

CITY OF BALDWIN PARK

Review Report

INTERNAL CONTROL SYSTEM

July 1, 2016, through June 30, 2018



BETTY T. YEE
California State Controller

June 2020



BETTY T. YEE
California State Controller

June 18, 2020

Shannon Yauchzee, Chief Executive Officer
City of Baldwin Park
14403 East Pacific Avenue
Baldwin Park, CA 91706

Dear Mr. Yauchzee:

The State Controller's Office reviewed the City of Baldwin Park internal control system to determine the adequacy of the city's controls for conducting its operations, preparing financial reports, safeguarding of assets, and ensuring proper use of public funds.

Our review found deficiencies in the city's internal control system. Our evaluation was based on conditions that existed during the review period of July 1, 2016, through June 30, 2018.

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the U.S. Government Accountability Office, to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. Of the 48 control attributes evaluated, we found 17, or 35%, were present but not functioning; five, or 11%, were not present and not functioning; and 26, or 54%, were present and functioning.

The City of Baldwin Park should develop a comprehensive 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 this plan. Furthermore, we request that the city provide the State Controller's Office with a progress update of its plan six months from the issuance date of this report.

If you have any questions, please contact Efren Lose, Chief of our Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

Shannon Yauchzee,
Chief Executive Officer

-2-

June 18, 2020

cc: Manuel Lozano, Mayor
City of Baldwin Park
Paul C. Hernandez, Mayor Pro Tem
City of Baldwin Park
Alejandra Avila, Councilmember
City of Baldwin Park
Monica Garcia, Councilmember
City of Baldwin Park
Ricardo Pacheco, Councilmember
City of Baldwin Park
Rose Tam, Director of Finance
City of Baldwin Park

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Review Report

Introduction

The State Controller's Office (SCO) reviewed the City of Baldwin Park internal control system for the period of July 1, 2016, through June 30, 2018 [fiscal year (FY) 2016-17 and FY 2017-18]. When information obtained from city officials, independent auditors, and other audit reports merited further review, we expanded our testing to include prior-year and current-year transactions.

Our review found deficiencies in the city's internal control system as described in the Findings and Recommendations section of this report.

Background

The City of Baldwin Park is a city located in Los Angeles County, California. The city was incorporated as a general-law city in 1956, has a total area of 6.8 square miles and, as of the 2010 U.S. Census, has a population of 75,390.

The city operates under the Council-Chief Executive Officer form of government. The city elects a mayor every two years, and City Councilmembers are elected to overlapping four-year terms. City Councilmembers also serve as Board Members on the Community Development Commission, Housing Authority, and Financing Authority. The City Clerk and the City Treasurer are also elected to four-year terms.

As the city's legislative body, the City Council acts upon city laws and is bound by state and federal law. The city sets its laws and policies by ordinance, resolution, and minute action. The City Council adopts the annual city budget and establishes goals, objectives, and performance measures for the Chief Executive Officer. The Chief Executive Officer, appointed by majority vote of the City Council, implements the legislative policies of the City Council, manages the day-to-day operations of the city, and is responsible for efficient and effective delivery of municipal services.

The five elected City Councilmembers are:

- Manuel Lozano, Mayor
- Paul C. Hernandez, Mayor Pro Tem
- Alejandra Avila, Councilmember
- Monica Garcia, Councilmember
- Ricardo Pacheco, Councilmember

The Chief Executive Officer is Shannon Yauchzee.

We conducted this review pursuant to Government Code (GC) section 12464. We questioned the city's ability to provide reliable and accurate information in required financial reports. Therefore, under GC section 12464(a), we conducted an investigation/review to validate the information that is required to be filed with the SCO.

Additionally, we conducted a review of the city's internal control system pursuant to GC section 12422.5, which authorizes the State Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office, to assess various aspects of the city's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. This assessment is intended to help management evaluate how well the city's internal control is designed and implemented, and determine where improvements can be made.

Objective, Scope, and Methodology

The objective of our review was to evaluate the city's internal control system for FY 2016-17 and FY 2017-18 to ensure the:

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

To achieve our objective, we:

- Evaluated the city's formal internal policies and procedures;
- Conducted interviews with city employees and observed the city's business operations to evaluate the city's internal control system;
- Reviewed the city's supporting documentation, including financial records;
- Performed tests of transactions on a non-statistical sample basis to ensure adherence with prescribed policies and procedures, and to test and validate effectiveness of controls; and
- Evaluated various aspects of the city's internal control system in accordance with the Green Book.

