



CITY OF WEST COVINA
AUDIT COMMITTEE
WEDNESDAY, JULY 27, 2022, 6:00 PM
REGULAR MEETING

WEST COVINA CITY HALL
MANAGEMENT RESOURCE CENTER (MRC) ROOM 314
WEST COVINA, CALIFORNIA 91790

AGENDA

Marsha Solorio, Chair
Miguel Garcia, Vice Chair
Rosario Diaz, Mayor Pro Tem, Council/Audit Committee Member
Jim Grivich, Audit Committee Member
David Lin, Audit Committee Member
Colleen Rozatti, City Treasurer/Audit Committee Member
Tony Wu, Council/Audit Committee Member

AMERICANS WITH DISABILITIES ACT

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

AGENDA MATERIAL

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

PUBLIC COMMENTS
ADDRESSING THE AUDIT COMMITTEE MEMBERS

Any person wishing to address the Committee on any matter listed on the agenda or on any other matter within their jurisdiction should complete a speaker card that is provided at the entrance to the Management Resource Center Room (MRC) and submit the card to the Committee Secretary

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

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

ORAL COMMUNICATIONS - Three (3) minutes per speaker

Please state your name and city of residence for the record when recognized by the Committee Chair.

PRESENTATIONS

- Brown Act Training

APPROVAL OF MEETING MINUTES

1) JUNE 9, 2022, AUDIT COMMITTEE SPECIAL MEETING MINUTES

It is recommended that the Audit Committee receive and file the Minutes of the Audit Committee Special Meeting on June 9, 2022.

REPORTS

2) FINANCIAL RECOVERY PLAN UPDATE

It is recommended that the Audit Committee receive and file the Financial Recovery Plan Update through June 30, 2022.

3) STATUS UPDATE REGARDING JUNE 30, 2021 AUDIT FINDINGS

It is recommended that the Audit Committee receive and file the Status Update Regarding the June 30, 2021 Audit Findings.

NEW BUSINESS

- 1. Revenue and Expenditure Reports**
- 2. Next Meeting Date and Time**
 - Suggested date: **October 26, 2022, at 6:00 p.m.**

ADJOURNMENT



AGENDA STAFF REPORT

City of West Covina

DATE: 07/27/2022
TO: Audit Committee
FROM: Stephanie Sikkema, Finance Director
SUBJECT: **JUNE 9, 2022, AUDIT COMMITTEE SPECIAL MEETING MINUTES**

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Minutes of the Audit Committee Special Meeting on June 9, 2022.

Prepared by: Valerie Gonzales, Senior Administrative Assistant
Additional Approval: Stephanie Sikkema, Finance Director

Attachments

Attachment No. 1 - June 9, 2022 Audit Committee Special Meeting Minutes

CITY OF WEST COVINA

AUDIT COMMITTEE

MINUTES

SPECIAL MEETING
THURSDAY, JUNE 9, 2022, 6:00 p.m.

The special meeting of the Audit Committee was called to order at 6:01 p.m. Committee Member David Lin led the Pledge of Allegiance.

ROLL CALL

Present: Chair Marsha Solorio
Vice-Chair Miguel Garcia
Committee Member/Mayor Pro Tem Rosario Diaz
Committee Member Jim Grivich
Committee Member David Lin
Committee Member/Council Member Tony Wu

Absent: Committee Member/City Treasurer Colleen Rozatti

Staff Present: Finance Director Stephanie Sikkema, Assistant Finance Director Maria-Luisa Olea, Senior Administrative Assistant Valerie Gonzales & Bret Van Lant, of Van Lant & Fankhanel, LLP, via Teams

ORAL COMMUNICATIONS

None

--- End of Public Comment

1. APPROVAL OF APRIL 27, 2022, AUDIT COMMITTEE MINUTES

A Motion was made by Committee Member Lin and seconded by Committee Member Grivich to approve the Audit Committee minutes of the April 27, 2022, meeting.

Motion carried by a vote 3-0; 1 abstain

REPORTS

2. CONSIDERATION OF SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2021

No Motion – Receive and File

The Committee requested a progress update on the audit findings to be added to future Committee meeting agendas.

ADJOURNMENT

Chair Solorio moved to adjourn the meeting at 6:50 p.m.

Valerie Gonzales
Audit Committee Secretary

DRAFT



AGENDA STAFF REPORT

City of West Covina

DATE: 07/27/2022
TO: Audit Committee
FROM: Stephanie Sikkema, Finance Director
SUBJECT: FINANCIAL RECOVERY PLAN UPDATE

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Financial Recovery Plan Update through June 30, 2022.

BACKGROUND:

With the goal of improving government performance, the Joint Legislative Audit Committee (JLAC) was established by the California State Legislature. JLAC, independently and through the work of the State Auditor's Office, oversees the operations and finances of government entities. Audits considered by the JLAC include financial and financial-related audits of government entities. In December 2019, the State Auditor's Office informed the City of West Covina that it had been selected for review under the high-risk local Government Agency Audit Program. The State Auditor completed its audit and published its report on December 1, 2020 (to view the report, please visit: <http://www.auditor.ca.gov/reports/2020-806/index.html>)

One of the State Auditor's recommendations was that West Covina develop a formal financial recovery plan to prioritize resources and assign responsibility for monitoring progress in implementing the plan.

