



January 21, 2021

Elaine M. Howle, CPA  
State Auditor  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

**Re: 2021 Corrective Action Plan**

Dear Ms. Howle,

The City of West Covina submits the attached *2021 Corrective Action Plan* approved by the City Council on January 19, 2021. The *2021 Corrective Action Plan* is in response to the Joint Legislative Audit Committee's report entitled "City of West Covina: Its Deteriorating Financial Situation Threatens Its Fiscal Stability and Its Ability to Provide City Services December 2020".

The State Auditor's efforts to understand the unique challenges of the City of West Covina are appreciated and each risk area has been thoroughly reviewed and addressed with the goal of eliminating the "high risk" designation.

Should you wish to discuss the plan, report and the City's response, please contact me at (626) 939-8401 or via email at [DCarmany@westcovina.org](mailto:DCarmany@westcovina.org).

Sincerely,

A handwritten signature in blue ink, appearing to read "DCarmany".

David N. Carmany  
City Manager

Attachment: 2021 Corrective Action Plan



# AGENDA STAFF REPORT

City of West Covina | Office of the City Manager

**DATE:** January 19, 2021

**TO:** Mayor and City Council

**FROM:** David Carmany  
City Manager

**SUBJECT: CONSIDERATION OF CORRECTIVE ACTION PLAN IN RESPONSE TO THE  
DECEMBER 2020 STATE AUDITOR'S REPORT**

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## RECOMMENDATION:

That the City Council approve the Corrective Action Plan prepared in response to the State Auditor Report Dated December 2020.

## BACKGROUND:

On December 19, 2019, the California State Auditor notified the City that they had identified certain factors through recently published fiscal health analysis of the State's cities that caused concern that the City of West Covina may be a high-risk local government agency. Upon identification as a high-risk agency the State Auditor referred the matter to the Joint Legislative Audit Committee for recommendation on performing an audit.

The Joint Legislative Audit Committee (JLAC) is 14-member committee consisting of seven Assembly Members and Senators that is established through the Legislature's rulemaking authority under the California Constitution, Government Code Section 10501 and the Joint Rules of the Senate and Assembly, Rule 37.3. Duties and responsibilities in the Joint Rules of the Senate and Assembly apply to the JLAC as well as all powers conferred upon committees by Article IV, Section 11 of the California Constitution.

Audits considered by the JLAC include performance audits, which examine whether state agencies and programs are efficiently and effectively accomplishing specified goals and objectives, complying with laws, regulations and policies and using state resources properly. Performance audits are on a variety of topics, which range from broad to very specific in scope. The JLAC also considers financial and financial-related audits of government and publicly created entities.

JLAC recommended the City for an audit and the State audit team commenced work on February 26, 2019. The team spent several months analyzing historic data going back to Fiscal Year 2016-2017 (July 1, 2016 - June 30, 2017). In December 2020, the California State Auditor issued findings (Attachment No. 1).

**DISCUSSION:**

The December 2020 State audit contains multiple issues that need to be addressed (Attachment No. 2). The focus of the corrective action plan is preparation of a financial recovery plan, which will be submitted to the State in July 2021. The recovery plan will address the city's rising costs of providing services and the actions that must be taken to improve the City's financial condition - it will be a plan for crisis prevention and crisis response. The plan will include long-term financial projections, prioritize the resources that the city will use to improve the city's financial condition, identify individuals responsible for monitoring the City's progress in implementing each action, and outline when the City anticipates it will complete key milestones related to each action. In order to ensure success, the recovery plan goals will be specific, measurable, achievable, relevant and time-based.

Key elements of the recovery plan include:

- Ensure that the fees/assessments charged for services align with costs
- Review, evaluate, and monitor all city contracts
- Set aside land sale revenue to replenish the city's general fund reserves
- Proactively mitigate risk and exposure to litigation through use of best risk management practices
- Address the costs currently incurred providing fire and emergency medical services
- Prepare financial analyses that evaluate the short-term and long-term financial implications of spending decisions
- Implement a formal process for development of reasonable budget projections
- Limit costs related to employee retirement and health care benefits
- Improve internal purchasing processes

Prepared by: David Carmany, City Manager

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**Fiscal Impact****FISCAL IMPACT:**

There are no direct fiscal impacts through adoption of the Corrective Action Plan. There will be significant cost savings through adoption of the financial recovery plan, scheduled for spring 2021.