Conclusion

Our review found deficiencies in the city's internal control system, as described in the Findings and Recommendations section of this report. These deficiencies include the following:

- Expenditures of over \$500,000 on an engineering project that was discontinued (Finding 1);
- Inadequate oversight for on-call service contracts (Finding 2);
- Failure to use a competitive procurement process for service contracts (Finding 3);
- Possible inflation of a city official's pension (Finding 4);
- Absence of a \$3.4 million contract in budget (Finding 5);
- Outdated accounting and personnel manuals (Finding 6);

- Need to improve segregation of duties for check handling (Finding 7);
- Lack of itemized receipts for city-issued credit card purchases (Finding 8);
- Lack of timely bank reconciliations (Finding 9);
- Lack of annual employee performance evaluations (Finding 10); and
- Lack of controls over purchase approvals (Finding 11).

Of the 48 control attributes evaluated, we found 17, or 35%, were present but not functioning; five, or 11%, were not present and not functioning; and 26, or 54%, were present and functioning. The results of our review and evaluation of the city's internal control system are included in this report as an appendix.

Views of Responsible Officials

We issued a draft review report on March 6, 2020. Shannon Yauchzee, Chief Executive Officer responded by letter dated May 26, 2020 (Attachment), concurring with the results with the exception of Findings 1 through 4. The city's response is included in this report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Baldwin Park and 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 and is available online at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

June 18, 2020

Findings and Recommendations

**FINDING 1—
Expenditures of over
\$500,000 on an
engineering project
that was discontinued**

On October 15, 2014, the City Council authorized the La Cañada Design Group to prepare construction plans and specifications for a proposed Civic Center Plaza project at a cost not to exceed \$279,020. Subsequently, on January 21, 2015, the City Council authorized additional costs, increasing the total project cost to \$505,414. From October 23, 2014, to June 20, 2016, the city paid La Cañada Design Group a total of \$507,176.

On November 15, 2017, the Interim Director of Public Works requested direction for the completion of the plans and specifications for the proposed Civic Center Plaza project. However, the City Council removed this item from the agenda, discontinued the Civic Center Plaza project, and decided to explore “mixed-use” development at that location.

The City Council’s decision to discontinue construction plans for the Civic Center Plaza project resulted in expenditure of public funds amounting to \$507,176 with no identifiable benefit.

Recommendation

We recommend the City Council ensure that it gains a full understanding of the services to be provided and benefits to the city prior to approval and formal execution of a city contract.

City’s Response

The city disagreed with the finding. The city claims it did not have the funds to construct or maintain the park and pursued the construction of affordable housing instead of the park after extensive discussions. Furthermore, the city believes it had a full understanding of the decisions in this matter.

SCO Comment

Our finding and recommendation remain unchanged.

The city did not explain why it developed plans for a park that the city could not afford to build or maintain. According to the city’s budget books, its Park Fees (Quimby Act) Fund had a fund balance of only \$73,529 at June 30, 2016, after incurring costs for the Civic Center Plaza project construction documents. Public resources should be committed only after careful planning, analysis, and consideration.

**FINDING 2—
Inadequate oversight
for on-call service
contracts**

City management and the City Council need better oversight over “on-call” service contracts.

We reviewed three on-call service contracts. Of the service contracts we reviewed, the city utilized only one of the three contractors, Advanced Applied Engineering (AAE), except for one service contract awarded to another vendor. We noted the following issues with the AAE service contracts:

- The City Council passed a resolution to preauthorize AAE, on an on-call basis, to work on projects that cost up to \$120,000 without further City Council approval, despite the city's Municipal Code which states that services costing over \$24,999 require approval from the City Council. Although it is not uncommon for cities to contract for on-call services of this nature, we noted that the City Council did not ensure compliance with requirements in that resolution that the City Council be provided with quarterly reports for work performed by AAE. We found no evidence that quarterly reports were submitted to the City Council for its review. We were not provided with any documents indicating that the City Council followed up on why it had not received any of the promised quarterly reports.
- The city improperly awarded a \$142,639 project to AAE without approval from the City Council. The project should have been approved by the City Council because the project exceeded the \$120,000 threshold set by the City Council.
- The city relied on AAE to submit project proposals, through Requests for Services, in which AAE described the scope of the services and provided estimated costs. Although city management approved requests before AAE began work, this process is not standard, and may constitute a conflict of interest; contractors generally should not be in a position to direct public resources to themselves. The city, not contractors, should be responsible for determining what projects to pursue.