DISCUSSION:

The Financial Recovery Plan (Attachment No. 1) is a pathway to gaining stability – it identifies key elements based upon the State Auditor objectives: action steps, expected completion dates, responsible staff, and status updates. The Audit Committee reviewed the Financial Recovery Plan on March 24, 2021, and City Council approved it on April 6, 2021. **Attached is the monthly update regarding the status of objectives included the Financial Recovery Plan through June 30, 2022.**

Prepared by: Stephanie Sikkema, Finance Director

Additional Approval:

Attachments

Attachment No. 1 - Financial Recovery Plan - Monthly Update June 2022

Attachment No. 2 - Purchasing Ordinance No. 2498

City of West Covina
Financial Recovery Plan
Monthly Update
June 2022

ATTACHMENT NO. 1

Description of intended corrective actions, timing, prioritization of resources, and identification of individuals responsible for monitoring progress/implementation

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)
<p>1. Ensure that the fees/assessments charged for services align with costs and increase fees to reflect cost reasonably borne in the provision of city services</p>	<p>1. Retain consultant to determine strengths and weakness of existing service delivery models. Assess City costs and revenue sources. Examine all revenue sources (local, state and federal) to develop sustainable and defensible revenue streams</p> <p>2. Examine all direct and indirect costs of fees for service, development impact fees and landscape/sewer district assessments</p>	<p>1. RFP release – April July 2021</p> <p>2. Establish budget for fee study – May November 2021</p> <p>3. Consultant kick-off – June December 2021</p> <p>4. Draft Fee Study – October June 2022</p> <p>5. City Council adoption – December 2021 August 2022</p> <p>6. If voter approval is required (assessment districts only) – November 2022</p>	<p><i>Lead</i> – Finance Director</p> <p><i>Support</i> – Assistant City Clerk, Planning Manager, City Engineer, and Public Services Supervisor</p>	<p>In June, the Consultant submitted draft Cost Allocation Plan for staff review. Additionally, the Consultant began reviewing draft proposed fees with departments to confirm assumptions.</p> <p>Staff held kick-off meetings to begin the cost allocation plan and fee study in January 2022.</p> <p>City Council awarded a Request for Proposals (RFP) to Revenue & Cost Specialists to conduct a Municipal Fee Study and established a budget in November 2021.</p> <p>The RFP was originally advertised in July 2021.</p>

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)
<p>2. Review, evaluate, and monitor all city contracts</p>	<p>1. City Clerk to prepare list of current contracts.</p> <p>2. Risk Management to verify insurance is current</p> <p>3. Responsible Department designated contract manager to evaluate consultant effectiveness and work quality (e.g. waste hauling and street sweeping)</p> <p>4. Ensure competition for procurements. Follow competitive bidding processes and monitor contract term, especially when exceeding five years</p>	<p>1. List of current contracts – April 2021</p> <p>2. Insurance verification – May 2021</p> <p>3. Departmental review – June 2021</p> <p>4. Review and update City’s purchasing, contracting, and bidding procedures – June 2021 June 2022</p>	<p><u>Lead</u> – Assistant City Clerk</p> <p><u>Support</u> – All Departments</p>	<p>Steps 1-3 are complete.</p> <p>The contract list and insurance verification were completed in July. The City Clerk’s office will review, verify, and update the list as necessary. Additionally, the City has a formal process within its <i>Purchasing Policy</i> (pg. 40-41) that establishes uniform procedures for the preparation, presentation and execution of city and contract documents.</p> <p>Step 4 is pending.</p> <p>The new Purchasing Policy was adopted by City Council on June 21st. The new ordinance takes effect July 21, 2022.</p>
<p>3. Set aside land sale revenue to compensate for any shortfalls in revenue that the City experiences as a result of the effects of the pandemic on the City’s fiscal year 2020-21 budget</p>	<p>1. Economic Development Office to track all land sales and report as to use of proceeds of sales</p> <p>2. Finance Department to estimate City portion of each land sale</p>	<p>Review, update and publish list of City of West Covina land held for resale assets – June 2021</p>	<p><u>Lead</u> – City Manager’s Office</p> <p><u>Support</u> – Successor Agency staff</p>	<p>This objective is complete.</p> <p>Land held for resale has been identified and is reflected in the City’s Annual Comprehensive Financial Report.</p>

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)																				
<p>4. Proactively mitigate risk and exposure to litigation through training and implementation of best risk management practices</p>	<p>1. City joined the CJPIA on July 1, 2020</p> <p>2. Review LossCap Action Plan regularly, including “top 5” important priority issues</p> <p>3. Establish quarterly high-level executive team meetings and safety committee meetings for LossCap review</p> <p>4. Corrective actions taken as identified in the Initial Risk Management Evaluation</p>	<p>1. Quarterly meetings: March, June, September, and December</p> <p>2. 50% of corrective actions completed by December 2021 August 2022</p> <p>3. 100% of corrective actions completed by December 2023</p>	<p><u>Lead</u> – Human Resources & Risk Management Director</p> <p><u>Support</u> – All Departments</p>	<p>Steps 1, 2 and 3 are complete.</p> <p>Step 4 is pending.</p> <p>A total of 63 action items were identified in the Initial Risk Management Evaluation. Of those, five were targeted as extremely important and all have been completed. Below is a summary of the status of all items:</p> <table border="1" data-bbox="1419 618 1984 824"> <thead> <tr> <th>Status</th> <th>Total</th> <th>6/30/22 %</th> <th>Prior Mo. %</th> </tr> </thead> <tbody> <tr> <td>Complete</td> <td>27</td> <td>42.9%</td> <td>42.9%</td> </tr> <tr> <td>In Progress</td> <td>26</td> <td>41.3%</td> <td>34.9%</td> </tr> <tr> <td>Not Started</td> <td>10</td> <td>15.9%</td> <td>22.2%</td> </tr> <tr> <td>Total</td> <td>63</td> <td>100.0%</td> <td>100.0%</td> </tr> </tbody> </table>	Status	Total	6/30/22 %	Prior Mo. %	Complete	27	42.9%	42.9%	In Progress	26	41.3%	34.9%	Not Started	10	15.9%	22.2%	Total	63	100.0%	100.0%
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Total	63	100.0%	100.0%																					
<p>5. Address the excessive cost currently incurred providing fire and emergency medical services</p>	<p>1. Evaluate current Fire Department deployment model</p> <p>2. Document reasons for absences causing OT</p> <p>3. Develop viable alternatives for fire and emergency management services</p> <p>4. Discuss alternative plans with appropriate stakeholders</p>	<p>1. Analyze current deployment – April 1, 2021</p> <p>2. Analyze alternatives – May 1, 2021</p> <p>3. Meet with stakeholders – June 1, 2021</p>	<p><u>Lead</u> – Fire Chief</p> <p><u>Support</u> – Finance Director and Human Resources Director</p>	<p>Pending. No new updates.</p> <p>Meet and confer discussions continue with the stakeholders as a result of the review.</p> <p>Additionally, staff internally evaluates overtime with each payroll and reports to City Management.</p> <p>Staff engaged the services of Messina and Associates to provide a high-level review of the current fire and emergency services in April. In May, staff received and evaluated the final report (WCFD Service Delivery Review).</p>																				

