

CITY OF WEST COVINA

Reissued Review Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

July 1, 2011, through June 30, 2013



BETTY T. YEE
California State Controller

July 2015



BETTY T. YEE
California State Controller

July 28, 2015

The Honorable Fredrick Sykes
Mayor of the City of West Covina
1444 West Garvey Avenue South
West Covina, CA 91790

Dear Mayor Sykes:

This reissued final report supersedes our previous report dated July 9, 2015 to revise Findings 2 and 5.

The report of the State Controller's Office (SCO) review of the City of West Covina's (City) administrative and internal accounting controls. The review was conducted to assess the adequacy of the City's controls to safeguard public assets and to ensure proper use of public funds.

Our review found weaknesses with the City's accounting and administrative controls system. We also noted numerous deficiencies described in the Findings and Recommendations section of our report.

As a part of the review, we assessed various aspects of the City's internal control components and elements based on guidance by the General Accounting Office. Of the 79 control elements evaluated pertaining to internal control components, we found 72, or 91%, that were considered to be inadequate.

The results of our review and evaluation of the elements of internal control are included in this report as an Appendix. Our assessments of the elements were based on the conditions that existed during our review period of fiscal year (FY) 2011-12 and FY 2012-13. To the extent feasible, we made inquiries to assess whether the control deficiencies have been addressed since the conclusion of FY 2012-13.

On May 11 and 13, 2015, the City provided our office with additional documentation and justification statements relative to audit Findings 2, 4, 5, 6, 7, and 12. Although we made some revisions, the substance of these findings essentially remains the same.

It should be noted that the City generally agreed with the findings noted in the report and is in the process of developing corrective actions and implementing our recommendations. Therefore, the City should be commended for taking these matters seriously and being proactive in resolving the noted deficiencies. We would like to express our thanks to City staff and management, who were extremely helpful throughout our review process.

As always, my staff and I are available to address your questions. You may contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-6984 or by email at mspalj@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD

Chief, Division of Audits

JVB/as

cc: Thomas Mauk, Interim City Manager

City of West Covina

Chris Freeland, Assistant City Manager/CDC Director

City of West Covina

Christa Buhagiar, Finance Director

City of West Covina

Dennis Swink, Interim Controller

City of West Covina

James Toma, Mayor Pro Tem

City of West Covina

Mike Spence, Councilman

City of West Covina

Corey Warshaw, Councilmember

City of West Covina

Ben Wong, Councilmember

City of West Covina

George Lolas, Chief Operating Officer

State Controller's Office

Mike Spalj, Chief

State Controller's Office

Local Government Audits Bureau

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Reissued Review Report

Introduction

This reissued final report supersedes our previous report dated July 9, 2015 to revise Findings 2 and 5.

The State Controller's Office (SCO) reviewed the City of West Covina's (City) system of administrative and internal accounting controls for the period of July 1, 2011, through June 30, 2013 (fiscal year (FY) 2011-12 and FY 2012-13). As necessary, we expanded our testing to include prior-year transactions to follow up on issues identified through interviews of City officials and through our review of the work of the independent auditors and other audit reports.

On September 11, 2014, the SCO responded to the City's letter dated June 17, 2014, in which the City requested that the SCO conduct an audit of the City's internal control and fiscal management practices. The City requested an audit in which the SCO would:

- Review the decrease in General Fund cash and fund balance ("reserves"). In past years, it was reported that the City's General Fund cash and fund balance ("reserves") were significantly higher than what currently exists in the City's General Fund. Residents of the City have inquired whether or not the funds were appropriately expended.
- Review current expenditures of the City's Redevelopment Successor Agency and/or former Redevelopment Agency (RDA) to determine whether expenditures for legal fees and other items were appropriate.
- Review payment and refinancing of City and former RDA bonds to determine whether the use, refinancing, and repayment (debt service) of the bonds were legal and proper.

In addition to the City's concerns noted above, the SCO noted the following issues regarding the City's independent audits.

Fiscal Year 2012-13

The City's total net position decreased by \$26.1 million (from \$236.0 to \$209.9 million) as a result of \$19.6 million in extraordinary losses from the restatement of certain interest rates on City advances to the former RDA, and the liability for principal and interest payments due the Successor Agency.

The City's governmental funds ending fund balances decreased by \$17.1 million from the prior year due to the restatement of certain loan balances between the City and the Successor Agency.

The City's General Fund unassigned fund balance decreased by \$9.1 million from the prior year. Although the General Fund expenditures declined by \$2.9 million due to the City's cost cutting measures, the dissolution of the RDA had a negative impact on the City's General Fund, including \$21.2 million in extraordinary losses.

Fiscal Year 2011-12

The City had deficit fund balances in the following funds:

- General Fund: \$(845,307)
- Community Development Commission Capital Projects Fund: \$(14.0 million)
- City Capital Projects Fund: \$(144,004)
- City Debt Service Fund: \$(4.2 million)

Based on issues supporting the City's request for an audit of internal controls and fiscal management practices, and our review of independent financial audits by the independent audit firm, we have concluded that there is reason to believe that the City's ability to provide reliable and accurate information relating to required financial reports is questionable. Therefore, under Government Code section 12464(a), the SCO's Division of Audits will conduct an investigation to validate the financial transaction reports submitted by the City for FY 2011-12 and FY 2012-13. Additionally, under Government Code section 12464(b), the costs of this review, including preparing a report of the results and transmitting copies to the City Council, will be borne by the City.

Our review will include an analysis of the administrative and internal accounting controls and fiscal management practices of the City, including the impact of any findings on selected local, state, and federal programs administered by the City.

In addition, the SCO's Division of Audits will conduct an audit of the City's expenditures of the Special Gas Tax Street Improvement Fund under Government Code section 12410, and the Traffic Congestion Relief Fund under Revenue and Taxation Code section 7104. The costs of this audit will be borne by the SCO.

This report presents the results of findings and conclusions reached in our review of the City's administrative and internal accounting controls system.

A separate report was issued for our audit of the Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund.

Background

The City of West Covina is located in Los Angeles County, California, 19 miles (31 km) east of Downtown Los Angeles in the eastern San Gabriel Valley, and is part of Greater Los Angeles. It was incorporated as a general-law city in 1923. The City's population was 106,098 at the 2010 census.

Objective, Scope, and Methodology

The objective of this review was to evaluate the City's system of administrative and internal accounting controls to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguard of public resources.

To accomplish our objective, we performed the following procedures:

- Evaluated the City's formal written internal policies and procedures;
- Conducted interviews with City employees and observed the City's business operations for the purpose of evaluating City-wide administrative and internal accounting controls;
- Reviewed the City's documentation and supporting financial records;
- On a limited basis, performed tests of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls; and
- Assessed various aspects of the City's internal control components and elements based on guidance by the General Accounting Office.

Conclusion

We found the City of West Covina's administrative and internal accounting control deficiencies to be serious and pervasive; in effect, controls are non-existent. We also found weaknesses in the City's administrative and internal accounting controls system, resulting in numerous findings that should be addressed and corrected by the City.

As part of our review, we assessed various aspects of the City's internal control components and elements based on the guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool. Of the 79 control elements evaluated pertaining to internal control components, we found 72, or 91%, that were considered to be inadequate. The results of our review and evaluation of elements of internal control are included in this report as the Appendix.

The City should develop a comprehensive remedial plan to address these deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The City Council should require periodic updates at public meetings of the progress in implementing the remedial plan.

Views of Responsible Officials

We issued a draft report on April 27, 2015. Thomas Mauk, Interim City Manager, responded by emails dated May 11 and 13, 2015, and a letter dated May 12, 2015. The City generally agreed with the findings and is in the process of implementing our recommendations. The City provided additional documentation and justification statements for Findings 2, 4, 5, 6, 7 and 12 for our review and further analysis. The City's response is included in this final review report as an attachment.

**Reason for
Reissuance**

This report has been reissued to revise Findings 2 and 5.

Restricted Use

This report is solely for the information and use of the City of West Covina and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

July 28, 2015

Revised Findings and Recommendations

Noncompliance with Government Code section 12464

Pursuant to Government Code section 12464, our review determined the following reporting issues for the City of West Covina (City):

Financial Transactions Report (FTR) for fiscal year (FY) 2011-12:

- Property taxes were understated by \$13,996,866 (reported \$9,316,690 instead of the actual of \$23,313,556).
- Sales tax was understated by \$3,960,621 (reported \$9,217,293 instead of the actual of \$13,177,914).
- Expenditures were understated by \$16,001,458 (reported \$75,780,185 instead of the actual of \$91,781,643).
- The Enterprise Fund and Internal Service Fund reported negative balances, \$1,004,166 and \$6,339,007 respectively, without explanations for the deficit balances.
- Cash and Investment: Self Insurance, Internal Service Fund was overstated by \$1,544,727 (reported \$4,529,727 instead of the actual of \$2,985,000).
- Expenditures: Self Insurance, Internal Service Fund was overstated by \$1,226,341 (reported \$4,608,107 instead of the actual of \$3,381,766).
- Computer Service Activity not reported: The business-type activity is the Computer Service Group, which provides dispatch and records management software and services to other police departments. This activity was not reported in the Enterprise Fund.

Financial Transaction Report (FTR) for FY 2012-13:

- Expenditures were understated by \$9,772,845 (reported \$72,673,397 instead of the actual of \$82,446,242).
- Sales tax was understated by \$4,222,328 (reported \$9,085,408 instead of the actual of \$13,307,736).
- The Enterprise Fund and Internal Service Fund reported negative balances \$394,247 and \$4,342,282 respectively, without explanations for the deficit balances.
- Service Charges: The Self Insurance, Internal Service Fund was overstated by \$763,006 (reported \$3,229,361 instead of the actual of \$2,466,355).
- Prior-period adjustments of \$1,226,343 to the Self Insurance, Internal Service Fund were made without an explanation.