For the period of July 1, 2014, through June 30, 2019, the city paid AAE a total of \$3.2 million for professional on-call services, as follows:

| Fiscal Year | Amount |
|----------------|---------------------|
| 2014-15 | \$ 47,030 |
| 2015-16 | 426,296 |
| 2016-17 | 683,306 |
| 2017-18 | 902,568 |
| 2018-19 | 1,184,267 |
| Total | <u>\$ 3,243,367</u> |

Amounts paid to AAE rose from \$426,296 in FY 2015-16 to \$1,184,267 in FY 2018-19. The contract costs were for engineering projects approved by the city's Public Works Director, City Planner, Director of Community Development, or City Engineer. None of the engineering projects appeared to be frivolous or fraudulent. However, to ensure that the city was obtaining the best value and to properly oversee the contract, the City Council should have limited the total amount that the contractor was able

to charge in any one year, and also required that all projects be approved by the City Council after the contract cap was reached.

Recommendation

We recommend the city:

- Provide adequate oversight for on-call service contracts by ensuring that the City Council is provided with periodic expense reports and project details;
- Comply with its Municipal Code and consider lowering the \$120,000 threshold for obtaining City Council approval;
- Limit the total amount an on-call service contractor can charge in any one year without being pre-approved by the City Council; and
- Discontinue the practice of allowing contractors to initiate projects.

City's Response

The city disagreed with the finding. The city claims it is in compliance with its Municipal Code and state law. The city stated that the City Council approved the contract that exceeded \$24,999, and all projects under \$120,000 were approved by City Council as part of the Capital Improvement Projects (CIP) Budget.

The city indicated it will incorporate requirements for quarterly reports into future contracts. The city stated that the \$142,639 project was approved in error and the city has implement a system to prevent these errors from recurring. Furthermore, the city has stopped allowing AAE to initiate projects, and is limiting project design expenditures.

SCO Comment

Our finding and recommendation remain unchanged.

The city disagreed with the finding, but has agreed to implement some mitigating controls. The total amounts the city can pay a contractor should be specified in the contract.

Approval of the CIP budget should not constitute approval of project costs, scope, and funding sources; selection of firms, vendors, and developers; timing; or any other factors that need careful consideration. Typical CIP budget processes do not involve such scrutiny and intense analysis.

FINDING 3— Failure to use a competitive procurement process for service contracts

The city failed to obtain requests for qualifications for professional services

The City Council approved two contracts with AIM Consulting Services to develop an economic development strategy. The first contract was for \$32,000 and the second contract was for \$60,000. The city did not contact other consultants or use a competitive procurement process prior to awarding either contract to AIM Consulting Services.

The City Council also neglected to obtain proposals prior to approving a contract amendment with West Coast Arborist (WCA) that increased the contract amount. On December 18, 2013, the city selected WCA from three proposals, and awarded the firm a one-year contract for citywide tree trimming services. The contract included four optional one-year renewal extensions, but did not include rate increases.

On September 21, 2016, the City Council approved an amendment to the WCA contract that increased the compensation to WCA by 31% over three years—11% in FY 2016-17, 10% in FY 2017-18, and 10% in FY 2018-19. The amendment increased billable rates and extended the contract term. Although not required to by the city's contracting rules, the city could have obtained new proposals during the contracting process to save public resources, because the new contract rates were substantially higher than those of other firms that competed with WCA for the original Request for Proposal.

The city has contracted the firm of Tafoya and Garcia, LLP to serve as City Attorney since December 10, 2013. In addition to Tafoya and Garcia, the city contracted with other legal firms during the audit period (in FY 2017-18 alone, the city paid at least eight different law firms). We noted that the city does not obtain requests for qualifications when procuring legal services. Instead, the City Council awards contracts to legal firms based on the recommendations made by city staff. Some of these recommendations were based on directions from the City Council.

