196,682)	(196,682)	-
Fund balance, end of year	<u>\$ 481,254</u>	<u>\$ 891,052</u>	<u>\$ 316,310</u>	<u>\$ (574,742)</u>

See accompanying note to required supplementary information.

City of West Covina
Air Quality Improvement Special Revenue Fund

Note to Required Supplementary Information
For the year ended June 30, 2020

Note 1 – Budgetary Data

The annual budget adopted by the City Council provides for the general operation of the Fund. 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 City.

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.



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

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

Independent Auditor's Report

The Honorable Mayor and
City Council of the City of West Covina
West Covina, California

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Charles De Simoni, CPA
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Laura Arvizu, CPA
Louis Fernandez, CPA
Abigail Hernandez Conde, CPA, MSA
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 Air Quality Improvement Special Revenue Fund (the Fund) 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, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 17, 2021. The financial statements present only the Fund 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 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.

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.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 Fund'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**

**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**

**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**

**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**

**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**

**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.