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)
<p>6. Prepare financial analyses that evaluate both the short-term and long-term financial implications of significant spending decisions</p>	<p>1. Use a multiyear forecast to quantify the impact of decisions on the city's financial condition</p> <p>2. Evaluate short and long-term impacts of major revenue and expenditure decisions. Recognize trade-offs and opportunities of each decision</p>	<p>1. Prepare and annually update the forecast to include all projected revenue and expenditures, adding information on new assumptions, unanticipated costs, and cost-saving actions – July 2022</p> <p>2. Prepare a financial evaluation template – August 2021 April 2022</p> <p>3. Staff training – September 2021 2022</p> <p>4. Include fiscal impact in Council agenda actions – December 2021 2022</p>	<p><u>Lead</u> – Finance Director</p> <p><u>Support</u> – All Departments</p>	<p>No new updates.</p> <p>Step 1 is complete.</p> <p>The multi-year forecast was updated in March 2022 and provided to Council in April 2022.</p> <p>Step 2 is Pending, no new updates.</p> <p>Staff has started testing a few templates, including a three-year fiscal impact for multi-year contracts, on staff reports presented for Council consideration. Once refined, these templates will be rolled out citywide.</p>

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)
7. Implement a formal process for development of reasonable budget projections	<ol style="list-style-type: none"> 1. Review accuracy of quarterly budget projections, comparing current year to previous year actual revenue and expenditures and factoring in known events that will change year-to-year data. 2. Track quarterly building and planning activity 3. Incorporate HdL sales tax information into quarterly, mid-year and annual budget estimates 4. Budget for risk management costs based upon actual loss experience 	<ol style="list-style-type: none"> 1. Meet quarterly with Directors to review activity and trends – March, June, September, and December 2. Use HdL data to support revenue projections for sales, property tax, transient occupancy tax, business license fees – May 1, 2021 	<p><u>Lead</u> – Finance Director</p> <p><u>Support</u> – Assistant City Manager</p>	<p>This objective is complete.</p> <p>The budget process is formalized with Budget Preparation Instructions and standardized forms.</p> <p>The City analyzes budget projections, comparing current year to previous year actual revenue and expenditures, building and planning activity quarterly and provides a Quarterly Financial Report to Council.</p> <p>Additionally, staff meets with HdL quarterly to review sales tax estimates.</p>
8. Meet and confer regarding negotiation of employee union agreements	<p>Begin meet and confer process with all labor groups to review a) CPI, b) City’s ability to pay, and c) labor market competitiveness on a total compensation basis including base salary, differentials, medical, pensions, and OPEB</p>	<ol style="list-style-type: none"> 1. Meet and confer process starts – April 2021 2. Regular Closed session updates to City Council 3. Meet & confer process completed – July 2022 	<p><u>Lead</u> – Human Resources Director</p> <p><u>Support</u> – Finance Director and City Manager</p>	<p>Pending. No new updates.</p> <p>Negotiations with the Firefighters Association continue in anticipation of their contract expiration in June 2022. The only other group out of contract are the Department Heads.</p> <p>City Council approved 3-year agreements with 5 of the labor groups in November 2021, 2 groups in January 2022, and 1 group in February 2022.</p>

State Auditor Objective No.	Action Steps	Expected Completion Date	Responsible Staff (Lead/Support)	Status Report (June 2022)
<p>9. Improve internal purchasing processes/enforcement to reduce susceptibility to waste and fraud</p>	<p>1. Review purchasing policy and credit card usage to determine compliance with Best Management Practices</p> <p>2. Evaluate California Uniform Public Construction Cost Accounting Act (Public Contract Code 22000-22045)</p>	<p>1. Adopt revised purchasing and credit card usage policies as appropriate – October 2021 June 2022</p> <p>2. Adopt ordinance enacting California Uniform Public Construction Cost Accounting Act – August 2021</p>	<p><u>Lead</u> – Finance Director</p> <p><u>Support</u> – City Attorney’s Office and City Engineer</p>	<p>Pending.</p> <p>Step 2 is complete.</p> <p>In May 2021, City Council approved to include the California Uniform Public Construction Act Cost Accounting Act procedures within the Municipal Code.</p> <p>Step 1 is pending.</p> <p>The new Purchasing Policy was adopted by City Council on June 21st. The new ordinance takes effect July 21, 2022.</p>

ORDINANCE NO. 2498

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA, REPEALING AND REPLACING DIVISION 1 (GENERALLY) AND DIVISION 2 (PURCHASING SYSTEM) AND AMENDING DIVISION 3 (CONTRACTING FOR PUBLIC PROJECTS) OF ARTICLE VII (PURCHASES AND SALES) OF CHAPTER 2 (ADMINISTRATION) OF THE WEST COVINA MUNICIPAL CODE

WHEREAS, pursuant to California Government Code sections 54201 through 54203, local agencies are required to adopt, by ordinance, policies and procedures, including bidding regulations, governing the purchases of supplies and equipment by the local agency; and

WHEREAS, the City of West Covina (“City”) has adopted such policies and procedures by ordinance. Said policies and procedures are codified in Division 2 (Purchasing System) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code; and

WHEREAS, on May 4, 2021, the City Council adopted Ordinance No. 2477, which added Division 3 (Contracting for Public Projects) to Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code to establish procedures and requirements for contracting for public projects in accordance with the California Uniform Construction Cost Accounting Act and State law; and

WHEREAS, Division 3 sets forth purchasing thresholds and purchasing authorities for contracting for public projects in accordance with the California Uniform Public Construction Cost Accounting Act and State law, including authorizing the City Manager to award and execute certain contracts awarded pursuant to such provisions, provided the expenditures are within the approved budget; and