Section 34.38 of the city's Municipal Code states:

Whenever directed by the City Council to obtain administrative, legal, accounting or other professional or contractual services to be performed by a consultant, the Director of Administrative Services shall seek and obtain written request for qualifications (RFQ) from qualified persons authorized to perform the services. He/she shall obtain a sufficient number of the proposals to insure that the cost thereof is consistent with the market. He shall thereafter select the lowest responsible proposal, based upon a performance or qualifications selection matrix, and offer the contract to the person....

We were not provided audit evidence that the city followed any of the above competitive processes when procuring legal services during the audit period.

The city extended a contract with its waste management service provider without seeking bids from competitors

On September 4, 2013, the City Council approved the Amended and Restated Agreement between the city and Waste Management of San Gabriel/Pomona Valley Collection (Waste Management) for solid waste handling, extending the agreement with Waste Management for the seventh time since December 20, 1989. The September 4, 2013 amendment extended the contract for 10 years, to June 30, 2023.

The amendment also included a provision for the contractor to pay the city a Contract Modification Fee of \$1,000,000 to be deposited into the city's General Fund; pay an Annual Benefit Fund Fee of \$50,000 per year; and

implement a scholarship program of \$2,500 each fiscal year. Despite these contract terms that benefited the city, the city should have sought competitive bids for solid waste handling service in order to promote a fair and equitable awarding process, and to ensure the best possible chance of obtaining the best services and rates for its residents. Cities do not often change waste management companies providing services to their residents due to the huge infrastructure investments that the contractors incur. However, it has been 30 years since the original agreement, and 10 years since the city considered seeking competitive bids based on an August 19, 2009 staff report.

Questionable use of sole source designations

The city circumvented its normal purchasing procedures through questionable usage of sole-source designations. The city's Municipal Code allows for exceptions to the normal competitive purchasing procedures in certain situations, one of which is when supplies and equipment can be obtained only from a single source.

We noted instances in which the city inappropriately designated a vendor as a sole-source provider, thereby allowing it to circumvent normal purchasing procedures. Specifically, the city designated:

- Black and White Emergency Vehicles, Inc. as a sole-source provider, although it is one of many vendors providing emergency-vehicle equipment installations. The city paid Black and White Emergency Vehicles, Inc. \$70,490 in FY 2016-17 and \$36,336 in FY 2017-18.
- Arroyo Background Investigations, LLC as a sole-source provider, as noted on purchase requisitions dated December 19, 2017. The city paid Arroyo Background Investigations, LLC \$20,085 in FY 2016-17 and \$46,950 in FY 2017-18. There are many other background investigation providers that the city could have used.

Soliciting quotes from vendors is an important control to ensure that the city purchases services, supplies, and equipment at competitive prices. Proper authorization helps ensure that there is adequate oversight for the use of public funds.

Recommendation

We recommend the city:

- Comply with its Municipal Code pertaining to competitive procurement; and
- Adopt a strict policy pertaining to sole-source vendors to ensure that requirements to use a competitive procurement process are not circumvented.

City's Response

The city disagreed with the finding. The city plans to update its Municipal Code to be more flexible regarding competitive bidding procedures and legal services. The city noted that the WCA contract was increased to account for the minimum wage increase. The city further noted that the

Waste Management contract was temporarily extended to negotiate services, compliance with new laws, and rates. The city stated that it performed annual surveys to keep rates low.

The city agreed that the sole-source contracts mentioned in the finding were questionable, and indicated that it plans to enforce a strict policy on sole-source contracts in the future.

SCO Comment

Our finding and recommendation remain unchanged.

Although we acknowledge and appreciate the city's willingness to update its Municipal Code, the city was not in compliance with its Municipal Code pertaining to competitive procurement during the review period.

**FINDING 4—
Possible inflation of a
city official's pension**

The city may have raised its former Chief of Police's pension above the appropriate level by increasing his annual salary by approximately \$41,233 during his last year of employment before he retired.

GC section 20636(e)(2) states:

Increases in compensation earnable granted to an employee who is not in a group or class shall be limited during the final compensation period applicable to the employees, as well as the two years immediately preceding the final compensation period, to the average increase in compensation earnable during the same period reported by the employer for all employees who are in the same membership classification, except as may otherwise be determined pursuant to regulations adopted by the board that establish reasonable standards for granting exceptions.

On September 21, 2016, the City Council terminated the employment of the city's Chief of Police, then rehired him on an interim basis for six months on May 3, 2017. On November 15, 2017, the City Council hired him again as the permanent Chief of Police, from December 1, 2017, until his retirement on December 31, 2018.

