

City of West Covina, California

Single Audit Report on Federal Awards
Year Ended June 30, 2020



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

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

PARTNERS

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Terry P. Shea, CPA
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Independent Auditor's Report

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

MANAGERS / STAFF

Charles De Simoni, CPA
Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA
Jingjie Wu, CPA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
Tara R. Thorp, CPA, MSA
Laura Arvizu, CPA
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John Maldonado, CPA, MSA
Thao Le, CPA, MBA
Julia Rodriguez Fuentes, 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 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 17, 2021.

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 City'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 Questioned Costs 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 City'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



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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

PARTNERS

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Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

MANAGERS / STAFF

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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, 2020. 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, 2020.

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 have not been identified.

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.

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 17, 2021 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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California

April 19, 2021 (except for the Schedule of Expenditures of Federal awards, of which the date is February 17, 2021)

**City of West Covina
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
<i>Direct Assistance</i>				
Community Development Block Grant Cluster	14.218	B-17-MC-06-0532	\$ 77,841	\$ 7,061
Community Development Block Grant Cluster	14.218	B-18-MC-06-0532	270,461	101,677
Community Development Block Grant Cluster	14.218	B-19-MC-06-0532	98,330	17,975
COVID-19 - Community Development Block Grant Cluster	14.218	B-20-MW-06-0532	199,160	-
Subtotal			645,792	126,713
Total U.S. Department of Housing and Urban Development			645,792	126,713
U.S. Department of Justice				
<i>Direct Assistance</i>				
Equitable Sharing Program	16.922	CA1975	1,406,185	-
Subtotal			1,406,185	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX-0166	10,170	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2019-DJ-BX-0196	18,809	-
Subtotal			28,979	-
COVID-19 - Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-0264	2,341	-
Subtotal			2,341	-
Total U.S. Department of Justice			1,437,505	-
U.S. Department of Transportation				
<i>Passed through the State of California, Department of Transportation</i>				
Highway Planning & Construction Cluster	20.205	STPL-5259(028)	3,522	-
Subtotal			3,522	-
<i>Passed through the California Office of Traffic Safety</i>				
Selective Traffic Enforcement Program	20.608	PT20139	15,121	-
Subtotal			15,121	-
Total U.S. Department of Transportation			18,643	-
U.S. Department of Treasury				
<i>Direct Assistance</i>				
Equitable Sharing Program	21.016	CA1975	427,956	-
Total U.S. Department of Treasury			427,956	-
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	ENP-162011	338,085	-
Total U.S. Department of Health and Human Services			338,085	-
U.S. Department of Homeland Security				
<i>Pass-through from the State of California, Office of Emergency Services</i>				
2017 Homeland Security Grant	97.067	2017-0083	83,710	-
Total U.S. Department of Homeland Security			83,710	-
Total Expenditures of Federal Awards			\$ 2,951,691	\$ 126,713

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, 2020

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, 2020. 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 no new loans funded in the current year. The outstanding balance of these loans at June 30, 2020 is \$3,491,221.

4. SUBRECIPIENTS

During the fiscal year ended June 30, 2020, the City disbursed \$126,713 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, 2020**

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?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified?	<u> X </u>	Yes	<u> </u>	None Reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified	<u> </u>	Yes	<u> X </u>	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)?	<u> </u>	Yes	<u> X </u>	No
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Identification of major programs:

<u>CFDA Number</u> 16.922	<u>Name of Federal Program</u> Equitable Sharing Program
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Dollar threshold used to distinguish between type A and type B programs:	<u> \$750,000 </u>
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Auditee qualified as low-risk auditee?	<u> </u>	Yes	<u> X </u>	No
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**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings

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

Criteria

An important element of internal controls over financial reporting is for the City 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 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.

Views of Responsible Officials and Planned Corrective Action

See attached Corrective Action Plan.

**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings

**Finding Number 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

See attached Corrective Action Plan.

**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings (continued)

**Finding Number 2019-003 – 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.

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

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.

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.

Views of Responsible Officials and Planned Corrective Action

See attached Corrective Action Plan.

**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings (continued)

**Finding Number 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

See attached Corrective Action Plan.

**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings (continued)

**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

See attached Corrective Action Plan.

**City of West Covina
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section III: Federal Awards Findings and Questioned Costs

No matters to report.

**City of West Covina
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

Status of Prior Year Findings

Section II: Financial Statement Findings

Finding Number 2019-001

Status of prior year finding: Repeat finding as 2020-001

Finding Number 2019-002

Status of prior year finding: Repeat finding as 2020-003

Section III: Federal Award Findings and Questioned Costs

Finding Number 2019-003

Status of prior year finding: Corrective action has been taken.



**City of West Covina
Corrective Action Plan
Fiscal Year Ending June 30, 2020**

Below is the City's Corrective Action Plan in regard to the Schedule of Findings and Questioned Costs identified during the audit for fiscal year ending June 30, 2020.

Finding Number 2020-001 – Internal Control Environment, Material Weakness

Audit Finding

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

Planned 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, two new accountants, and an Assistant Finance Director position. In addition, the City is currently recruiting for an Accounting Technician in payroll. The full staffing will ensure that the policies and procedures in the year-end review process are properly carried out. Once the Finance Department is fully staffed and trained, this finding will be resolved.

Anticipated Completion Date: June 30, 2021

Finding Number 2020-002 – Errors in Pension Census Data, Material Weakness

Audit Finding

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

Planned 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. This review and verification will ensure only eligible participants are included in the census data to be submitted and maintain proper documentation for the information provided to actuaries.

Anticipated Completion Date: June 30, 2021

Finding Number 2019-003 – Internal Control over Federal Grant Reporting, Material Weakness

Audit Finding

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.

Planned 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, two new accountants, and an Assistant Finance Director position. In addition, the City is currently recruiting for an Accounting Technician in payroll. These changes will 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.

Anticipated Completion Date: June 30, 2021

Finding Number 2020-004 – Purchasing Approvals, Significant Deficiency

Audit Finding

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

Planned 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.

Anticipated Completion Date: Complete as of April 19, 2021

Finding Number 2020-005 – Bank Reconciliation Review, Significant Deficiency

Audit Finding

Bank statements for various accounts were not reviewed or approved in a timely manner.

Planned 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.

The City has implemented a procedure to have both preparer and reviewer sign and date the summary sheet indicating that the preparation and review had been completed. This process will ensure that all bank reconciliations are reviewed in a timely manner and documentation of when the preparation and review are completed.

Anticipated Completion Date: Complete as of April 19, 2021

Sincerely,



Robbeyn Bird
Finance Director