WHEREAS, the City desires to provide consistency between Division 2 (Purchasing System) and Division 3 (Contracting for Public Projects) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code by providing similar purchasing thresholds and purchasing authorities; and

WHEREAS, Division 1 (Generally) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code sets forth requirements relating to the disposal of surplus supplies and equipment; and

WHEREAS, City Council desires to repeal and replace Divisions 1 and 2 of Article VII of Chapter 2 of the West Covina Municipal Code in order to increase the bidding limits and make other changes as set forth herein; and

WHEREAS, the City Council also desires to amend Division 3 (Contracting for Public

Projects) to make clarifying changes as set forth herein; and

WHEREAS, in amending Divisions 1, 2, and 3 of Article VII of Chapter 2 of the West Covina Municipal Code, the City Council desires to make clear that only the Mayor and the City Manager have the authority to execute contracts and agreements on behalf of the City, in accordance with Section 40602 of the California Government Code.

WHEREAS, all legal prerequisites prior to the adoption of this Ordinance have occurred.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1. Amendment to Divisions 1 and 2 of Article VII of Chapter 2. Division 1 (Generally) and Division 2 (Purchasing System) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code are hereby repealed and replaced by as follows:

DIVISION 1. - GENERALLY

Sec. 2-316. - Establishment of purchasing system.

A purchasing system is hereby established for the purpose of setting forth efficient policies for the purchase of supplies, services and equipment, at the lowest possible cost commensurate with quality needed, to exercise positive financial control over purchases and to clearly define authority for the purchasing function. Except as provided by this Code, no city officer or employee shall order the purchase of any supplies, equipment, materials, or services, or make any contract within the purview of this Code, other than in accordance with the provisions of this Code, the purchasing manual prepared by the purchasing officer and with the approval of the city manager.

Sec. 2-317. - Centralized purchasing division created.

A centralized purchasing division within the finance department is hereby created and authorized to purchase supplies, services and equipment for the city.

Sec. 2-318. - Purchasing officer; duties.

- (a) The position of purchasing officer is hereby established. The director of finance shall serve as the purchasing officer and may delegate purchasing duties as necessary to carry out the duties set forth in this article. The purchasing officer shall be the head of and have general supervision of the purchasing division.
- (b) Subject to the supervision of the city manager, the purchasing officer shall have the following powers and duties:
 - (1) Prepare a written purchasing manual, subject to approval of the city manager, that

implements the requirements of this article. The purchasing manual shall describe in detail the operational procedures and processes for the procurement of materials, supplies, services, equipment, and public works contracts.

- (2) Purchase or contract for supplies, services and equipment required by any city department, within the limits of the current budget approved by the city council, and in accordance with the requirements of this article, the purchasing manual prepared pursuant to this division, such administrative regulations as the purchasing officer shall adopt for the internal management and operation of the purchasing division and such other rules and regulations as may be prescribed by the city council or city manager.
- (3) Negotiate and recommend execution of contracts for the purchase of supplies, services and equipment.
- (4) Act to procure for the city the needed quality in supplies, services and equipment at least expense to the city.
- (5) Discourage uniform bidding and endeavor to obtain as full and open competition as possible on all purchases.
- (6) Prepare and recommend to the city manager rules governing the purchase of supplies, services and equipment for the city and revisions and amendments to such purchasing rules.
- (7) Keep informed of current developments in the field of purchasing, prices, market conditions and new products.
- (8) Prescribe and maintain such forms as reasonably necessary to the purchasing operation.
- (9) Supervise the inspection of all supplies, services and equipment purchased to ensure conformance with specifications.
- (10) Supervise the transfer of surplus or unused supplies and equipment between departments as needed.
- (11) Sell, exchange or dispose of surplus supplies and equipment that cannot be used by the city.
- (12) Maintain a bidders' list, vendors' catalog file and such other records needed for the efficient operation of the purchasing division.
- (13) Such other powers as delegated by the city manager or established by resolutions of the city council.

Sec. 2-319. - Exemptions from centralized purchasing.

The following items are exempt from centralized purchasing and shall not require city council approval provided that an appropriation has been made therefor:

- (a) General expenses, including, but not limited to, payroll deductions, licenses, advertising, insurance premiums, damage claims, petty cash replenishment, tax remittances, refunds, postage, freight charges, debt service related payments, fuel and charges to or from other government agencies.
- (b) Utilities, including, but not limited to, the payment of water, electricity, natural gas, telecommunication, sewer and trash expenses.
- (c) Training and education, including, but not limited to, conferences, conventions, courses, seminars, memberships, staff workshops, certifications and subscriptions/publications.
- (d) Refundable employee expenses, including, but not limited to, advances, meal allowances, miscellaneous reimbursements and travel expenses.

Sec. 2-320. - Business licenses.

Any contractor, consultant or vendor from which the city purchases supplies, materials, services or equipment or to which the city awards a contract or purchase order pursuant to this article shall not be subject to the requirements of chapter 14, article II, division 1, section 14-18 of this Code.

Secs. 2-320-2-325. Reserved.

DIVISION 2. - PURCHASING PROCEDURES

Sec. 2-326. - Applicability.

Except as otherwise set forth herein, the provisions set forth in this division do not apply to public projects subject to the provisions of Division 3 (Contracting for Public Projects) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of this Code.

Sec. 2-327. - Definitions.

The following words, terms and phrases when used in this division shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:

- (a) "Lowest responsible bidder." In determining the "lowest responsible bidder", the following shall be considered:
 - (1) Price;
 - (2) The ability, capacity and skill of the bidder to perform the contract or provide the

material or services;

- (3) Whether the bidder can perform the contract or provide the service promptly, or within the time specified, without delay or interference;
- (4) The sufficiency of the bidder's financial resources and the effect thereof on his/her/its ability to perform the contract or provide the material or services;
- (5) The character, integrity, reputation, judgment, experience and efficiency of the bidder;
- (6) The bidder's record of performance on previous orders or contracts for the city or other public entities;
- (7) The quality, availability and adaptability of the bidder's supplies, equipment or services to the particular use required;
- (8) The ability of the bidder to provide future maintenance and service where such maintenance and service is necessary;
- (9) The number and scope of conditions attached to the bid.