Recommendation

The City should consider the above issues when preparing future FTRs. The City's FTRs submitted to the State Controller's Office (SCO) should include all year-end final closing adjustments. Also, the City should ensure that internal control findings and recommendations noted in this report are reviewed and evaluated for their impact on future reporting.

City's Response

During the years in question, the City of West Covina's CAFR was issued in January, which explains why the year end closing journal entries were not posted before submission of the Financial Transactions Report. The goal of the current Finance Director is to implement timelier year-end closing procedures to ensure the Financial Transactions Report reflects more accurate year-end numbers.

SCO's Comment

The City agrees with the SCO and is evaluating its process in order to submit more accurate and timely reports.

Results of Analysis of City's Administrative and Internal Control System

We found the City's administrative and internal accounting control deficiencies to be serious and pervasive; in effect, controls were non-existent. We found weaknesses in the City's administrative and internal accounting controls system, resulting in numerous findings that should be addressed and corrected by the City. We also found a serious lack of oversight by the City Council over the City's financial and operational activities.

We also assessed various aspects of the City's internal controls components and elements based on the guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool. Of the 79 control elements evaluated pertaining to internal control components, we found 72, or 91%, that were considered to be inadequate. In the overarching components under control environment for integrity and ethical value, commitment to competence, and management oversight and control, we found that none of the eight control elements were adequate.

Using the results of our internal control matrix, we performed reviews of selected transactions to document examples of weak and nonexistent controls. The specific findings described in this report resulted, at least in part, from these deficiencies.

Recommendation

While there are specific recommendations to address the findings described below, from a broader perspective, we recommend that the City continue to develop a comprehensive remedial plan to address the deficiencies noted in the Appendix. The plan should identify the tasks to

be performed, as well as milestones and timelines for completion. In addition, we recommend that the City Council require periodic updates at public meetings of the progress in implementing the remedial plan.

City's Response

The Finance Department acknowledges the lack of proper controls and policies; therefore, the deficiencies encountered in the day-to-day operations are currently being addressed.

SCO's Comment

The City agrees with the SCO and is in the process of implementing our recommendation.

FINDING 1—The City lost \$1.04 million due to its failure to comply with applicable laws required by a contract for the sale of land and construction of a project

The City entered into contract agreements with a developer to buy for \$700,000, City-owned land on which the developer will build a medical office condominium (project). The agreement states that the City will perform all acts necessary to ensure that the sale of the property and construction of the project complied with all the applicable laws and regulations. The City did not properly complete all necessary acts for the sale and construction of the project. Accordingly, it did not comply with applicable laws and regulations relating to the sale of the land and construction of the project. The sequence of events relative to the contract formulation is detailed below.

On September 27, 2010, the Community Development Commission (CDC) of the City received a request to enter an exclusive negotiation agreement (ENA) from CGM Development, LLC (CGM) for potential development of a commercial condominium office. The proposed site is to be located on City-owned Civic Center property. Subsequently, on October 19, 2010, the City and CGM entered into a modified ENA to develop "Parkside Corporate Center," a four-story medical office condominium (project). The modified ENA proposed:

- A Mitigated Negative Declaration for the project;
- The land use entitlements needed to develop the project; and
- A Disposition and Development Agreement (DDA) between the City and CGM.

On January 10, 2012, the City entered into a DDA with CGM for the purchase of property owned by the City. The City agreed to undertake the responsibility for the environmental impact review and to perform all acts necessary to ensure the sale of the property. The approval of the project was contingent on the City's compliance with all applicable laws and regulations.

The DDA was challenged on February 21, 2012, by the West Covina Improvement Association (WCIA), which filed a Writ of Mandate relative to the City's legal ability to sell the property to CGM. The WCIA alleged that the City failed to perform all acts necessary to ensure the sale of the property and that the project was not compliant with all applicable laws and regulations. On November 27, 2012, the Superior Court of Los

Angeles granted the Petition for Writ of Mandate, finding that the City did not have the legal authority to sell the property to CGM, the City failed to perform all acts necessary to ensure that the sale of the property, and the project was not compliant with all applicable laws and regulations. Specifically, the City violated the Surplus Land Act, the California Environmental Quality Act (CEQA), and the California Planning and Zoning law. In addition, the court filed its Order Granting Petitioner's Motion for Award of Statutory Attorney's Fees (Order) in favor of WCIA, and the City paid total costs of \$145,000.

Subsequently, on May 21, 2013, CGM filed a complaint for damages against the City, alleging that it failed to:

- Disclose that the sale of the property under the DDA violated the Surplus Land Act and the Planning and Zoning Law;
- Ensure compliance with CEQA; and
- Disclose the legal action against the City on these grounds that, if successful, would materially and adversely affect the ability of the City to perform the DDA.

As a result, CGM incurred substantial costs associated with project based on the City's misrepresentation and warranties. This case was subsequently settled on November 5, 2013, when the lawsuit was dismissed in exchange for payment by the City of \$900,000 to CGM.

Due to these significant deficiencies, non-compliance with all applicable laws and regulations, and violations of the City's Municipal Code section 2-333 pertaining to formal contract procedures, we expanded our review to include all City Council minutes made available for our review. It appears that the actions taken by the City's management and City Council lacked meaningful oversight, and that management and the City Council failed to perform a review and evaluation to ensure that the City fully satisfied all the requirements of the agreements. As a result, the City failed to comply with the basic requirements needed to initiate the project. The Court decision specifically stated that the City prejudicially abused its discretion by failing to proceed in the manner required to comply with the CEQA, the Planning and Zoning Law, the Surplus Land Act, and all other applicable laws.

The City's actions reflect a failure to:

- Exercise due diligence, or good judgment and business practices;
- Properly manage its business activities;
- Follow its policies and procedures pertaining to competitive bidding;
- Provide proper accountability and transparency to the City Council and its citizens;
- Comply with all aspects of legally binding agreements; and
- Ensure that the City does not incur unnecessary legal liabilities and judgments.

In essence, the City wasted over a million dollars of public funds due to its actions. The City paid attorneys' fees of \$145,000 to WCIA and a judgment settlement payment of \$900,000 to CGM. The above costs do not include the City's legal expenses, which we could not quantify, as attorneys' billings to the City did not identify what the charges were actually for (See Finding 6).

Recommendation

The City should develop and implement policies and procedures to ensure that the City's management performs a detailed review and gains full understanding before entering into any type of legally binding agreement. Agreements should be presented to the City Council with full explanation of the services to be provided and benefits to the City prior to approval and before formal execution.

The City should ensure that it conducts only arm's-length transactions—that is, all parties in any transaction act independently and have no relationship to each other.

City's Response

The City of West Covina acknowledges that errors were made in the proposed sale and development of the civic center property and that policies and procedures need to be developed.

SCO's Comment

The City agrees with the SCO and is in the process of developing policies and procedures as recommended above.

**REVISED
FINDING 2—
The City waived
recovery costs and did
not attempt to seek
recovery of its
attorneys' fees**

The City was awarded recovery of costs and disbursement by the Court related to a discrimination and hostile work environment lawsuit filed by a City employee. The City, however, waived the recovery of costs of \$83,000 by failing to file a memorandum of costs and did not attempt to seek recovery of its attorneys' fees of \$936,000.

On March 1, 2009, the City of West Covina Community Development (CDC) Director filed a lawsuit against the City and one City Council member for hostile work environment and discrimination. The lawsuit was filed in the Superior Court of California, County of Los Angeles. The case was in litigation for approximately three years and the City incurred approximately \$936,000 in costs for attorneys' fees, court fees, court reporters fees, court fees, and expert witness fees.

On January 4, 2012, the Court ruled in favor of the City of West Covina and City Council member and against the CDC Director. The court ruling stipulated that the City be awarded costs and disbursement pursuant to timely filing of a memorandum of costs. The City, however, waived the recovery of costs amounting to \$83,000. The City also did not attempt to recover its attorneys' fees of approximately \$936,000 against the CDC Director. Accordingly, on April 6, 2012, the Court issued a post-verdict settlement agreement wherein the City waived recovery of costs and

attorney fees in exchange for the CDC Director's waiver of his right to appeal judgment of the jury verdict.

Based on the events presented above, it appears that the City was negligent in exercising its fiduciary responsibilities. The City failed to protect taxpayer dollars by agreeing to waive the possibility of filing a motion for recovery of costs and fees incurred in defending the City against the hostile work environment and discrimination lawsuit. The City was exonerated by the Court which ruled in the City's favor. Therefore, an appeal of this court ruling would more than likely have a similar result. It does not appear that the City performed any type of analysis to determine if this was a best course of action or a logical reason to waive the recovery of costs of \$83,000 and not attempting to recover attorneys' fees of approximately \$936,000.

Recommendation

In the future, the City should take all necessary measures in exercising its fiduciary responsibilities to ensure that taxpayer dollars are protected, and should also establish policies and procedures relative to recovery of costs, especially when costs amount to thousands of dollars.

City's Response

On April 6, 2012, the West Covina City Council approved entering into a post-verdict settlement agreement between the City of West Covina and the former West Covina Community Development Commission Director Chung to waive the City's right to recover costs and attorney fees in the lawsuit in exchange for the Director's agreement to not appeal the decision and make the City incur additional costs to fight an appeal.

SCO's Comment

The City Council's approval of the above-mentioned agreement appears unreasonable, as the City has already spent a significant amount of public funds to win a court decision. In addition, based on the documents we reviewed, we could not determine if any detailed discussions and analysis were conducted by the City Council to support its decision.

The finding remains as stated.