Although the maximum salary for the position of Chief of Police was \$192,767 annually at the time of his permanent reappointment, the city raised the Chief of Police's salary to \$234,000 annually, a 21% increase. The Chief of Police was the only official who received a salary increase of this magnitude, and the increase occurred at the end of his employment status; this may have constituted pension-spiking.

The new pay rate was not listed on a publicly available city pay schedule at the time of the pay increase. The city retroactively adjusted the publicly available pay schedule to reflect the new pay rate for the Chief of Police.

GC section 20636(b)(1) states:

"Payrate" means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules.

“Payrate,” for a member who is not in a group or class, means the monthly rate of pay or base pay of the member, paid in cash and pursuant to publicly available pay schedules, for services rendered on a full-time basis during normal working hours, subject to the limitations of paragraph (2) of subdivision (e).

The Chief of Police’s compensation might not qualify as a pay rate because it was not paid pursuant to a publicly available pay schedule.

Recommendation

We recommend the city consult with the California Public Employees’ Retirement System (CalPERS) to determine whether the city improperly increased the former Chief of Police’s pension.

City’s Response

The city disagreed with the finding. The city consulted with CalPERS regarding the former Chief of Police. Because the city negotiated a new contract with the Chief of Police, the city does not agree that he received a pay increase. The city plans to consult with CalPERS again.

SCO Comment

Our finding and recommendation remain unchanged.

The city disagreed with the finding, but has agreed to consult with CalPERS to determine whether the city improperly increased the former Chief of Police’s pension.

**FINDING 5—
Absence of a \$3.4
million contract in
budget**

The City Council approved a \$3,441,041 energy service contract for energy efficiency improvements, but did not include appropriations for the project in a City Council Resolution, the city’s annual budget for FY 2016-17 or FY 2017-18, or the city’s five-year Capital Improvement Program budget for FY 2016-17 through FY 2020-21.

A budget is one of the most important managerial tools available to a local government, as it reflects the city’s objectives and financial condition. It can be an effective management tool at various stages of governmental activity by providing transparency and accountability. For a budget to be effective, it is imperative that it include accurate information.

Recommendation

We recommend the city ensure that projects are properly budgeted.

City’s Response

The city agreed with the finding, and explained that the funding source for the energy service contract was not included in the budget because it was a loan from the California Energy Commission that was on a different timeline. The city has implemented a procedure to ensure that capital

projects and new appropriations are added to the city's annual budget as amended budget items.

**FINDING 6—
Outdated
accounting and
personnel manuals**

The city's accounting policies manual was last updated in its entirety in 1987, and does not reflect current procedures. The city lacks complete and accurate documentation of current processes.

In addition, many of the employees that we interviewed were not aware of any formal policies and procedures for their daily tasks. Formal accounting policies and procedures should be available to staff, back-up staff, and new employees.

The city has updated specific policies on an ad hoc basis. In response to previous recommendations from auditors, the City Council approved updated accounting policies related to purchasing, city-issued credit card usage, travel, administration of federal awards, and wire transfers. The city has been working to update additional policies and procedures.

We also noted that the city's personnel rules manual, which sets forth policies and procedures related to the city's employment practices, was last revised in 1995. Although many of the policies contained therein may still be in place, the city should review its personnel rules manual at least annually to ensure its content is accurate.

Recommendation

We recommend the city:

- Continue to review and update its accounting policies and personnel rules manuals to ensure consistency with current processes; and
- Disseminate the accounting policies and personnel rules manuals to all responsible employees and provide training, if necessary.

City's Response

The city agreed with the finding; the city will update its policies and manuals and disseminate them.

**FINDING 7—
Need to improve
segregation of duties
for check handling**

City employees from a requesting department are allowed to pick up checks that have been processed by Accounts Payable (AP) staff for vendor payment. The checks are then hand-delivered to vendors. In other instances, city employees were also allowed to pick up AP checks made payable to other city employees.

The city maintains a check pick-up log of all released checks; however, there is no record of a check pick-up log prior to March 2019. We reviewed the current log and identified 392 checks for the period of March 4, 2019, through September 16, 2019, that were picked up by city employees for vendors or other employees.

The city's cash disbursement policies and procedures allow a check to be released by the Finance Department to a requesting department employee. However, a department employee who authorizes an invoice for payment should not, in turn, have access to that check.

