

AGENDA ITEM NO. 29

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**

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

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.

Attachments

Attachment No. 1 - Audit Report December 2020

Attachment No. 2 - Corrective Action Plan

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