FINDING 3— City officials failed to comply with and violated the City's municipal code over contracts

During our review of the City's contracting process from January 1, 2008, through June 30, 2013, we noted that neither City officials nor the City Council complied with contracting requirements and, therefore, violated the City's municipal code section 2-333. This code requires purchases and contracts for supplies, services, and equipment that exceed \$30,000 shall be by written contract with a written purchase order to the lowest responsible bidder. City officials made numerous questionable decisions by not following the contract process and approving contracts without detailed review and analysis of reasonableness. We identified numerous contracts and transactions that raised questions about the reasonableness and proper use of public funds, as follows:

1. The City extended existing contracts, thus by-passing the open competitive bidding process

Athens Services

On October 16, 2012, the City Council adopted (motion carried, by a 3 to 1 vote) Amendment No. 9 to the Amended and Restated Agreement between the City of West Covina and Athens Services for the Collection of Solid Waste Recyclables, Yard Wastes and other Compostables. This amendment approved a contract time extension for an additional 13 years, to November 2037. In return for the contract extension, the contractor agreed to pay to the City a one-time payment of \$2,000,000 to be deposited in the City's general fund, and contribute an annual donation of \$100,000 (\$50,000 to the City's SWAT, \$20,000 to the Summer Concert series, and \$30,000 to the Fourth of July celebration).

Based on available documents provided for our review, it does not appear that this contract extension is fair and equitable to the City and its residents. We were not provided with any type of evidence that the City's management and council considered exploring any other options or sought bids from other companies. It is more than likely that this contract extension will eventually burden the City, as it lost its ability to negotiate for a more reasonable rate for its citizens. This could also lead to rate increases over the next 25 years that the City will not have the ability to control.

Nationwide Environmental Services

On October 16, 2012, the City Council also approved an additional eight-year extension to the City's Contract Service Agreement with Nationwide Environmental Services, a division of Joe's Sweeping, Inc. (Nationwide) for citywide street sweeping to November 1, 2027. In return for the contract extension, Nationwide will forego rate increases due to the CPI index until July 2015, and will increase sweeping frequency of all medians to once a week instead of twice a month.

As with the agreement with Athens Services, there is no evidence that the City Council considered exploring other options or sought bids from other companies. As such, the City Council violated its purchasing policies and procedures and failed to comply with the bidding process required by municipal code.

2. The City failed to comply with the open bidding requirement established by municipal code.

CGM, Inc.

On September 27, 2010, the City received a request to enter into an ENA from CGM for potential development of an upscale five-story, 50,000-square-foot commercial condominium office development. Subsequently, on October 19, 2010, the City and CGM entered into an Exclusive Negotiating Agreement to develop Parkside Corporate Center, a four-story medical office condominium (project). On

January 10, 2012, the City entered into a Disposition and Development Agreement with CGM for the purchase of property owned by the City.

From the start, the proposal and contract negotiating process excluded other contractors from bidding on the project. Additionally from our review of City documents, evidence suggests that the City Council did not consider exploring other options or seek bids from other companies. As such, the City Council failed to comply with the open bidding process requirements as required by the City's municipal code.

Recommendation

The City Council should fulfill its fiduciary responsibility by engaging in meaningful oversight over the City's affairs. The City also should develop and implement policies and procedures to ensure that its management performs a detailed review and gains full understanding before entering into any type of legally binding agreement. This is especially critical when the City Council approves long-term extensions to existing contracts. All proposed agreements should be presented to the City Council with full explanation of the services to be provided and benefits to the City prior to approval and before formal execution.

The City Council should also ensure that City officials comply with the City's municipal code pertaining to contracting. In addition, the City should ensure that:

- Contracts are properly executed and approved, using the competitive bidding process and obtaining City Council approval when required;
- Payments do not exceed contract amounts; and
- Payments are for contracted services.

City's Response

The City of West Covina acknowledges that the open bidding requirements established by the municipal code were not always complied with. The purchasing function requires time spent assisting departments, requesting quotes, developing and evaluating RFP's along with processing purchase orders and contracts to ensure compliance with the municipal code. Our current purchasing structure is decentralized which requires departments to conduct their own purchasing. The current purchasing staff of one (1) has a difficult time providing the assistance needed by departments to ensure they follow the municipal code from the beginning of the process. Finance will be reviewing the staffing needs in the FY 15/16 budget process to provide better oversight.

It should be noted that not all of the contracts identified specifically would have been subject to open competitive bidding. For example, the City's municipal code does not require that an existing contract be subject to open competitive bidding before it is extended, particularly when it's for a service or a franchise or where there may be special factors affecting the decision. For example, providers of street sweeping and waste disposal services were required by SCAQMD Rule regarding air quality/emissions were required to purchase more expensive equipment

or vehicles in order to provide their services and comply with SCAQMD regulations. This could have been a valid consideration in extending an agreement. Without knowing exactly what considerations or analysis were done in connection with agreement extensions, it is difficult to say whether the extensions should have been granted. For services such as this, there certainly should be a Qualifications Based Selection (QBS) through an RFP process. Extensions of such agreements have to be carefully evaluated, with pros and cons being weighed and balanced openly and publicly. With respect to the C.G.M. agreement, land sales and/or disposition and development agreements may sometimes begin with a Request for Proposal process, but are not required to go through a competitive open bid process.

However, the City has adopted a new and more comprehensive purchasing policy since the time periods evaluated. The City has also hired a new Finance Director and a new Public Works Director who will oversee the Qualifications Based Selection/RFP and open bid processes in selecting consultants and contractors. The new Directors are committed to complying with California Public Contract Code, City of West Covina Municipal Code and California Uniform Construction Cost Accounting Procedures in selecting and awarding contracts for public works projects. The City has also retained a new City Attorney who will assist staff in ensuring that state law and the municipal code are followed at all times.

SCO's Comment

The City should comply with open bidding requirements in awarding contracts for goods and services, as required by the City municipal code. Awarding City contracts to the lowest bidder will provide equal opportunities for all qualified businesses and will demonstrate good stewardship of City funds. The City should continue to adopt the new and more comprehensive purchasing policy that it started. The City generally agrees with the finding.

The finding remains as stated.

FINDING 4— The City and City Council approved contract change orders in violation of the City municipal code and the Public Contract Code

The City and the City Council approved a change order in the amount of \$1,367,775 to cover additional work relative to a contracted project for street rehabilitation. The change order expanded the scope of work to include additional 10 residential streets and 6 commercial streets throughout the City. The change order represents 175% increase over the original contract amount of \$782,215. The contract related to this change order was executed on June 22, 2013, and was approved by the City Manager and by the City Council.

According to our inquiry with the former Director of Public Works (Director), the City adopted the California Public Contract Code as its law governing contract awards relating to street works, and also adopted the Green Book's *Standard Specifications for Public Works Construction* for construction standard practices that are universally accepted and practiced by counties, municipalities, and public works agencies throughout the nation. The Director asserted that the 175% increase of the contract through a change order, although unusually high, is not without precedent as it was done before, was legal, and was approved by the City Manager

and the City Council. The Director further explained that the change order including two streets, Kings Crest Drive (location of Mayor Pro-tem residence) and Hillside Drive was requested by the Mayor Pro-tem. The Director decided to include the 14 remaining streets to take advantage of the low cost of the current contractor and to speed up the street maintenance before the Fall start of local schools.

The former City Manager was also contacted regarding this change order. The City Manager stated that he had just assumed the responsibilities in December 2012, and that the Director had been one of the competing candidates for his job prior to his appointment. In order to build team morale, and out of respect for the Director's 17 years of professional experience and past performance, the City Manager relied on the Director's recommendation that the change order was within the normal scope of work and that it complied with the law. Subsequently, the City Manager had reservations regarding the Director's practice. The successor Interim Director confirmed that his predecessor misinterpreted the Green Book regarding contract change orders. Basically, the change order should cover only the increased costs within the scope of the project. Therefore, additional improvements were not within the scope of the original contract. In retrospect, the City Manager stated that he would not have approved the change order but instead would have proposed a new project for the additional streets.

Three City Council members were also contacted regarding the change order and all responded that they relied upon the Director and the City Manager's recommendation and assurance that the change order was in compliance with the law.

The change order process raises serious concerns and issues relative to the City's compliance with its municipal code and the Public Contract Code. Some of the noted issues are as follows:

- The City and the City Council failed to comply with the City's municipal code and its change order policy when it approved the change order. The change order represents a 175% increase over the contract costs. The West Covina Ordinance 2048 adopted the Green Book's *Standard Specifications for Public Works Construction*, which stated that changes to the original work are allowed provided they do not exceed 25% of the contract price. Also, the City's change order policy states that construction project change orders are limited to 25% of the total contract amount.
- Approving a change order by extending the scope based on a request by the Mayor Pro-tem is not a reasonable or allowable justification to expand the project. Rather, given the number of additional projects added and the materiality of the cost approved under the change order, the additional projects should have been awarded only after competitive bidding. Contracts not competitively bid as required by the Public Contracts Code are void as a matter of law. Moreover, Public Contract Code section 20163 states "it shall be unlawful...Every person who willfully violates the provision of this section is guilty of a misdemeanor."
- The City Council and the City Manager did not perform a detailed review and analysis of the change order and, therefore, failed to

properly exercise their oversight responsibilities. It appears that the City approved change orders by relying on staff recommendations without independently performing due diligence review of the approval process. Everyone concerned relied on the Public Works Director's recommendations without seeking any input from legal counsel.

As a result, the City's violation of its municipal code and the Public Contract Code places the City in a precarious position and creates the possibility that the contract change orders may result in disallowance for project reimbursement if the City received state or federal funds.

Recommendation

In the future, the City should consult with its legal counsel to ensure that it complies with the City's municipal code; the Green Book; the Public Contract Code; and any other applicable laws, rules, and regulations. It is imperative that the City Manager and the City Council act more responsibly by performing due diligence when overseeing and approving City contracts and projects.

City's Response

The City of West Covina acknowledges that the change order policy was not complied with. Greater awareness and training of staff is needed to ensure compliance with adopted policies and procedures, and state law. The City has already acted to adopt clear rules restricting the use of change orders, adopted a new purchasing policy, and hired a new Finance and Public Works Directors.

SCO's Comment

The City agrees with the SCO and is in the process of developing policies and procedures as recommended above.