The duties of authorizing a payment and accessing the payment should be separated to minimize the risk of payment on a fraudulent invoice or forged check. In general, a check payable to one city employee should not be picked up by a different employee. Proper segregation of duties would minimize the likelihood of an employee obtaining another employee's check and fraudulently endorsing it.

Recommendation

We recommend the city implement revised policies and procedures to:

- Prohibit employees with authority to approve invoices from gaining access to AP checks for hand delivery; and
- Only allow city employees to pick up checks for other city employees with prior written consent.

City's Response

The city agreed with the finding; the city has implemented the suggested procedures, and will update its policies.

FINDING 8— Lack of itemized receipts for city- issued credit card purchases

We reviewed the city's credit card usage by testing \$153,820 in credit card expenses for FY 2016-17 and FY 2017-18. Our review results indicated the city paid \$8,569 for meals, hotels, online retail-store purchases, and other miscellaneous expenses without itemized receipts or descriptive invoices.

The city's credit card policies and procedures require all charges to be substantiated with a receipt or invoice. In addition, brief descriptions of the charges should be included in credit card expense reports that are submitted to the Finance Department for payment. In most instances, city officials complied with the city's credit card policies and procedures. However, the city should require all charges be supported with original itemized receipts to further reduce the risk of non-business-related charges.

In addition, we noted 52 credit card charges for travel expenses (hotel or air fare) for which receipts were attached as support for the charges; however no further documentation (such as a conference agenda or certificates of completed training) was provided to support the business purpose of these trips.

Recommendation

We recommend the city:

- Hold credit card holders accountable by requiring that all credit card charges be supported with original itemized receipts; and

- Require that all travel-related expenses be supported with conference agendas, certificates of completed training, or other documentation to support the business purpose of the expense.

City’s Response

The city agreed with the finding; the city has implemented the suggested procedures, and will update its policies to require detailed receipts and documentation to support the business purpose of credit-card purchases.

**FINDING 9—
Lack of timely bank reconciliations**

We tested five bank reconciliations to determine whether they were completed in a timely manner. We found that all tested bank reconciliations were late, as follows:

| City’s General Operating Bank Account Reconciliations | | |
|--|-----------------------|------------------|
| <u>Selected Month</u> | <u>Date Completed</u> | <u>Days Late</u> |
| September 2016 | 11/10/2016 | 10 |
| January 2017 | 3/6/2017 | 6 |
| December 2017 | 5/9/2018 | 98 |
| May 2018 | 8/15/2018 | 46 |
| November 2018 | 2/5/2019 | 36 |

During our fieldwork, the city provided its current written policies and procedures. However, as of December 23, 2019, these policies and procedures have not been reviewed and approved by the City Council.

The city’s Bank Reconciliation Policy and Procedures state, in part, “It is the responsibility of the Finance Department to reconcile and complete all City’s bank accounts by the end of each month upon receipt of bank statements....”

According to city staff, the monthly bank reconciliations selected for review were not completed on time due to the implementation of new accounting software and the prioritization of the year-end closing process.

Bank reconciliations are effective tools for detecting errors and fraud if they are prepared, reviewed in detail, and approved in a timely manner. Bank reconciliations also assist in regular monitoring of a city’s cash flows, and assure accuracy and timeliness of withdrawals and deposits.

Recommendation

We recommend the city formalize and implement procedures to ensure that bank reconciliations are completed, reviewed, and approved in a timely manner.

City’s Response

The city agreed with the finding; the city has implemented the suggested procedures, and will update its bank reconciliation policy.

**FINDING 10—
Lack of annual
employee
performance
evaluations**

We found that the city did not conduct performance evaluations for two of 10 employees selected for the period between July 1, 2016, and June 30, 2018. In both instances, the city had not conducted a performance evaluation in nearly 10 years. City staff confirmed that the city did not consistently conduct performance evaluations for employees who reached their maximum pay rate. City staff also confirmed that they mostly focus on obtaining performance evaluations for city staff who have not yet reached their maximum pay rate or who have probationary employment status. As a result of this confirmation, we did not expand our original sample size.

Section 10.1 of the city’s Personnel Rules states, in part, “All permanent employees shall have a performance appraisal review at least once a year.”

An organization should attract, develop, and retain competent individuals in alignment with the organization’s objectives. Performance evaluations are a key tool in helping an organization evaluate and develop its employees.