The city shall have absolute discretion in determining the applicability and weight of the criteria listed above. The city is not required to select the bid with the lowest price.

- (b) "Professional services" means services that involve the exercise of professional discretion and independent judgment based on an advanced or specialized knowledge, expertise or training gained by formal studies or experience. Such services include, but are not limited to, those provided by accountants, appraisers, architects, attorneys, auditors, economic and financial advisors, election consultants, engineers, environmental consultants, information services consultants, instructors, insurance advisors, land use consultants, plan checkers, physicians, public relations consultants, surveyors and other specialized consultants.
- (c) "Purchases" refers to the purchases of supplies, equipment, personal property and services and includes leases or rentals and transactions by which the city acquires ownership.

Sec. 2-328. - Purchasing authority; purchase order and contract approval requirements.

- (a) The city council shall, by resolution, establish the thresholds for small, informal and formal procurements.
- (b) The purchasing officer shall have the authority to issue and approve purchase orders for the purchases of any supplies, materials, services or equipment procured in accordance with section 2-331 or section 2-332 of this division, provided that the expenditure is within the approved budget.
- (c) The city manager shall have the authority to bind the city by written contract or purchase

order for the purchase of any supplies, materials, services or equipment not subject to formal procurement procedures, provided that the expenditure is within the approved budget and the contract is in a form approved by the city attorney.

- (d) City council authorization shall be required for the purchase of any supplies, materials, services or equipment subject to formal procurement procedures.
- (e) All written contracts and agreements shall be approved as to form by the city attorney or his or her authorized representative prior to execution.
- (f) In accordance with Section 40602 of the California Government Code, all written contracts and agreements shall be signed by either the mayor or the city manager. Except as to the purchasing officer's authority to issue and approve purchase orders pursuant to subsection (b) of this section, no other city officer or employee shall have authority to bind the city by contract or agreement.

Sec. 2-329. - Contract amendments.

- (a) Amendments to purchase orders and/or contracts may be approved as follows:
 - (1) If the contract or purchase order was initially approved by the city manager, the city manager shall have the authority to approve amendments to such contracts and purchase orders that result in a total contract price that does not exceed the city manager's contract authority as set forth in section 2-328(c) of this division.
 - (2) If the contract or purchase order was initially approved by the city council, the city manager shall have the authority to approve any amendment that results in a total contract price that does not exceed twenty-five percent (25%) of the original contract price, or such greater amount as may be authorized by the city council at the time it approves the contract or purchase order.
 - (3) If an amendment or the aggregate sum of all amendments will exceed twenty-five percent (25%) of the original contract price or such amount as was authorized by the city council at the time the city council approved the contract or purchase order, city council approval shall be required.
- (b) All change orders and contract amendments approved by the city manager pursuant to subsection (a)(1) and (2) of this section shall be reported to the city council in the semi-annual report required pursuant to section 2-337 of this division.

Sec. 2-330. - Maximum contract term.

Unless otherwise approved by the city council, the maximum length of any contract for goods and/or services shall be no more than five (5) years, and the maximum length for any lease agreement shall be no more than thirty (30) years.

Sec. 2-331. - Micro procurement procedures.

Purchases of supplies, materials, services and equipment with a value of up to five thousand dollars (\$5,000) may be made without obtaining bids or quotes, subject, however, to fair, just and equitable terms and conditions of purchase. Department heads are authorized to approve purchases made pursuant to this section, provided that the expenditure is within the approved budget. Notwithstanding the foregoing, department heads shall have no authority to execute contracts or agreements on behalf of the city.

Sec. 2-332. - Small procurement procedures.

Purchases of supplies, materials, services and equipment with an estimated value less than the limit set by city council resolution pursuant to section 2-328(a) of this division for small procurements may be performed by employees of the city by force account, by negotiated contract or by purchase order after obtaining three written quotes.

Sec. 2-333. - Informal procurement procedures.

Purchases of supplies, materials, services and equipment with an estimated value less than the limit set by city council resolution pursuant to section 2-328(a) of this division for informal procurements may be made in accordance with the following informal bidding procedures:

- (a) Notice inviting bids – posting. All notices to vendors and consultants pursuant to this section shall be posted at least ten (10) calendar days before bids or proposals are due on the city's website or official web-based vendor registration and bid management system as designated by the finance director.
- (b) Notice inviting bids or proposals – contents. The notice inviting bids or proposals shall describe the materials or services in general terms and how to obtain more detailed information about the materials or services and state the time and place for the submission of bids or proposals.
- (c) Rejection of bids; bid irregularities. The city manager may, in his/her sole discretion, reject any or all bids or proposals presented and waive any minor irregularity or informality in such bids or proposals.
- (d) Award of contract. Contracts shall be awarded to the lowest responsible bidder. The city manager is authorized to award and execute contracts informally bid in accordance with this section, provided that the expenditure is within the approved budget and the contract is in a form approved by the city attorney.

Sec. 2-334. - Formal procurement procedures.

Purchases of supplies, materials, services and equipment with an estimated value that exceeds the threshold set by city council resolution pursuant to section 2-328(a) of this division for formal procurements shall be made in accordance with the following formal bidding procedures:

- (a) Advertising; contents. The notice inviting formal bids shall state the time and place for the receiving and opening of sealed bids and distinctly describe the supplies, materials, service or equipment required. The notice shall be posted at least fourteen (14) calendar days before the date of opening the bids on the city's website or official web-based vendor registration and bid management system designated by the finance director. The city may also give such other notice as it deems proper.
- (b) Sealed bids and proposals. All bids or proposals shall be presented under sealed cover to the department identified in the invitation for bids or proposals.
- (c) Rejection of bids or proposals; bid or proposal irregularities. The city council, in its discretion, may reject any and all bids or proposals presented and waive any minor irregularity or informality in such bids or proposals.
- (d) Award of contract. Contracts shall be awarded to the lowest responsible bidder.

Sec. 2-335. - Exemptions from competitive bidding.