**REVISED
FINDING 5—
The City failed to
exercise adequate
control over expenses
charged to City-issued
credit cards**

During our review period, we noted that the City did not enforce a strict policy for governing City-issued credit cards. From July 1, 2011, through June 30, 2013, City management charged a total of \$148,873.22 in expenses on City-issued credit cards. Out of the total expenses incurred during this time period, we found \$32,219.13 (22%) to be questionable.

Our review found that many of the charges, particularly those incurred or directed by former City Managers, are questionable. Current City officials or employees could not provide an explanation or rationale for charges that included meals, hotel stays, accessories purchases, and various miscellaneous expenditures as follows:

Meals

The City's supporting documents were missing key elements, such as restaurant receipts with descriptions of items purchased, expense reports with proper description of the reasons for such expense, and signatures and dates of submission within 10 days of occurrence. In addition, the City's

staff should not be allowed to charge lunches and dinners to the City for staff meetings.

Questionable expenditures for meals totaled \$5,655 or about 3.8% of total City-issued credit card expenditures. The charges were incurred by the City Manager for dinner meetings with City Council members, staff meetings, and business lunches at various restaurants.

Specific examples of charges by the former City Manager are as follows:

- Meal expenses of \$1,079 on February 7, 2013; \$361 on February 8, 2013; \$164 on April 24, 2013; \$154 on May 1, 2013; and \$656 on May 2, 2013
- Various other expenses such as \$93 on December 11, 2011; and \$74 on November 24, 2011.

These types of charges were incurred monthly between 2010 and 2013. However, the City could not provide us with valid reasons or documentation to support the charges. The fact that City officials and upper management routinely incur charges without adequate supporting documentation, justification, and/or description shows a lack of fiscal control, accountability, and integrity.

Although the City has no specific limit on meals, the amounts incurred seem excessive.

Hotel Charges

During our review period, the City's travel policy did not include specific dollar limits governing hotel charges. Expenditures for hotel stays totaled \$10,921, or 7% of total charges to City-issued credit cards. We also noted that, in many instances, the purpose for some of the expenses was not clear or properly documented; and that the costs were significantly higher in comparison to state and federal rates. For example:

- On January 31, 2013, hotel charges were incurred on the City's Visa card amounting to \$1,512 for a stay at the Double Tree hotel in Santa Barbara, CA with no purpose or explanation. The City-issued credit card was charged \$272 per one-night stay at this hotel.
- On May 20, 2013, the Finance Department Administrative Assistant Clerk charged \$4,125 to the City-issued credit card for a hotel reservation at the Renaissance Hotel in Indian Wells, CA. These charges appear to be for the former City Manager and the City Council. In addition to the high hotel rates, the lodging occurred over a weekend, and there was no description or stated purpose relating to this expense.

As noted in other examples, there was no description, justification, or any type of documentation as to the purpose and necessity of these trips. The City-issued credit card was charged \$248 for one night stay at the Renaissance Hotel.

In addition, while the City had no limit on hotel charges, the amounts incurred seem excessive. For example, the lodging expense allowance for State employees range from only \$90-\$150 depending on the location.

In each of the instances described above, as well as other instances concerning lodging expenses, there was no discernible indication that the City Managers or other City employees ever inquired about or considered staying at hotels that offered government rates. Some of the hotels identified above offer government rates, even on weekends, for legitimate business trips.

Miscellaneous Expenditures

Expenditures for miscellaneous expenditures totaled \$10,944, or 7.35%, of total charges to City-issued credit cards and consisted of various expenses that did not include a purpose, description, or any other details, as follows:

- On January 9, 2013, the City Manager cashed out \$1,525 from the Rewards Program for the City-issued Visa card. The Rewards Program points were redeemable for cash. The redeemable cash should be used for City purchases. The auditors do not have sufficient documentation to make a determination as to whether the use of funds for employee activities is actually a City-related expense.
- On June 12, 2012, \$720 was charged to the City-issued Visa card for an iPad and accessories for a City Council member. As noted in other examples cited above, there was no description, justification, or any type of documentation as to the purpose and necessity of such a purchase.
- On November 17, 2011, the former City Manager charged to the City-issued card \$5,300 for a business-magazine advertisement for a private company for which the contact person was the former Community Development Director. This charge did not include any description, justification, or documentation of the purpose.

Recommendation

The City should implement appropriate internal control measures to ensure proper review and approval of all charges relating to meal, lodging, and incidental expenses on City-issued credit cards. These measures should include:

- A comprehensive travel policy that establishes clear guidance for travel, including the purpose of the trip and documentation requirements, and which sets limits on lodging rates, meals, and other travel expenses.
- A policy governing circumstances under which business meals are authorized, including documentation requirements and limits on the maximum amount allowable for business meals.
- An expedited payment process to avoid late-payment penalties.

We also recommend that the City review the questionable charges noted above and determine whether City officials and employees should be required to refund the City for all or part of them. The City also should consider performing a review of travel and meal expenses for the period of our review to determine whether refunds should be sought.

City's Response

The city requested modification of questionable amounts to this finding in consideration of the additional supporting documents that were submitted together with its comment to the draft report. In addition, the city submitted a travel and expenditure policy that was adopted by the city council in compliance with AB1234 and another policy that is specific for city employees dated November 1, 2002.

SCO's Comment

We reviewed and analyzed the additional supporting documents and determined that some of the expenses incurred were adequately supported. Accordingly, we modified the finding. However, some of the questioned amounts remained the same because the City did not provide supporting documents or the submitted documents were inadequate.

The employee travel and expenditure policy dated November 1, 2002, should be updated, as some of the stated information is outdated. In addition, the dollar limits for lodging should parallel those of the State and federal government, unless the City can justify a higher dollar limit. Lodging should be included in the updated employee travel and expenditure policy.

FINDING 6— Billings for legal services lacked adequate supporting documentation

The City paid its City Attorney \$752,093 for legal services provided during FY 2011-12 through FY 2012-13. A review of the invoices revealed that approximately \$457,015 (61%) of the invoices did not detail the type of legal work performed, and there was no evidence of approval from department heads prior to authorization of payment. Upon discovery of these issues, we expanded our review to FY 2010-11 through FY 2013-14 and found that \$970,257 (58%) of \$1,683,607.93 in legal services reflected similar types of problems.

Invoices for legal services typically include detailed records of the work performed. Standard internal control procedures dictate that invoices should be paid only when the City is fully apprised of what services were rendered. Specific examples of the deficient invoices are as follows:

- April 2010, General Law for \$31,633.53
- March 2011, General Law for \$22,177.68
- May 2012, General Law for \$24,682.07

Good business practice requires careful review and evaluation of all contract terms, especially the description and scope of services to be provided. The related contract invoices should include a full description of services, and only after proper reviews are conducted and approvals are

obtained should payments be made.

Recommendation

The City should implement appropriate internal control measures to ensure proper review and approval of all invoices for legal services. These measures should include:

- A comprehensive policy establishing clear guidance of the invoice review and approval process.
- Training staff in the proper procedures regarding payment processing.
- Requiring legal firms to provide invoices with the following information:
 - Billing period
 - Date of services provided
 - Name of attorney providing the services
 - Description of the legal service provided
 - Number of hours
 - Hourly rate
 - Total amount billed
 - Name and costs for services performed by anyone other than the attorney

City's Response

Over the past few years, the City Manager had made the determination to keep all City Attorney invoices and detail in the City Manager's Office due to confidential information contained in the documents. Some of the invoices and detailed billings were in Finance, but all the invoices and backup are in the City Manager's Office. Finance is provided a cover summary of the billings and the account numbers to charge against for payment. All City Attorney invoices are reviewed by the individual Department Heads for appropriate charges before any payment is made. The detailed invoices include billing period, date of services provided, initials of attorney providing the service, description of the services provided, billable hours, hourly rate, total amount billed, and other miscellaneous costs. A copy of the July 2013 City Attorney bill is attached [not attached] for reference. Additional billings with details are available for review in the City Manager's Office.

SCO's Comment

The City disagrees with the finding. The City's management claims that the backup for the City Attorney invoices are held in the City Manager's Office, and that Finance usually received only the summary of the billings. We were not informed of this arrangement during the fieldwork phase of our review. The requested invoices and backup provided to us did not consistently include the detailed information the City claims it had all

along. We also noted that the invoices lacked consistent evidence of Department Head approval.

We found that invoices for litigation were consistently detailed with a description of services rendered, initials of the attorney providing the service, and date of services provided, whereas most invoices for what the City Attorney considers “General Law” were sparse; only a few invoices included detailed information.

Furthermore, the Finance Department should have in its file properly reviewed and completed billings that include the Department Head approvals in order to support payments made for the various billing charges.

The finding remains as stated.

**FINDING 7—
The City Council and
the City failed to
comply with the
City’s municipal code
and the personnel
rules handbook when
hiring employees**

The City Council did not follow the hiring procedures stated in its municipal code when it hired a City Manager on December 21, 2012. The municipal code, Section 2-147, states:

(d) *Recruitment.* The city council shall retain the services of one of the organizations designated hereunder to recruit candidates for the position of city manager in the event of a vacancy and to evaluate their qualifications:

- (1) State human resources board; or
- (2) County civil service commission.

The organization so selected shall be directed to certify to the city council the names and records of five (5) candidates whom they find to be best qualified.

Our review of documents and City Council minutes failed to find evidence that the City Council followed the hiring process stated in the municipal code. There was minimal information from the records to show that the City Council made a reasonable effort to recruit and hire the best-qualified candidate for the open City Manager’s position. Instead, the City Council selected the former CDC Director as the new City Manager; his experience and qualifications were questioned during the City Council meeting. The City Council then had to hire the former City Manager for another five months to help during the transition process. As a result, the City incurred additional salary costs.

In addition, we noted that several employees were hired during the period of July 1, 2012, through June 30, 2013 (review period) and the City failed to follow the hiring process as stated in the City’s Personnel Rules Handbook. We reviewed personnel records of these employees, as well as with other documents, and noted that the records did not include employment applications, resumes, and job announcements. As a result, we could not determine whether these individuals met the minimum qualifications for the positions for which they were hired.