The city did not have procedures in place to ensure that performance evaluations are conducted at least annually.

Recommendation

We recommend the city:

- Establish procedures to ensure that performance evaluations are conducted at least annually for all permanent employees; and
- Complete all past-due employee performance evaluations in a timely manner.

City’s Response

The city agreed with the finding, and has implemented procedures to ensure that quarterly staff evaluation reports are sent to Directors, indicating which evaluations are outstanding.

**FINDING 11—
Lack of controls over
purchase approvals**

We tested 100 expenditure items totaling \$1.7 million and found that 39 items, totaling \$285,432, were for purchases that were made before obtaining the appropriate level of approval. For example, the city purchased:

- 963 street-name signs, for \$51,054, before obtaining approval from the City Council. The invoice for the purchase was dated June 12, 2017, but it was not presented to the City Council for approval until September 20, 2017, more than three months later;
- Shorts and jerseys for youth programs, for \$11,554, without completing a purchase requisition or purchase order; and
- Police equipment, for \$3,093, before completing a purchase requisition or purchase order.

Section 34.24 of the city's Municipal Code states, "Purchases of supplies and equipment shall be made only by purchase order."

In addition, section 34.26 requires City Council approval for purchases of supplies or equipment greater than \$24,999. It is important to process purchase requisitions and purchase orders before making purchases to ensure that all purchases have documented management approval and sufficient funding sources.

Our analysis of the city's internal controls over purchasing approvals did not indicate that the city has adequate processes and procedures to ensure that purchases are properly approved.

Recommendation

We recommend the city:

- Develop internal controls to properly monitor adherence to city policies requiring pre-authorization of purchases; and
- Ensure that city employees follow all purchasing requirements, including pre-authorization for all purchases, and City Council approval for purchases of supplies or equipment greater than \$24,999.

City's Response

The city agreed with the finding; the city will develop internal controls to require pre-authorization of purchases, and ensure that city employees follow purchasing policies and requirements.

Appendix— Evaluation of Internal Control System¹

| Internal Control Attributes | | Present? Y / N | | Functioning? Y / N | | Explanations/Conclusions |
|-----------------------------|--|-------------------|--|-----------------------|---|--------------------------|
| CONTROL ENVIRONMENT | | | | | | |
| 1. | Demonstrates Commitment to Integrity and Ethical Values | | | | | |
| | a. Sets the tone at the top | X | | | X | Refer to Finding 1. |
| | b. Establishes standards of conduct | X | | X | | |
| | c. Evaluates adherence to standards of conduct | X | | X | | |
| 2. | Exercises Oversight Responsibility | | | | | |
| | a. Establishes oversight structure and responsibilities | X | | | X | Refer to Finding 2. |
| | b. Provides oversight for the system of internal control | X | | | X | Refer to Finding 2. |
| | c. Provides input for remediation of deficiencies in the internal control system | X | | X | | |

¹ This evaluation tool is based on guidelines established by the GAO’s *Standards for Internal Control in the Federal Government*. The evaluation tool helps local agencies identify internal control weaknesses. The SCO uses the same evaluation tool on all of its internal control system reviews of local government agencies, regardless of size.

Appendix (continued)

| Internal Control Attributes | | Present? Y / N | | Functioning? Y / N | | Explanations/Conclusions |
|-----------------------------|--|-------------------|---|-----------------------|---|--|
| 3. | Establishes Structure, Authority, and Responsibility | | | | | |
| | a. Considers organizational structures | X | | X | | |
| | b. Defines, assigns, and limits authorities and responsibilities | X | | | X | Refer to Finding 2. |
| | c. Develops and maintains documentation of the internal control system | | X | | X | Refer to Finding 6. |
| 4. | Demonstrates Commitment to Competence | | | | | |
| | a. Establishes expectations of competence for key roles | X | | X | | |
| | b. Attracts, develops, and retains competent personnel | X | | | X | Refer to Finding 10. |
| | c. Plans and prepares for succession | | X | | X | City management does not prepare succession and contingency plans. |
| 5. | Enforces Accountability | | | | | |
| | a. Enforces accountability of personnel through mechanisms such as performance appraisals and disciplinary actions | X | | | X | Refer to Finding 10. |
| | b. Considers excessive pressures | X | | X | | |