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**Attachments**

Attachment No. 1 - Audit Report December 2020

Attachment No. 2 - Corrective Action Plan

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CITY            Achieve Fiscal Sustainability and Financial Stability  
COUNCIL       Enhance the City Image and Effectiveness  
GOALS &  
OBJECTIVES:

**High risk fiscal management issues affecting the City's ability to meet city financial obligations to provide city services and increasing the risk of waste and fraud.**

**Diminishing reserves:**

- Relied on city general fund reserves to support city operations for years, thereby significantly reducing city reserve balance.
- Encountered substantial increases in citywide expenditures, including city unfunded pension liability and associated annual payments.
- Allowed the fire department to routinely exceed city budget by more than \$1 million each year, primarily because of excessive overtime costs.
- Will be further threatened by revenue decreases resulting from the COVID-19 pandemic.

**Use of city resources:**

- Paid a greater proportion of city employees' health benefits than the average proportion paid by state and local governments on the West Coast.
- Used General fund revenue to subsidize city services rather than increasing the fees it charged to the users of those services.

**Financial decision analysis:**

- Did not adequately quantify the financial consequences of budget adjustments for the city council.
- Did not begin to develop projections of city long-term outlook based on financial trends until after our initial assessment and has not included key assumptions in city forecast.

**Formal financial recovery plan:**

- Has not developed a comprehensive plan with clear timelines, monitoring, and reporting to improve city long-term financial health.

**Procurement policy enforcement:**

- Lacks documentation demonstrating that managers appropriately approved increases to the dollar limits for purchase cards.
- Allowed requests for limit increases on purchase cards to be granted indefinitely despite city own policy restricting such increases to specific time frames.
- Violated city own competitive bidding requirements when contracting for human resources and claims administration services
- Approved amendments to city contract for waste collection services that contain over-restrictive terms, including lengthy time extensions and a nontermination clause.



### **Corrective actions required to address risks:**

The City will submit by July 1, 2021 a financial recovery plan that accounts for the city's rising costs and the actions that it will take to improve city financial condition. The plan will include a long-term financial projection, prioritize the resources that the city will use to improve city financial condition, identify individuals responsible for monitoring the city's progress in implementing each action, and outline when the city anticipates it will complete key milestones related to each action. The recovery plan goals will be specific, measurable, achievable, relevant and time-based. Key elements of the financial recovery plan:

- Ensure that the fees/assessments charged for services align with costs and increase fees to reflect costs reasonably borne in the provision of city services. The City will consider using a phased approach that steadily increases city fees each fiscal year until the costs of the services it provides are fully covered. Reassess the full costs of city services at least every three years.
- The financial recovery plan will describe the intended corrective actions, timing, prioritize resources, and identify individuals responsible for monitoring progress toward implementing each action.
- Review, evaluate, and monitor all city contracts. Seek opportunities for collaboration, reorganization, grants and cost sharing to eliminate reliance on general fund reserves to support operations.
- Set aside land sale revenue to compensate for any shortfalls in revenue that the city experiences as a result of the effects of the pandemic on the city's fiscal year 2020-21 budget. Use any remaining revenue from the land sale not already committed to repay bond debt to replenish the city's general fund reserves. This does not supersede existing commitments to repay bonds or other debt associated land that is presently city owned, but subject to sale.
- Proactively mitigate risk and exposure to litigation through training and implementation of best risk management practices. Maintain membership in the California Joint Powers Insurance Authority (CJPIA). Work with the CJPIA-assigned Risk Manager to assess, understand, manage and minimize the cost of municipal risk. Implement all Actions Items (1-63) identified in the CJPIA's Initial Risk Management Evaluation report (July 15, 2019). The city will use historical data and other reasonable assumptions to develop budgets for the costs of claims payments.
- Address the excessive costs currently incurred providing fire and emergency medical services. Review the current service delivery model of the West Covina Fire Department. Identify and consider other options for service delivery. The city will perform cost-benefit analyses of the identified options for procurement and delivery of these services.
- Prepare financial analyses that evaluate both the short-term and long-term financial implications of significant spending decisions.
- To better ensure city ongoing financial stability, implement a formal process for development of reasonable budget projections that adequately account for the impact that significant events, such as the global COVID-19 pandemic, may have on revenue.
- Once the effects of the pandemic subside, meet and confer regarding negotiation of employee union agreements. Limit costs related to employee retirement and health care benefits so that employees contribute a reasonable percentage of their premiums. To determine that percentage, the city will consider options such as using survey data from comparably sized cities in city region.
- Improve internal purchasing processes/enforcement to reduce susceptibility to waste and fraud by effectively documenting management approval. To ensure that purchasing and contracts secure the best value, procurements will follow the city's competitive bidding policy.