Recommendation

The City should develop and implement procedures to ensure that the City

and the City Council comply with the City's municipal code and Personnel Rules Handbook when hiring new employees. The City should follow proper employment practices in order to hire qualified applicants and to eliminate the appearance of favoritism in hiring.

City's Response

....The City was unable to follow this section of the Municipal Code as these groups do not exist or do not provide these services to cities. This section of the City's Municipal Code is obsolete and takes the vote of the community to change. The City Council is considering a ballot measure to amend this section of the Municipal Code.

In addition, the State Audit report states that several other positions were filled without following the City's hiring process. Of the two identified, City staff acknowledges that one may not have followed the process, but the employee in question competed against other candidates for the position through a proper recruitment process.

SCO's Comment

During our review of documents related to the hiring of a new City Manager, we could not find any evidence that the City made an attempt to contact the Los Angeles County Civil Service Commission. Contrary to the City's comments, the Los Angeles County Civil Service Commission is still in existence and is still providing civil service-related work for those cities that directly contract with the County.

In addition, the City provided documents to support that the proper hiring process was conducted for one of the employees questioned in this finding. The documents submitted by the City support the proper hiring process when the employee applied for the position of Senior Administrative Assistant during December 2014. However, we are questioning the hiring process for this same employee prior to December 2014. This employee has been included on the City's payroll since December 24, 2011.

As the City failed to submit documents to support its position, the finding remains as stated.

**FINDING 8—
The City's
Administrative
Policies and
Procedures Manual
was incomplete and
outdated**

The administrative procedures are important to a city's operation because they provide an objective set of rules by which a city operates. These written policies and procedures also help establish the legitimacy of management action by ensuring that the application of management rules and decisions is done in an objective, fair, and consistent manner. Finally, they help ensure that city management is held accountable for decisions that deviate from the established procedures.

A well-designed and properly maintained system of accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Undocumented and outdated policies and related internal controls result in unclear roles and responsibilities and lead to improper handling of transactions. An essential element of internal control is monitoring, which includes verification by management that policies and procedures are updated to adequately address new challenges identified by ongoing risk assessments.

During our review and inquiry with several City employees and management, we noted that the City does not have a process in place to routinely review and update its Administrative Policies and Procedures Manual. Therefore, documentation for completeness, accuracy, and consistency with existing processes is lacking. Specific deficiencies related to the City's Administrative Policies and Procedures Manual are as follows:

- The Administrative Policies and Procedures Manual was outdated.
 - The City Personnel Rules from Human Resources was last revised on April 10, 1996.
 - Purchasing Policies and Procedures was last updated in July 2006. There is, however, an updated copy marked "Draft," dated October 2, 2014, which has not yet been approved by the City Manager.
- The Finance and Administrative Services Department Policies, dated June 30, 2014, were incomplete. These accounting policies did not include a number of very important procedures relating to the following:
 - Budget and Planning
 - Computer System Backup Procedures
 - Financial Reporting
 - Fiscal Policy Statements
 - Fixed Asset Management
 - Payroll
 - Petty Cash Fund

In addition, although most employees had information on the procedures and processes for their particular assignment, these procedures and processes are outdated and there is no documentation of the overall procedures and processes of the accounting system. Therefore, most staff members do not have any understanding of the accounting system except as it relates to their assigned duties.

Recommendation

The City should continue to review and update its Administrative Policies and Procedures Manual to ensure consistency with current processes and organizational structure; and it should perform periodic and ongoing reviews to ensure proper documentation, accuracy, and completeness in its financial transactions and records. Changes in policies and procedures that occur between these periodic reviews should be updated and documented promptly. Documentation provides guidance for implementing controls, serves as a basis for training new personnel in implementing such controls, and provides evidence that the controls are operating effectively.

The Administrative Policies and Procedures Manual should also indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed. Also, the documentation of accounting policies and procedures should explain the

design and purpose of procedures related to controls to increase employee understanding of and support for controls.

The updated Administrative Policies and Procedures Manual should be readily available to all responsible employees. It should clearly state the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records.

City's Response

The City acknowledges that its policies and procedures need to be updated and enhanced. The City has had a number of vacant Director and professional accounting staff positions vacant, but these vacancies are being addressed and a number of positions have already been filled.

SCO's Comment

The City agrees with the SCO and is in the process of developing policies and procedures as recommended above.

FINDING 9— Bank reconciliations were not performed, reviewed, or approved timely

Cash can be the most vulnerable asset of an entity. Timely bank reconciliation provides the necessary control mechanism to help protect this valuable resource by uncovering irregularities such as unauthorized bank withdrawals. Timely monthly preparation of bank reconciliations also assists in the regular monitoring of the City's cash flows.

Bank reconciliation is an important monthly task for the City's Accounting Department because it:

- Compares the City's general ledger against its bank statement to check for any irregularities or overcharges;
- Provides City management a good financial oversight from month to month; and
- Provides information regarding misclassified and/or missing funds. It is also essential that the duties of issuing payments and reconciliations are separated, and that bank reconciliation statements be reviewed and approved by upper management, performed at least once a month, and reviewed by an external auditor at least once a year.

In our review of the City's bank reconciliation process and procedures for the period of July 1, 2011, through June 30, 2013, we noted that the majority of bank reconciliations were not reviewed and finalized within 30 days after the close of the month. During FY 2012-13, the City went as long as 145 and 115 days without completing, reviewing, and approving the reconciliation for the months of July and August 2012. We also noted instances in which reviews and approvals were not performed on some of the completed bank reconciliations.

In addition, we noted that the City had not performed bank reconciliations from March 2014 through November 2014. The City was forced to hire an outside consultant to perform this essential task.

Lack of timely bank reconciliations will result in insufficient controls over the City's cash accounts and staff may not detect errors or fraud in a timely manner.

Recommendation

We recommend that the City establish and implement procedures to ensure the timely preparation of bank reconciliations, and ensure that bank reconciliations are completed, reviewed, and approved in a timely manner. The bank reconciliations should be signed and dated by the preparer and the reviewer.

City's Response

The City acknowledges the importance of bank reconciliations that are completed, reviewed and approved timely. As a result of significant staff turnover, the City fell behind in the reconciliation process. The City anticipates being current on their bank reconciliations by June 30, 2015.

SCO's Comment

The City agrees with the SCO and is in the process of completing its bank reconciliations by June 30, 2015.

FINDING 10— Lack of segregation of duties

Proper segregation of duties helps ensure that funds and assets are properly recorded, protected, and appropriated. During our review of City employee duties, we noted that incompatible functions were being performed by a single individual. These functions include payroll, cash receipts, and accounts payable.

Payroll

Only one payroll clerk was assigned to process biweekly payroll for the City through Eden Computerized Payroll System. We noted that incompatible functions are assigned to, and being performed by, the payroll clerk. These functions include the clerk's ability to establish a new employee account, change an employee salary rate, and change other critical personal information. These functions should be performed by Human Resources personnel. Good internal controls require that these duties be segregated to avoid potential conflicts of interest and/or fraud.

Cash receipts

Cash receipt functions were not properly segregated. The revenue officer performs the following incompatible duties: accepts and counts cash, prepares deposit slips, performs deposit duties, and performs online reconciliation of deposits to the bank statement records. Also, there was no documented reconciliation between the check log and deposit prepared or deposit receipt. Lastly, there was no supervisory or managerial review and oversight of the cash deposit slips and online reconciliation of deposits.

Accounts Payable

The accounts payable clerk was able to process invoices and had full access to the computerized vendor master file. The computerized system did not integrate controls to segregate duties that can reduce errors and prevent or detect inappropriate transactions. As such, the clerk would be able to create fictitious vendors and to approve and make payments to them. In addition, the accounts payable clerk is able to manually enter vouchers and post vouchers for payment. No single employee should be able to create an invoice for payment and authorize the payment.

An employee should be able to access only appropriate applications and information in order to perform his or her assigned tasks. Failure to implement strong access controls over the vendor master file can lead to an individual having inappropriate access and could provide him or her with the opportunity to commit fraud.

Recommendation

The City should assess its current processes and implement policies and procedures to segregate incompatible functions.

City's Response

The City acknowledges the importance of segregation of duties to ensure proper internal controls. The findings noted are a result of significant turnover and current vacancies. Management is currently reviewing the controls and making appropriate corrections.

SCO's Comment

The City agrees with the SCO and is in the process of reviewing the controls and making appropriate corrections.

**FINDING 11—
Lack of adequate
back-up to staff
performing critical
functions**

During the last three years, the City experienced extensive turnover of personnel. In order for the City to continue its normal operation, employees were assigned to new positions in which they were lacking experience and training. In addition, new employees performing these critical tasks were not adequately backed up by capable staff to cover for vacation or sick time.

This lack of back-up staff may impact the City's daily operation. For example, a delay in paying bills that are due will cause additional and unnecessary cost to the City. Likewise, delays in processing payroll will delay payments of salary to employees and processing of tax liability. These delays will cause additional costs in late payment penalties.

Some of the positions we noted that lack adequate backup are Payroll, Revenue Collection, Purchasing, and Accounts Payable.

Recommendation

The City should implement a remedial action plan to address the importance of experience and proper training of back-up staff when

regular staff members are not available. Inexperienced staff may cause material impact in the City's operations in terms of additional costs, delays in processing financial transactions, and keeping City management and the City Council updated with accurate information.

City's Response

The City acknowledges the lack of adequate back up due to staff turnover and lack of unfunded positions. Management is evaluating processes and possibilities of restructuring the Finance Department to allow for adequate staffing levels and available back up personnel.

SCO's Comment

The City agrees with the SCO and is in the process of evaluating staffing levels and available back up personnel.

