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City of West Covina Los Angeles County

Its Deteriorating Financial Situation Threatens Its Fiscal Stability and Its Ability to Provide City Services

Summary

Our audit of the city of West Covina revealed significant risks related to its financial and operational management. The city has relied on its general fund reserves to support its operations rather than identifying additional revenue or reducing expenditures. Consequently, it has used these reserves to cover substantial expenditures, including salary and benefit costs for its public safety employees, litigation costs, and its pension fund payments. Further, the effects of the COVID-19 pandemic have now further threatened the city's financial stability. Because we have designated it as a high-risk local government agency, we will follow up with the city until it satisfactorily implements a corrective action plan.



* October 2020 Unemployment Rate: 12.4%

Key Risks

- **Continual Diminishing Reserves:** Because of its inability to address large increases in citywide expenditures, West Covina has used its reserves to support its operations for several fiscal years reducing them by more than \$10 million. The fire department routinely exceeded its budget by more than \$1 million per year, and recent salary increases for its public safety staff will cost an additional \$2 million per year going forward.
- **Questionable financial decisions and uses of city resources:** Despite its continual budget shortfalls, the city pays a greater share of its employees' health care benefit premiums than the average share paid by other government organizations, and it has subsidized city services rather than increasing fees it charges to the users of those services. Further, it did not adequately quantify the financial consequences of certain budget adjustments to the city council nor has it developed meaningful budget projections.
- **Lack of a formal financial recovery plan:** It needs a plan with timelines, monitoring, and reporting to improve its long-term fiscal health.
- **Deficient purchasing and contracting practices:** We identified a number of instances when staff did not follow city procurement protocols or ensure that the city's procurement efforts provided the best value to the public.

Key Recommendations

To help West Covina address these risk factors and improve its financial condition, we recommended it take several actions, including the following:

- Increase city fees and seek opportunities for cost sharing.
- Evaluate both short-term and long-term financial implications of significant spending decisions.
- Develop a financial recovery plan that accounts for rising costs, funding priorities, and timelines for actions needed to improve its finances.
- Improve internal processes to reduce susceptibility to waste and fraud.