The following are exempt from the informal and formal competitive procurement requirements of this division. The purchases permitted under this section shall be subject to fair, just and equitable contract conditions.

- (a) A procurement for professional services.
- (b) A procurement for the performance of temporary work or services.
- (c) A procurement of items that are available from only one source, or only one source is able to supply a commodity or service within the timeframe or under terms and conditions which meet the needs of the city.
- (d) Personal property sold:
 - (1) at an auction by a state licensed auctioneer;
 - (2) at a going out of business sale;
 - (3) by a political subdivision of this state, a state agency of this state, or an entity of the federal government; or
 - (4) under an interlocal contract for cooperative purchasing.
- (e) Purchases of goods that will be offered for retail sale by the city.
- (f) Purchases made through a cooperative purchasing agreement or program, including, but not limited to, the California Multiple Award Schedules Program (CMAS), the U.S.

General Services Administration (GSA) Multiple Award Schedules Program, Sourcewell, and the U.S. Communities Government Purchasing Alliance, provided that the following requirements are met:

- (1) The purchasing officer determines the purchase is in the best interest of the city;
 - (2) The purchasing officer determines the purchase is to the city's economic advantage; and
 - (3) The agreement was competitively awarded using a process that complies with policies, rules, and regulations as approved by the purchasing officer.
- (g) Purchases made using another governmental or public agency's contract or substantially the same terms, provided:
- (1) The other agency used a solicitation method substantially similar to the method required by this division; and
 - (2) The purchasing officer determines that the city will realize overall value by utilizing the other agency's contract or contract terms compared to the city performing its own procurement;
- (h) Purchases of goods and/or services obtained from or through an agreement with any governmental, public or quasi-public entity.
- (i) Procurements funded by grants, donations or gifts when the special conditions attached to the grants, donations or gifts require the procurement of particular goods and/or services.
- (j) When the city council determines, by minute action or resolution, that compliance with the bidding requirements and procedures is inefficient, impractical or not in the best interest of the city, based on specifically identified conditions set forth on the record.
- (k) In the event of an emergency, as defined herein, the city manager may authorize the suspension of normal bidding or purchasing and procurement requirements for projects and services related to abatement of the impacts or effects of such emergency. With respect to contracts subject to formal bidding requirements, the city council shall, if possible, ratify such emergency suspension of procedures at the next properly noticed city council meeting following the emergency procurement and consider whether further suspension of procedures is required to abate the impacts of the emergency. An emergency shall be deemed to exist if:
- (1) There is a public calamity such as fire, flood, earthquake, storm or similar disaster that poses a serious threat to the public safety or city property; or
 - (2) There is an immediate need to prepare for or provide national or local defense; or

- (3) There is a breakdown in machinery, equipment, property or an essential service which requires the immediate purchase of supplies or services to protect the public health, welfare or safety; or
- (4) An essential operation or city service affecting the public health, welfare or safety would be greatly hampered if adherence to the prescribed purchasing procedures would cause undue delay in procurement of the needed item or service.

Sec. 2-336. - Surplus equipment and supplies.

- (a) Each department shall submit to the purchasing officer, at such times and in such form prescribed by the purchasing officer, reports listing all supplies and equipment which are no longer used or which have become obsolete or worn out.
- (b) The purchasing officer may cause the sale, exchange, disposal or donation of all equipment, goods, materials and supplies that are not or cannot be used by any department. Any such sale, exchange, disposal or donation shall be in accordance with approval requirements established by city council by resolution.
- (c) City employees shall only be eligible to bid on and/or purchase items in accordance with the purchasing manual.
- (d) Any surplus supplies or equipment originally purchased with federal funds shall be disposed of in accordance with the federal requirements for the disposal of that particular supply or equipment. Additionally, the proceeds from the sale or trade-in of surplus supplies or equipment originally purchased with federal funds shall be used to offset the cost of replacing said supplies or equipment.

Sec. 2-337. - Reporting requirements.

On a semi-annual basis, the purchasing officer shall present to the city council during an open meeting a report listing all contracts and purchase orders that have been awarded by the city manager pursuant to the city manager's authority pursuant to this division during the preceding six months. Such reports shall include, at minimum, a description of the materials or services performed, the name of the party or parties with whom the city contracted, and the total amount of the expenditure associated with the contract (including any amendments).

Sec. 2-338. - Ethics.

- (a) Statement of policy. City employees shall discharge their duties impartially so as to ensure fair competitive access to city procurement opportunities by responsible contractors. Moreover, they shall conduct themselves in such a manner as to foster public confidence in the integrity of city procurement activities.
- (b) Gratuities. No person shall offer, give or agree to give any city employee any gratuity or offer of employment in connection with a procurement by the city. The purchasing officer and every

officer and employee of the city are expressly prohibited from soliciting, demanding, accepting, directly or indirectly, or agreeing to accept, from any person, company, firm or corporation to which any purchase order or contract is, or might be awarded, any gratuity, offer of employment or anything of value whatsoever as set forth in the city's conflict of interest policy in connection with a procurement by the city.

SECTION 2. Amendment to Division 3 of Article VII of Chapter 2. Sections 2-351 (Definitions), 2-352 (Adoption of Plans, Specifications, and Working Details), 2-353 (Small Project Procurement Procedure), 2-354 (Informal Bidding Procedures), 2-355 (Formal Bidding Procedures), 2-356 (Reporting Requirements) and 2-358 (Change Orders for Contracts of Public Projects) of Division 3 (Contracting for Public Projects) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code are hereby amended to read as follows:

Sec. 2-351. - Definitions.

The following words, terms and phrases when used in this division shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:

Act means the California Uniform Public Construction Cost Accounting Act, Public Contract Code section 22000 et seq.

Emergency has the meaning set forth in Public Contract Code section 1102.

Facility has the meaning set forth in Public Contract Code section 22002.

Public Contract Code means the Public Contract Code of the State of California.

Public project has the meaning set forth in Public Contract Code section 22002.

Sec. 2-352. - Adoption of plans, specifications, and working details.