FINDING 12— Inappropriate payment relating to severance and mutual separation agreement

We noted that the City entered into a severance and mutual separation agreement on November 25, 2013, with an employee who took a voluntary retirement. This agreement provided the employee with severance compensation for a lump sum payment of \$55,000. This payment did not include payment of any accrued vacation leave, administrative leave, and sick leave. The City's Personnel Rules and Regulations include provisions for payment of any accrued vacation leave, administrative leave, and sick leave; however, there is no provision authorizing payment of severance pay to a voluntarily retiring employee. Further, the City of West Covina municipal code does not address or provide any type of authorization for payment of severance compensation to City employees.

The City failed to properly evaluate whether this payment was appropriate. As a result, the severance and mutual separation agreement and payment of \$55,000 for severance compensation is not appropriate and it constitutes a gift of public funds.

Recommendation

The City should reevaluate the appropriateness of the severance and mutual separation agreement. If City management and the City Council deem this an inappropriate payment and/or a gift of public funds, the City should consider taking legal action for repayment of the money attributable to the severance compensation.

City's Response

The State Audit refers to the severance and mutual separation agreement dated November 25, 2013, as the payment of a severance to a voluntary retiring employee. The agreement was entered into by the City of West Covina not only as a severance agreement, but language contained within the agreement was to settle outstanding legal challenges against the City and to reduce the City's financial exposure and legal fees if the legal cases were to continue. The City Council approved this settlement agreement.

SCO's Comment

We could not determine from the documents provided by the City whether proper evaluation of this agreement was conducted to justify the reasonableness of using public funds. In addition, the City does not have the authority to justify such a payment. Accordingly, we continue to question the reasonableness of the agreement and severance payment.

Appendix— City of West Covina Evaluation of Elements of Internal Control

Management Oversight and Control (Control Environment)		YES	NO	COMMENTS
Control Environment				
A1.	Integrity and Ethical Values			
	a. Are code of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards to ethical and moral behavior established and communicated to all City management and employees?		X	City Personnel Rules that address the code of conduct, acceptable business practice, conflicts of interest, and ethical moral behavior are outdated; they were last revised in April 10, 1996. In addition, the staff we interviewed were not aware of the City's Personnel Rules.
	b. Is the reasonable management attitude of "Tone at the Top" established and communicated to City management and staff?		X	We noted questionable hiring practices of management and employees that occurred during the period of July 1, 2011, through June 30, 2013. See Finding 7.
	c. Is everyday interaction with vendors, clients, auditors and other parties based on honesty and fairness?		X	We identified questionable contracting practices during our review. See Finding 4.
	d. Is appropriate remedial action taken in response to non-compliance?		X	Based on our inquiries, City staff were not forthcoming whether any remedial action was taken by management in response to employee non-compliance with the established policy.
	e. Is management appropriately addressing intervention or overriding established controls?		X	Per our inquiry, management is not addressing intervention or overriding established controls.
A2.	Commitment to Competence			
	a. Is management identifying and defining the tasks required to accomplish particular jobs and fill - various positions?		X	Management is operating with a bare minimum number of staff due to budget cuts. The City experienced excessive turnover of management personnel during the period of July 1, 2011, through June 30, 2013. For example: <ul style="list-style-type: none"> Three different City Managers. An interim City Manager is filling this position while the City is in the process of recruiting a new City Manager. Three different Finance Directors. The City is in the process of filling this position with a full time Finance Director.

				<ul style="list-style-type: none"> • Three different Human Resources Directors since 2011. • Accounting Manager position was vacant for the last two years.
	b. Does the City conduct appropriate analysis of the knowledge, skills, and abilities needed to perform job assignments?		X	Several key positions were filled by interim employees and there were no backup personnel at some key positions. See Finding 11
	c. Is the City providing training and counseling in order to help employees maintain and improve their job competence?		X	Per our inquiry of several employees in key positions with the Finance and Human Resources Departments, training was not provided to staff.
A3.	Audit Committee			
	a. Does the City have an audit committee that is appropriate for the size and nature of the entity?		X	The City does not have an audit committee.
	b. Are members of the audit committee independent from the City management?		X	See comment above.
	c. Do audit committee members have sufficient knowledge, experience, and time to serve effectively?		X	See comment above.
	d. Does the audit committee meet regularly to set policies and objectives, review the City's performance, and take appropriate actions; and are minutes of such meetings prepared and signed on timely basis?		X	See comment above.
	e. Do the members of the audit committee regularly receive the information they need to monitor management's objectives and strategies?		X	See comment above.
	f. Does the audit committee review the scope and activities of the internal and external auditors?		X	See comment above.
	g. Does the audit committee meet privately with the Chief Financial Officer/and or accounting officers, internal auditors, and external auditors to discuss the reasonableness of the financial reporting process, the system of internal control, significant comments or recommendations, and management performance?		X	See comment above.
	h. Does the audit committee take actions as a result of its audit findings?		X	See comment above.

A4.	Management Philosophy and Operating Style			
	a. Is management conservative in accepting risks, and does management move carefully, and proceed only after careful evaluation?		X	Due to budget cuts, the Risk Management Director position was eliminated. No proper risk evaluation was completed due to the lack of an experienced Risk Management Director. Subsequent to June 30, 2013, this position was vacant for nine months and filled by a temporary staff member in December 2014.
	b. Are procedures or activities in place to regularly educate and communicate to management and employees the importance of internal controls and to raise the level of understanding control?		X	Per our inquiry and observations, key positions were filled with staff members who lack experience and were not provided proper training for the positions. Most of the staff performing critical functions were in different job classifications prior to the rotation to the key position. Therefore, the importance of internal controls and employee level of understanding of control is minimal.
	c. Is personnel turnover in key functions at an acceptable level?		X	See comment A2a above
	d. Does management have a positive and supportive attitude towards internal control and audit functions?		X	From our review and inquiry, it does not appear that internal control and audit functions were management's priority. It should be noted that the current management in place as of January 2015 has a positive attitude toward addressing noted deficiencies/weaknesses and audit functions.
	e. Are valuable assets and information safeguarded from unauthorized access or use?	X		
	f. Are there frequent interactions of senior management and operation management?		X	Our review and inquiry indicates that interaction between senior management of different departments did not occur or occurred rarely.
	g. Is management attitude appropriate towards financial, budgetary and other operational reporting?	X		
A5.	Organizational Structure			
	a. Is the City's organizational structure appropriate for its size and the nature of its operation?		X	Key management positions are being filled by temporary or interim employees. There was no trained and/or experienced staff to backup staff performing critical functions. See Finding 11.

	b. Are key areas of authority and responsibility defined and communicated throughout the organization?		X	Extensive turnover and frequent rotation of City staff to different job classifications affected the proper delineation of authority and responsibility. Also, several senior management staff that were frequently assigned to perform multiple management roles caused confusion in their respective areas of responsibility.
	c. Have appropriate and clear reporting relationships been established?		X	Frequent re-assignment of senior management to different positions occurred during our audit period. This prevented a clear understanding among City staff about the organization structure.
	d. Does management periodically evaluate the organization's structure and make changes as necessary in fluctuating conditions?		X	Frequent turnover at key positions continuously filled by interim or temporary staff denotes that proper evaluation of the organization structure was not performed.
	e. Does the City employ an appropriate number of employees, particularly in managerial positions?		X	Several key managerial positions were assigned to interim staff and some key positions were being performed by temporary staff. In addition, a few senior managers were assigned dual roles, filling vacant positions due to turnover.
A6. Assignment of authority and responsibility				
	a. Is the City appropriately assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives?		X	Some key positions were filled by interim and temporary staff.
	b. Does each employee know how his or her work interrelates to others in the way in which authority and responsibility are assigned, and how duties are related concerning internal control?		X	There is lack of segregation of duties among some staff performing critical functions. In addition, there was a lack of adequate backup for some staff. See Finding 8.
	c. Is delegation of authority appropriate in relation to the assignment of responsibility?		X	Some key management positions are being filled by interim and temporary staff.
A7. Human Resources policies and practices				
	a. Are policies and procedures established for hiring, training, and promoting employees and management?		X	The City's personnel rules for hiring, training, and promoting employees has not been updated since July 1996.
	b. Are background checks conducted on candidates for employment?		X	During our review period, several City staff members were hired without following the hiring procedures stated in the City's personnel rules (Policy and Procedures). See Finding 7.
	c. Are employees provided the proper amount of supervision?		X	Several management positions were vacant and some vacant positions were filled by management performing dual management roles.

Risk Assessment				
B1.	Establishment of Entity-wide Objectives			
	a. Are there entity-wide objectives that were established by management?	X		
	b. Are City-wide objectives clearly communicated to all employees, and does management obtain feedback signifying that communication has been effective?		X	Most of the staff we interviewed appeared to be unaware of, or were somewhat reluctant to answer our questions regarding, City-wide goals and objectives.
	c. Is there a relationship and consistency between the department's operational strategies and the City-wide objectives?	X		
	d. Is there an integrated management strategy and risk assessment plan that considers the City-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks?		X	See A4a
B2.	Risk Identification			
	a. Is management appropriately and comprehensively identifying risk using various methodologies?		X	The Risk Management Manager position was left vacant and duties of this position were partly fulfilled by staff in a lower classification. The City hired a consultant to deal with risk management issues.
	b. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives?		X	See A4a and B2a
	c. Do adequate mechanisms exist to identify risks to the City arising from external factors?		X	See A4a and B2a
	d. Is management assessing other factors that may contribute to or increase the risk to which the City is exposed?		X	See A4a and B2a
	e. Is management identifying risks City-wide and for each significant activity level of the City?		X	See A4a and B2a
B3.	Risk Analysis			
	a. After risks to the City have been identified, does management undertake a thorough and complete analysis of the possible effect?		X	See A4a and B2a

