



# Corrective Action Plan

## Local High Risk Program Report 2024-801

The City of West Covina’s proposed corrective action plan addresses the conditions identified in the Local High Risk Program Report No. 2024-801. The 2024 report was a follow up to the initial audit conducted in 2020. The 2020 Audit Report identified six (6) risk areas for the City of West Covina. The audit report issued in December 2024 indicates that the City has fully addressed three (3) of the six (6) risk areas as noted in the table below.

High-Risk Area	Current Assessment
1 Continual Diminishing of Reserves	<i>Partially Addressed</i>
2 Questionable Use of City Resources	<i>Partially Addressed</i>
3 Financial Decisions Based on Insufficient Analyses	<i>Fully Addressed</i>
4 Lack of Formal Financial Recovery Plan	<i>Fully Addressed</i>
5 Inadequate Management of Purchase Cards	<i>Fully Addressed</i>
6 Lack of Oversight to Ensure That Contracts Provide Best Value	<i>Partially Addressed</i>

This proposed corrective action plan seeks to address the three (3) remaining risk areas:

High-Risk Area #1 – Continual Diminishing of Reserves

High-Risk Area #2 – Questionable Use of City Resources

High-Risk Area #6 – Lack of Oversight To Ensure That Contracts Provide Best Value



## High-Risk Area #1 – Continual Diminishing Of Reserves

- **State Auditor Conclusion:** Although the City’s general fund revenue is higher than its operational expenditures, the City has chosen to maintain the minimum recommended reserve level, which introduces higher risk it will not be able to address future financial needs.
- **State Auditor Recommendation to Address This Risk Area:** West Covina should establish a general fund reserve level higher than its current 17 percent goal that is sufficient to mitigate current and future risks, including its pension-related debt.
- **Proposed Corrective Action:** The City will continue to review its Fund Balance policy annually and proposes maintaining an unassigned fund balance over the Government Finance Officers Association (GFOA)’s recommended minimum of 17% and assigning a portion of its reserve for Pension and Other Post Employment Benefit (OPEB) liabilities.

Below is an example amendment to the reserve policy:

### RESERVE POLICIES

The City shall maintain a minimum unassigned fund balance of at least ~~17~~18% of the General Fund operating expenditures. If the reserve level falls below ~~17~~18%, the City must amend this policy, including a plan to rebuild the fund within three years. This is considered the minimum level necessary to maintain the City’s credit worthiness and to adequately provide for:

- Economic uncertainties, local disasters and other hardships or downturns in the local economy
- Contingencies for unforeseen operating or capital needs
- Cash flow requirements

At the end of the fiscal year, the annual excess ~~revenue over expenditures~~unassigned fund balance in the City’s General Fund will be automatically allocated as follows, unless the transfer is overridden by an action of City Council: ~~25~~50% will stay in the General Fund Balance reserves and become Assigned for the City’s Pension and Other Post Employment Benefit (OPEB) liabilities, 25% will be transferred to the Capital Projects Fund, 15% will be transferred to the Self-Insurance Funds – General Liability and Workers Compensation Funds, and 10% will be transferred to the Vehicle Replacement Fund ~~and 25% will go to pay down the City’s Other Post Employment Benefit (OPEB) liability.~~



Below is an example of how this would be implemented:

Est. General Fund (GF) Unassigned Fund Balance	18,000,000
Total FY2024-25 GF Operating Expenditures	91,277,260
Unassigned Fund Balance as % of Expenditures	19.7%

Percentage	Reserve Amount (\$)	Excess Reserve (\$)
Current Requirement - 17%	15,517,134	2,482,866
Proposed Requirement - 18%	16,429,907	1,570,093

<u>Annual Allocation</u>	<u>Percent (%)</u>	<u>Amount (\$)</u>
Assigned for Pension and OPEB liabilities	50%	785,047
Transferred to the Capital Projects Fund	25%	392,523
Transferred to the Self-Insurance Funds	15%	235,514
Transferred to the Vehicle Replacement Fund	10%	157,009
<b>Total Allocation of excess unassigned fund balance</b>	<b>100%</b>	<b>\$1,570,093</b>



## High-Risk Area #2 – Questionable Use Of City Resources

- State Auditor Conclusion:** The City has not renegotiated its labor agreements with its employee unions as we recommended, but it has updated its fee schedule.
- State Auditor Recommendation to Address This Risk Area:** To limit its costs related to employee health care benefits, West Covina should renegotiate employee union agreements once the effects of the pandemic subside so that its employees contribute a reasonable percentage of their premiums. To determine that percentage, West Covina should consider options such as using survey data from comparably sized cities in its region.
- Proposed Corrective Action:** The City’s ability to lower its costs related to employee health care benefits is limited by the bargaining groups willingness to negotiate. Thus, the City will continue to show good faith efforts to lower its costs related to employee health care benefits during renegotiations of its labor agreements. The City will strive to have contracts renegotiated as follows:

Association	Current Contract Expiration	Target Contract Renewal
Confidential	June 30, 2024	June 2025
General	June 30, 2024	June 2025
Maintenance & Crafts	June 30, 2024	June 2025
Mid-Management	June 30, 2024	June 2025
Police Support Services	June 30, 2024	June 2025
Police Officers’	June 30, 2024	Executed October 2024
Police Management	December 31, 2024	April 2025
Firefighters’	June 30, 2025	September 2025
Fire Management*	June 30, 2024	December 2025

*\*This group has requested to negotiate after the Firefighters’.*



## High-Risk Area #6 – Lack Of Oversight To Ensure That Contracts Provide Best Value

- **State Auditor Conclusion:** The City has addressed some but not all concerns regarding its contracting practices.
- **State Auditor Recommendation to Address This Risk Area:** Amend its contracting policies to include a requirement that city management document reasons for entering into any contract or extension with a duration in excess of five years.
- **Proposed Corrective Action:** On December 3, 2024, the City formally amended its contracting policies to include a requirement that city management document reasons for entering into any contract or extension with a duration in excess of five years through adoption of Ordinance No. 2524:

“ORDINANCE NO. 2524 – AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA, AMENDING DIVISION 2 (PURCHASING PROCEDURES) OF ARTICLE VII (PURCHASES AND SALES) OF CHAPTER 2 (ADMINISTRATION) OF THE WEST COVINA MUNICIPAL CODE....

SECTION 2. Amendment to Section 2-330. Section 2-330 (Maximum Contract Term) of Division 2 (Purchasing Procedures) of Article VII (Purchases and Sales) of Chapter 2 (Administration) of the West Covina Municipal Code is hereby amended to read as follows:

Sec. 2-330. - Maximum contract duration.

- (a) Unless otherwise approved by the city council, the maximum duration for any agreement for goods and/or services shall not exceed five (5) years. Prior to approving any agreement with a duration that exceeds five (5) years, the city shall document the rationale for entering into the agreement and why such agreement is in the best interest of the city.
- (b) Notwithstanding subsection (a) of this section, the city may:
  - (1) Extend the term of an agreement beyond a five-year duration, provided that (a) no extension period shall exceed five (5) years, **(b) the city documents the rationale for the extension and why such extension is in the best interest of the city**, and (c) the city complies with any applicable procurement requirements set forth in this division. The city manager may approve such extension, provided it is within the city manager’s signing authority.
  - (2) Enter into an agreement for goods and/or services that includes automatic extension or renewal periods that do not exceed one (1) year periods, provided the agreement allows the city to terminate the agreement at the end of any automatic one (1) year extension or renewal period.
- (c) Unless otherwise approved by the city council, the maximum duration for any lease agreement shall not exceed thirty (30) years.”