The city council delegates to the public services director and the city engineer the authority to approve and/or adopt the plans, specifications, and working details for all public projects, including public projects exceeding the amount specified in Public Contract Code section 22032(c).

Sec. 2-353. - Small project procurement procedures.

Public projects in the amount set forth in Public Contract Code section 22032(a), as amended from time to time, or less may be performed by employees of the city by force account, by negotiated contract or by purchase order without competitive bidding. The city manager is authorized to approve and execute contracts or purchase orders issued pursuant to this section, provided that the expenditure is within the approved budget.

Sec. 2-354. - Informal bidding procedures.

Public projects in the amount set forth in section 22032(b) of the Public Contract Code, as amended

from time to time, or less may be let to contract by informal procedures as set forth in the Act, including the following procedures:

- (a) Contractors list. The city shall comply with the requirements of Public Contract Code section 22034 regarding maintaining a list of qualified contractors identified according to categories of work.
- (b) Notice inviting informal bids—Circulation. Where a public project is to be performed which is subject to the provisions of this section, a notice inviting informal bids shall be circulated using one or both of the following alternatives:
 - (1) Notices inviting informal bids may be mailed, faxed, or emailed to all contractors for the category of work to be bid, as shown on the list developed in accordance with subsection (a) above.
 - (2) Notices inviting informal bids may be mailed, faxed, or emailed to all construction trade journals as specified by the California Uniform Construction Cost Accounting Commission in accordance with section 22036 of the Public Contract Code. Additional contractors and/or construction trade journals may be notified at the discretion of the public services director or designee.
- (c) Notice inviting informal bids—Proprietary products and services. Notwithstanding the foregoing requirements, if the product or service is proprietary in nature such that it can be obtained only from a certain contractor or contractors, the notice inviting informal bids may be sent exclusively to such contractor or contractors.
- (d) Notice inviting informal bids—Mailing. All mailing of notices to contractors and construction trade journals pursuant to this section shall be completed at least ten (10) calendar days before bids are due.
- (e) Notice inviting informal bids—Contents. The notice inviting informal bids shall describe the project in general terms and how to obtain more detailed information about the project, and state the time and place for the submission of bids.
- (f) Rejection of bids; bid irregularities. The city manager may, in his/her sole discretion, reject any or all bids presented and waive any minor irregularity or informality in such bids.
- (g) Award of contract. The city manager is authorized to award and execute contracts informally bid in accordance with this section, provided that the expenditure is within the approved budget and the contract is in a form approved by the city attorney. Such contracts shall be awarded to the lowest responsible bidder.
- (h) Tie bids; no bids received. If two (2) or more bids are the same and the lowest, the city manager may accept the one he/she chooses. If no bids are received through the informal procedures set forth in this section, the project may be performed by city employees, by force account or negotiated contract without further complying with this section.

- (i) Bids over informal bidding limit. If all bids received are in excess of the amount set forth in Public Contract Code section 22034(d), as amended from time to time, the city council may, by adoption of a resolution by a four-fifths (4/5) vote, award the contract, at the amount specified in Public Contract Code section 22034(d), as amended from time to time, or less, to the lowest responsible bidder, if it determines the cost estimate of the city was reasonable.
- (j) Acceptance of work. Upon the completion of work pursuant to a contract awarded pursuant to this section, the city manager may accept the work and may authorize the filing of the notice of completion, the release of funds retained upon such filing, and the release of any bonds upon the conclusion of their respective warranty periods.
- (k) Performance bonds. The city may require a performance bond before entering a contract awarded pursuant to this section in such amount as the public services director or his/her designee finds reasonably necessary to protect the best interests of the city. If the city requires a performance bond, the form and amount of the bond shall be described in the notice inviting bids.

Sec. 2-355. - Formal bidding procedures.

Public projects in the amount set forth in section 22032(c) of the Public Contract Code, as amended from time to time, or greater shall be let to contract in accordance with the procedures set forth in Public Contract Code section 22037 et seq., including the following procedures:

- (a) Advertising; contents. The notice inviting formal bids shall state the time and place for the receiving and opening of sealed bids and distinctly describe the project. The notice shall be published at least fourteen (14) calendar days before the date of opening the bids in a newspaper of general circulation, printed and published in the city; or, if there is no newspaper printed and published within the city, in a newspaper of general circulation which is circulated within the city, or, if there is no newspaper which is circulated within the city, publication shall be by posting the notice in at least three (3) places within the city as have been designated by ordinance or regulation of the city as places for the posting of its notices. The notice inviting formal bids shall also be sent electronically, if available, by either facsimile or electronic mail and mailed to all construction trade journals specified by the California Uniform Construction Cost Accounting Commission in accordance with section of the Public Contract Code. The notice shall be sent at least fifteen (15) calendar days before the date of opening the bids. In addition to notice required by this section, the city may give such other notice as it deems proper.
- (b) Sealed bids. All bids shall be presented under sealed cover to the department identified in the invitation for bids. Bids shall be opened in public at the time and place stated in the notice inviting bids.
- (c) Bidder's security. All bids presented shall be accompanied by bidder's security in the form and amount prescribed by Public Contract Code section 20170 et seq., which security shall be dealt with as described therein. The city council may, on refusal or failure of the successful

bidder to execute the contract, award it to the next lowest responsible bidder. If the city council awards the contract to the second lowest bidder, the amount of the lowest bidder's security shall be applied by the city to the difference between the low bid and the second lowest bid, and the surplus, if any, shall be returned to the lowest bidder if cash or a check is used, or to the surety on the bidder's bond if a bond is used. This procedure shall be followed with the next lowest bidder in order upon any additional refusal or failure of the next lowest responsible bidder to execute the contract.