	b. Has management developed an approach for risk management and control based on how much risk can be prudently accepted?		X	See A4a and B2a
Control Activities				
C1. Policies and Procedures (General Applications)				
	a. Do appropriate procedures, techniques, and mechanisms exist with respect to each City Department's activities?		X	The updated Finance and Administrative Services Department Policies did not include other critical business processes. See Finding 8.
	b. Are the control activities identified as necessary in place and being applied?		X	Most of the staff we interviewed were not aware of the Policies and Procedures Manual.
	c. Are control activities regularly evaluated to ensure that they are still appropriate and working as intended?		X	For the period of July 1, 2011, through June 30, 2013, there was no evidence that the City performed regular evaluation of control activities.
C2. Common Categories of Control Activities				
	a. Are top level reviews made of actual performance relative to budgets, forecasts, and prior periods?		X	There were no documents to show that reviews were made. The City Council minutes of meetings did not show any discussion and approval of any mid-year budget increases or decreases in areas in which there was over-and under-spending.
	b. Do managers review performance reports?		X	See C2a
	c. For information processing, are varieties of controls in place for performing check accuracy, completeness, and authorization of transactions?		X	There was no system of segregation of duties in place for payroll and accounts payable. See Finding 10.
	d. Are controlled items periodically counted and compared to amounts shown on control records?		X	There was no documentation to show that counts and comparisons of controlled items were conducted by City staff.
	e. For performance indicators, does management compare different sets of data and investigate differences?		X	There was no documentation to show that management reviewed and compared different sets of data relating to performance indicators.
	f. Are duties properly segregated among different people to reduce the risk or error or inappropriate actions?		X	See A6b
	g. Are administrative and operation policies in writing, current, and do they set clear procedures for compliance?		X	See A1a and C1a

Information and Communication				
D1. Information				
a.	Are mechanisms in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes?		X	The City has been understaffed due to budget cuts and turnover. This is not a high priority for the City; accordingly, there was no staff assigned to obtain the relevant information.
b.	Is information provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively?		X	See D1a
c.	Is development or revision of information systems based on the strategic plan linked to the entity's overall strategy, and is it responsive to achieving City-wide objectives?		X	There was no immediate plan to develop or revive the current information system.
d.	Does management support the development of necessary information systems and show its support by committing appropriate resources.		X	City's management might support development of necessary information systems; however, committing personnel and spending additional resources is not in the current management plan.
D2. Communications				
a.	Does management ensure that effective internal communications occur?		X	There was a lack of communication between management and staff because of understaffing due to budget cuts. Some of the staff we interviewed could not remember when the last staff meeting was conducted.
b.	Does management ensure that effective external communication occurs regarding issues with serious impact on programs, projects and other activities?		X	See D2a
c.	Does the City employ various forms and means of communicating important information with employee and others?		X	See D2a
d.	Does the City manage, develop, and revise its information systems in an effort to continually improve usefulness and reliability?		X	We did not note any evidence to show that the City made a substantive effort to improve information systems during the period of July 1, 2011, through June 30, 2013.

Monitoring				
E1.	On-going monitoring			
	a. Does management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations?		X	We did not note that the monitoring information relating to accounting and administrative controls was obtained; accordingly, there were no outputs to be evaluated, no monitoring discussions among City management, no summation of monitoring data, and no general monitoring information developed.
	b. Do City personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly?		X	The City staff that we interviewed did not appear concerned with internal controls relating to their duties.
	c. Are communications from external parties corroborated with internally generated data and able to indicate problems with internal control?		X	Based on our inquiry, there were no internally generated data available.
	d. Is there appropriate organizational structure and supervision to help provide oversight of internal control functions?		X	Oversight of internal control functions was not a high priority of upper management. Most of the key management positions were filled by interim and temporary staff.
	e. Are data recorded by information and financial systems periodically compared with physical assets and discrepancies are investigated?		X	City management relies on the external auditors for the accuracy of recorded assets.
	f. Are the City Auditor's Office and other auditors regularly providing recommendations for improvements in internal control, and is management taking appropriate follow-up action?		X	Recommendations for improvement were provided in the Single Audit Reports for FY 2012 and FY 2013. However, some of the issues noted were not corrected. Accordingly, similar issues were again noted in the following year.
	g. Are meetings with employees used to provide management with feedback on whether internal control is effective?		X	City staff could not recall when the last meeting was conducted between employees and management relating to internal controls.
	h. Are employees' regularly asked to state explicitly whether they comply with the City's code of conduct?		X	We interviewed several City staff members and they acknowledged that they must comply with the City's Code of Conduct. However, they did not remember if they had been informed by management or during a staff meeting about complying with the Code of Conduct.
E2.	Separate evaluation			
	a. Are the scope and frequency of separate internal control evaluations appropriate for the City?	X		Annually, as part of the Comprehensive Annual Financial Report.
	b. Are the methodologies for evaluating the City's internal control logical and appropriate?	X		Based on the external CPA evaluation.

	c. If the evaluations are conducted by the City Auditor's Office, does the office have sufficient resources, ability, and independence?		X	The City does not have an Auditor's Office.
	d. Are deficiencies found during separate evaluations promptly resolved?		X	See E1f
E3. Reporting deficiencies				
	a. Are there means of obtaining reports of deficiencies from both internal and external sources?	X		Audit reports are available on the City's website, on the State Controller's Office website, and/or on the website of the audit entity that performed the audit/review.
	b. Is there ongoing monitoring of internal controls?		X	See E1f
	c. Are deficiencies reported to the person directly responsible and to a person at least one level higher?		X	Internal control deficiencies were noted in the payroll process by the external CPA in its preparation of the annual financial statements. During our inquiry, the payroll clerk was not aware of the internal control deficiency noted in the financial audit report.
	d. Are the identified transactions or events investigated to determine causes and correct problems?		X	It appears that City management did not follow up to correct noted problems. Also, see E1f.

**Attachment—
City's Response to Draft Review Report**



May 12, 2015

Mike Spalj, Chief
Local Government Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250

SUBJECT: RESPONSES TO THE STATE AUDIT REPORT

Dear Chief Spalj:

Below are management's responses to the draft report findings. Please note that in our responses we may refer to an attachment for your consideration, but those references should be removed for the Final Report.

Executive Summary Conclusions (Page 3)

The City of West Covina met with representatives at the exit conference and were told that the conclusions would include language that showed the City of West Covina staff was very cooperative during the audit to provide any and all records being requested as part of the audit. In addition, there was going to be language that while the City clearly had deficiencies, the City of West Covina has already begun to address these matters and put proper policies and procedures in place.

The report should also include that Interim City Manager Tom Mauk was in attendance in the exit conference and that the Finance Director has since been hired so Dennis Swink is now being called the Interim Controller.

Please let the Final Report show that new staff has initiated correcting the many issues cited and has cooperated fully with the State audit team.

Noncompliance with Government Code section 12464 – Management's Response

During the years in question, the City of West Covina's CAFR was issued in January, which explains why the year end closing journal entries were not posted before submission of the Financial Transactions Report. The goal of the current Finance Director is to implement timelier year-end

Mike Spalj, Chief
Local Government Audits Bureau
California State Controller
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closing procedures to ensure the Financial Transactions Report reflects more accurate year-end numbers. The recruitment of the City's professional accounting staff that are key to this goal is currently in process.

Results of Analysis of City's Administrative and Internal Control System – Management's Response

The Finance Department acknowledges the lack of proper controls and policies; therefore, the deficiencies encountered in the day-to-day operations are currently being addressed. Staff has already assigned the task of creating new vendors to the purchasing staff as opposed to the accounts payable staff, payroll is being reviewed using an audit log the finance software provides and staff is scheduling a training with the finance software company to learn how to properly use the system for internal control purposes. Upon filling the current accounting and management vacancies, the Finance Department will begin a thorough review of internal controls, policies and procedures.

Finding # 1 – Management's Response

The City of West Covina acknowledges that errors were made in the proposed sale and development of the civic center property and that policies and procedures need to be developed.

Finding # 2 – Management's Response

On April 6, 2012, the West Covina City Council approved entering into a post-verdict settlement agreement between the City of West Covina and the former West Covina Community Development Commission Director Chung to waive the City's right to recover costs and attorney fees in the lawsuit in exchange for the Director's agreement to not appeal the decision and make the City incur additional costs to fight an appeal.

Finding # 3 – Management's Response

The City of West Covina acknowledges that the open bidding requirements established by the municipal code were not always complied with. The purchasing function requires time spent assisting departments, requesting quotes, developing and evaluating RFP's along with processing purchase orders and contracts to ensure compliance with the municipal code. Our current purchasing structure is decentralized which requires departments to conduct their own purchasing. The current purchasing staff of one (1) has a difficult time providing the assistance needed by departments to ensure they follow the municipal code from the beginning of the process. Finance will be reviewing the staffing needs in the FY 15/16 budget process to provide better oversight.

It should be noted that not all of the contracts identified specifically would have been subject to open competitive bidding. For example, the City's municipal code does not require that an existing contract be subject to open competitive bidding before it is extended, particularly when it's for a service or a franchise or where there may be special factors affecting the decision. For example, providers of street sweeping and waste disposal services were required by SCAQMD Rule regarding

air quality/emissions to purchase more expensive equipment or vehicles in order to provide their services and comply with SCAQMD regulations. This could have been a valid consideration in extending an agreement. Without knowing exactly what considerations or analysis were done in connection with agreement extensions, it is difficult to say whether the extensions should have been granted. For services such as this, there certainly should be a Qualifications Based Selection (QBS) through an RFP process. Extensions of such agreements have to be carefully evaluated, with pros and cons being weighed and balanced openly and publicly. With respect to the C.G.M. agreement, land sales and/or disposition and development agreements may sometimes begin with a Request for Proposal process, but are not required to go through a competitive open bid process.

