



**Independent Auditor’s 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***

City Council
City of West Covina
West Covina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of West Covina (City), as of and for the year ended June 30, 2021, 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 22, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

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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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of West Covina's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Van Lant + Fankhanel, LLP". The signature is written in a cursive, flowing style.

February 22, 2022

CITY OF WEST COVINA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

2021-001 Housing Loans Receivable Administration

Condition:

The City and Housing Authority have issued loans in prior years for first-time homebuyers and home improvement loans. The terms of these loans vary depending on the loan type and the period when it was issued. As part of our audit procedures, we selected various loans listed on the loans receivable schedule provided and reviewed the related promissory notes. Based on this review, we found that certain loans required periodic payments to be made throughout the year, however, it does not appear that the City has been receiving payments in accordance with the terms of the loan. In another instance, City staff were unable to provide the promissory note for the loan selected. In addition, one of the promissory notes reviewed indicates a 5% interest rate, charged annually, on the outstanding balance of the loan, however, through discussions with City staff, the City is not calculating and charging 5% per year.

Criteria:

In a strong internal control environment, procedures should be established to ensure the loans receivable schedule is properly maintained throughout the year, payments are collected and recorded in accordance with the applicable promissory notes, and proper records are maintained for all loans receivable balances.

Cause of Condition:

A large number of the first-time homebuyer and housing improvement loans were issued many years ago, in some cases 30+ years or more, and it does not appear that detailed administration and tracking of these loans has been done annually to ensure the loan balances are sufficiently tracked and accounted for each year.

Potential Effect of Condition:

The City may not be collecting the full value of the amounts due in accordance with the terms of the promissory note agreements.

Recommendation:

We recommend the City perform a detailed review of the loan balances and perform test recalculations of the interest balances on the loans to ensure the interest calculations are in accordance with the executed loan agreements and that payments are being collected in accordance with these agreements.

Views of Responsible Officials:

The City will perform a detailed review of the loans to ensure the interest calculations and collections are done in accordance with the executed loan agreements. Additionally, the City will establish a process for updating loan balances moving forward.