- (d) Rejection of bids; bid irregularities. The city council, in its discretion, may reject any and all bids presented in accordance with the requirements of Public Contract Code section 22038 and waive any minor irregularity or informality in such bids. If after the first invitation of bids all bids are rejected, after reevaluating its cost estimates of the project, the city shall have the option of either of the following:
 - (1) Abandoning the project or readvertising for bids in the manner described by this division.
 - (2) By passage of a resolution by a four-fifths ($\frac{4}{5}$) vote of the city council declaring that the project can be performed more economically by the employees of the city, the city may have the project done by force account without further complying with this division.
- (e) Award of contract. Contracts for public projects subject to formal bidding requirements shall be awarded by the city council. Such contracts shall be awarded to the lowest responsible bidder.
- (f) Tie bids; no bids received. If two (2) or more bids are the same and the lowest, the city council may accept the one it chooses. If no bids are received through the formal procedures set forth in this section, the project may be performed by employees of the city by force account, or negotiated contract, without further complying with this division.
- (g) Performance bonds. The city may require a performance bond before entering a contract awarded pursuant to this section in such amount as the public services director or his/her designee finds reasonably necessary to protect the best interests of the city. If the city requires a performance bond, the form and amount of the bond shall be described in the notice inviting bids.

Sec. 2-356. - Reporting requirements.

On a semi-annual basis, the city manager shall present to the city council during an open meeting a report listing all contracts and purchase orders that have been awarded by the city manager pursuant to the city manager's authority pursuant to this division during the preceding six (6) months. Such reports shall include, at minimum, a description of the public project performed, the name of the party or parties with whom the city contracted, and the total amount of the expenditure associated with the contract (including any amendments or change orders).

Sec. 2-358. - Change orders on contracts for public projects.

- (a) The city has, in section 19-1 of this Code, adopted the standard specifications for public works construction ("the Green Book"), except to the extent those specifications conflict with any other provision of the city's municipal code or standard specifications. The city council intends to limit the use of change orders for public works contracts notwithstanding any contrary provision of the Green Book.
- (b) Following the award of a contract or purchase order awarded pursuant to this division, such contract or purchase order may be amended by the issuance of a change order or contract amendment, provided the change which is the subject of the change order or contract amendment is reasonably related to the scope of the original contract or purchase order. Notwithstanding any provision of this division to the contrary, unless a lower limit has been set by applicable law or the city council, the city manager is authorized to approve and execute the following change orders or contract amendments for contracts and purchase orders awarded pursuant to this division without city council approval, provided that the expenditure is in the approved budget:
 - (1) For contracts or purchase orders issued pursuant to section 2-353 of this division, any change order or contract amendment which results in the total contract price of the amount set forth in Public Contract Code section 22032(a) or less; and
 - (2) For contracts awarded pursuant to section 2-354 of this division, any change order or contract amendment which results in a total contract price of the amount set forth in Public Contract Code section 22032(b) or less.
 - (3) For contracts awarded by the city council with an approved contingency, change orders within such contingency.
- (c) Any change order or contract amendment for any contract awarded pursuant to this division which results in a total contract price in excess of the amounts specified in subsection (b) of this section must be approved by the city council.
- (d) All change orders and contract amendments approved by the city manager pursuant to subsection (b) of this section shall be reported to the city council in the city manager's semi-annual report required pursuant to section 2-356 of this division.

SECTION 3. Environmental Compliance. The City Council hereby finds that it can be seen with certainty that there is no possibility the adoption and implementation of this Ordinance may have a significant effect on the environment. The Ordinance is therefore exempt from the environmental review requirements of the California Environmental Quality Act pursuant to Section 15061(b)(3) of Title 14 of the California Code of Regulations.

SECTION 4. Severability. If any section, subsection, sentence, clause, phrase, or portion of this Ordinance is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions

of this Ordinance. The City Council of the City of West Covina hereby declares that it would have adopted this Ordinance and each section, subsection, sentence, clause, phrase, or portion thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses, phrases, or portions be declared invalid or unconstitutional.

SECTION 5. Effective Date. This Ordinance shall take effect thirty (30) days after its final passage.

SECTION 6. Certification. The City Clerk shall certify to the passage and adoption of this Ordinance and shall cause the same to be published or posted in the manner required by law.

PASSED, APPROVED AND ADOPTED this 21st day of June, 2022.



Dario Castellanos
Mayor

APPROVED AS TO FORM



Thomas P. Duarte
City Attorney

ATTEST



Lisa Sherrick
Assistant City Clerk

I, LISA SHERRICK, Assistant City Clerk of the City of West Covina, California, do hereby certify that the foregoing Ordinance No. 2498 was introduced at a regular meeting of the City Council held on the 7th day of June, 2022, and adopted at a regular meeting of the City Council on the 21st day of June, 2022 by the following vote of the City Council:

AYES:	Castellanos, Diaz, Lopez-Viado, Tabatabai, Wu
NOES:	None
ABSENT:	None
ABSTAIN:	None



Lisa Sherrick
Assistant City Clerk



AGENDA STAFF REPORT

City of West Covina

DATE: 07/27/2022
TO: Audit Committee
FROM: Stephanie Sikkema, Finance Director
SUBJECT: STATUS UPDATE REGARDING JUNE 30, 2021 AUDIT FINDINGS

RECOMMENDATION:

It is recommended that the Audit Committee receive and file the Status Update Regarding the June 30, 2021 Audit Findings.

BACKGROUND:

The Annual Comprehensive Finance Report for June 30, 2021, reported a material weakness relating to the administration and accounting of the Housing Loans. The Audit Committee reviewed the Annual Comprehensive Financial Report with the related reports; specifically the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements performed in accordance with Government Auditing Standards on February 9, 2022, with City Council approving it on March 15, 2022. Additionally, the finding was discussed with the Audit Committee on June 9, 2022, following a presentation by the City's financial audit firm, Van Lant & Fankhanel, LLP. Below is the actual finding.

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.

DISCUSSION:

July 2022 Update:

The Community Development Department is preparing a staff report for the August 16, 2022 Council agenda to propose options for recalculation of all housing loans and accumulated interest. The recommendations will be proposed to be effective as of June 30, 2022 to clear the City's finding for the Fiscal Year 2021-22 audit.

Additionally, staff is currently working on combining all of the accounts into one database to ensure calculations are consistent moving forward.

Prepared by: Maria-Luisa Olea, Assistant Finance Director

Additional Approval: Stephanie Sikkema, Finance Director