However, the City has adopted a new and more comprehensive purchasing policy since the time periods evaluated. The City has also hired a new Finance Director and a new Public Works Director who will oversee the Qualifications Based Selection/RFP and open bid processes in selecting consultants and contractors. The new Directors are committed to complying with California Public Contract Code, City of West Covina Municipal Code and California Uniform Construction Cost Accounting Procedures in selecting and awarding contracts for public works projects. The City has also retained a new City Attorney who will assist staff in ensuring that state law and the municipal code are followed at all times.

Finding # 4 – Management’s Response

The City of West Covina acknowledges that the change order policy was not complied with. Greater awareness and training of staff is needed to ensure compliance with adopted policies and procedures, and state law. The City has already acted to adopt clear rules restricting the use of change orders, adopted a new purchasing policy, and hired new Finance and Public Works Directors. The new Public Works Director is committed to complying with California Public Contract Code, City of West Covina Municipal Code and California Uniform Construction Cost Accounting Procedures in reviewing and recommending approval of change orders on public works projects. All change orders exceeding the Council-approved contingency amounts would need Council approval.

Finding # 5

The City of West Covina is requesting the reconsideration of documents being provided in this response to reduce the amount of questionable credit card charges being reported in the draft State Audit report. During the preliminary exit interview on March 5, 2015, there was no indication that the State Audit had difficulties obtaining documents related to the City’s use of credit cards for the period of July 1, 2011, through June 30, 2013. Perhaps with the transition in Finance the appropriate staff member was not contacted about the States’ inquiry. The following is a summary with attachments, to explain the use of the City’s credit card during this period.

In the finding summary there is a statement that the City of West Covina does not have any travel or expense policies governing hotel or meal expenditures. Attached is the April 2006 staff report and travel and expenditure policy that was adopted by the City Council in compliance with AB 1234. This policy provides the City Council direction on the use of public funds when in attendance at

conferences, workshops, seminars, etc. The policy also identifies the use of public funds that are "Actual and Necessary Expenses" incurred in carrying out their official duties. A similar policy was adopted for City staff in November 2002, which is also attached.

Management's Response

Below are responses to individual credit card charges being listed as questionable by the State Controller's Office:

Meals

- On February 7, 2013, the City charged \$1,079.10 for a luncheon at a local restaurant welcoming the Mayor of Ohtawara, Japan, the City of West Covina's sister City. In attendance, were Department Heads, City Council members, City staff, representatives of the East San Gabriel Valley Japanese Community Center, and the delegation from Japan. Attached is the receipt and a copy of the notes on the reverse of the receipt for the luncheon.
- On February 8, 2013, the City charged \$361.47 for a dinner at a local restaurant welcoming the Mayor of Ohtawara, Japan, the City of West Covina's sister City. In attendance, were Department Heads, City Council members, City staff, representatives of the East San Gabriel Valley Japanese Community Center, and the delegation from Japan. Attached is the receipt and a copy of the notes on the reverse of the receipt for the dinner.
- On April 24, 2013, the City charged \$164.00 for a luncheon at a local restaurant to discuss the update and legal strategy of the City vs. Hassen Import Partnership lawsuit. In attendance were the City Manager, City staff, City Attorney, and Special Legal Counsel. Attached is the receipt and a copy of the notes on the reverse of the receipt for the dinner.
- On May 2, 2013, the City charged \$3,104.67 for a dinner at a local banquet facility for the retirement dinner of the City Manager. Attendees reimbursed the City for these expenses that were used to secure the facility and the required minimum dinners for the event. A copy of the credit card receipt and invoice from the banquet facility is attached. Samples of the staff reimbursement are attached.
- On November 24, 2011, the City Manager had lunch with Mayor/Mayor Pro Tem at a local restaurant to discuss the upcoming City agenda. The City Manager misplaced the receipt, but provided the verbal background of the meal, which was added onto the credit card statement for the month. A copy of the credit card statement is attached.

Hotel Charges

- On January 31, 2013, the City charged \$1,512.00 for hotel expenses for the City Manager and two City Councilmembers to attend the Independent Cities Association Conference at the Fess Parker Hotel in Santa Barbara. The conference was held over the weekend and the City

purchased the hotel rooms at the conference/group rate. A copy of the individual travel and expense report for each attendee is attached.

- On May 20, 2013, the City charged \$4,125.00 for hotel expenses for the City Manager and five City Councilmembers to attend the California Contract Cities Association Conference at the Renaissance Hotel in Indian Wells. The conference was held over the weekend and the City purchased the hotel rooms at the conference/group rate. A copy of the individual travel and expense report for each attendee is attached.

Miscellaneous Expenses

- On January 9, 2013, the City Manager's Office cashed out \$1,525.00 worth of points from the City Manager's Credit Card. The City received a check from Wells Fargo in this amount, which was immediately deposited into a City account to be used for the Employee Activity Committee to host a City luncheon to recognize City staff for their service to the community. None of these funds were used for personal use. A copy of the receipt showing the deposit into the City's Employee Activity Committee account is attached.
- On March 3, 2013, Wells Fargo Bank initiated a balance transfer for the City Manager's credit card account because he was issued a new credit card. Attached is the City Manager's credit receipt for the period ending March 11, 2013 that shows a balance due of \$2,249.41. On the credit card statement for the period ending April 9, 2013, the statement shows the balance transfer, a payment in the amount of \$2,249.41 that was made the previous month, and the new credit card number for the City Manager.
- On June 12, 2012, the City charged \$720.00 at Best Buy for an iPad for a City Councilmember. This iPad was an allowable purchase under the City Council approved AB1234 policy for the City Councilmember to carry out his official duties. The iPad was used to retrieve emails, promote the City's mobile application, paperless agenda, etc. A copy of the receipt is attached. iPad was returned to the City when Councilmember left office.
- On November 17, 2011, the City charged \$5,300.00 to the Los Angeles Business Journal, one of the industry's leading business magazines. This charge was for the purchase of a one-page color advertisement in the journal promoting the City of West Covina after earning the "Most Business Friendly City" award from the Los Angeles Economic Development Corporation in 2011. A copy of the advertisement agreement was attached to the credit card statement and included in our attached support.

Finding # 6 – Management's Response

Over the past few years, the City Manager had made the determination to keep all City Attorney invoices and detail in the City Manager's Office due to confidential information contained in the documents. Some of the invoices and detailed billings were in Finance, but all the invoices and backup are in the City Manager's Office. Finance is provided a cover summary of the billings and

Mike Spalj, Chief
Local Government Audits Bureau
California State Controller
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the account numbers to charge against for payment. All City Attorney invoices are reviewed by the individual Department Heads for appropriate charges before any payment is made. The detailed invoices include billing period, date of services provided, initials of attorney providing the service, description of the services provided, billable hours, hourly rate, total amount billed, and other miscellaneous costs. A copy of the July 2013 City Attorney bill is attached for reference. Additional billings with details are available for review in the City Manager's Office.

Finding # 7

Staff requests that this audit finding be revised to show that there was only the one position besides the City Manager. Attached is information on the second employee. These records are confidential as they pertain to the eligibility list of employee recruitment. The eligibility list highlights that the employee in question competed against other candidates for the position through a proper recruitment process.

Management's Response

In 1964, the voters of West Covina approved an initiative describing the duties of the City Manager and the process to address filling the vacancy of the City Manager. The State Audit mentions that the City failed to follow the Municipal code in the recruitment of a new City Manager.

Section 2-147 (d) states, "*Recruitment*. The city council shall retain the services of one of the organizations designated hereunder to recruit candidates for the position of city manager in the event of a vacancy and to evaluate their qualifications:

- (1) State human resources board; or
- (2) County civil service commission.

The organization so selected shall be directed to certify to the city council the names and records of five (5) candidates whom they find to be best qualified.

The City was unable to follow this section of the Municipal Code as these groups do not exist or do not provide these services to cities. This section of the City's Municipal Code is obsolete and takes the vote of the community to change. The City Council is considering a ballot measure to amend this section of the Municipal Code.

In addition, the State Audit report states that several other positions were filled without following the City's hiring process. Of the two identified, City staff acknowledges that one may not have followed the process, but the employee in question competed against other candidates for the position through a proper recruitment process.

Finding # 8 – Management's Response

The City acknowledges that its policies and procedures need to be updated and enhanced. The City has had a number of vacant Director and professional accounting staff positions vacant, but these vacancies are being addressed and a number of the positions have already been filled. In addition to

this, staff will attempt to budget for the use of a consulting firm to assist in the timely development and adoption of an updated and comprehensive Administrative Policies and Procedures Manual.

Finding # 9 – Management’s Response

The City acknowledges the importance of bank reconciliations that are completed, reviewed and approved timely. As a result of significant staff turnover, the City fell behind in the reconciliation process. The City anticipates being current on their bank reconciliations by June 30, 2015.

Finding # 10 – Management’s Response

The City acknowledges the importance of segregation of duties to ensure proper internal controls. The findings noted are a result of significant staff turnover and current vacancies. Management is currently reviewing the controls and making the appropriate corrections.

Finding # 11 – Management’s Response

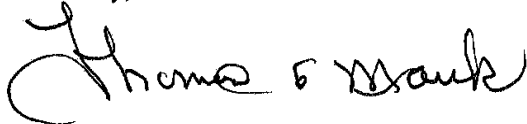
The City acknowledges the lack of adequate back up due to staff turnover and lack of unfunded positions. Management is evaluating processes and possibilities for restructuring the Finance Department to allow for adequate staffing levels and available back up personnel.

Finding # 12 – Management’s Response

The State Audit refers to the severance and mutual separation agreement dated November 25, 2013, as the payment of a severance to a voluntary retiring employee. The agreement was entered into by the City of West Covina not only as a severance agreement, but language contained within the agreement was to settle outstanding legal challenges against the City and to reduce the City’s financial exposure and legal fees if the legal cases were to continue. The City Council approved this settlement agreement.

Thank you for your audit effort and its significant findings as well as the opportunity for the City to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Mauk", with a large, stylized initial "T" and "M".

Tom Mauk
Interim City Manager

cc: Chris Freeland, Assistant City Manager
Christa Buhagiar, Finance Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>