Appendix (continued)

| Internal Control Attributes | | Present? | | Functioning? | | Explanations/Conclusions |
|-----------------------------|--|----------|---|--------------|---|--------------------------|
| | | Y | N | Y | N | |
| RISK ASSESSMENT | | | | | | |
| 6. | Defines Objectives and Risk Tolerances | | | | | |
| | a. Defines objectives in specific and measurable terms | X | | | X | Refer to Finding 5. |
| | b. Considers risk tolerances for the defined objectives | X | | X | | |
| 7. | Identifies, Analyzes, and Responds to Risks | | | | | |
| | a. Identifies risks throughout the entity to provide a basis for analyzing risks | X | | X | | |
| | b. Analyzes the identified risks to estimate their significance | X | | X | | |
| | c. Determines how to respond to risks | X | | X | | |
| 8. | Assesses Fraud Risk | | | | | |
| | a. Considers various types of frauds | X | | X | | |
| | b. Assesses fraud risk factors - incentives and pressures, opportunities, and attitudes and rationalizations | X | | X | | |
| | c. Analyzes and responds to identified fraud risks | X | | X | | |

Appendix (continued)

| Internal Control Attributes | | Present? | | Functioning? | | Explanations/Conclusions |
|-----------------------------|--|----------|---|--------------|---|--------------------------|
| | | Y | N | Y | N | |
| 9. | Identifies, Analyzes, and Responds to Change | | | | | |
| | a. Identifies and assesses changes that could significantly impact the entity’s internal control system | X | | | X | Refer to Finding 6. |
| | b. Analyzes and responds to identified changes and related risks in order to maintain an effective internal control system | X | | | X | Refer to Finding 6. |
| CONTROL ACTIVITIES | | | | | | |
| 10. | Designs Control Activities | | | | | |
| | a. Designs control activities in response to the entity’s objectives and risks | X | | | X | Refer to Finding 11. |
| | b. Designs appropriate types of control activities for the entity’s internal control system | X | | | X | Refer to Finding 11. |
| | c. Considers at what level activities are applied | X | | | X | Refer to Finding 11. |
| | d. Addresses segregation of duties | X | | | X | Refer to Finding 7. |

Appendix (continued)

| Internal Control Attributes | | Present? | | Functioning? | | Explanations/Conclusions |
|-----------------------------|--|----------|---|--------------|---|--------------------------|
| | | Y | N | Y | N | |
| 11. | Designs General Control over Information System | | | | | |
| | a. Designs the entity’s information system to respond to the entity’s objectives and risks | X | | X | | |
| | b. Designs appropriate types of control activities – general and application control activities, in the entity’s information system | X | | X | | |
| | c. Designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing | X | | X | | |
| | d. Establishes relevant security management process control activities | X | | X | | |
| | e. Establishes relevant technology acquisition, development, and maintenance process control activities | X | | X | | |
| 12. | Implements Control Activities | | | | | |
| | a. Documents in policies and procedures the internal control responsibilities of the organization | | X | | X | Refer to Finding 6. |
| | b. Reassesses policies and procedures through periodic review of control activities | | X | | X | Refer to Finding 6. |

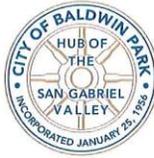
Appendix (continued)

| Internal Control Attributes | | Present? | | Functioning? | | Explanations/Conclusions |
|--------------------------------------|---|----------|---|--------------|---|--------------------------|
| | | Y | N | Y | N | |
| INFORMATION AND COMMUNICATION | | | | | | |
| 13. | Uses Quality Information | | | | | |
| | a. Identifies information requirements | X | | X | | |
| | b. Obtains relevant data from reliable internal and external sources in a timely manner | X | | | X | Refer to Finding 5. |
| | c. Processes the obtained data into quality information within the entity's information system | X | | | X | Refer to Finding 5. |
| 14. | Communicates Internally | | | | | |
| | a. Communicates internal control information throughout the entity using established reporting lines | X | | | X | Refer to Finding 5. |
| | b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements | X | | X | | |
| 15. | Communicates Externally | | | | | |
| | a. Communicates to external parties, and obtains quality information from external parties using established reporting lines | X | | X | | |
| | b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements | X | | X | | |

Appendix (continued)

| Internal Control Attributes | | Present? | | Functioning? | | Explanations/Conclusions |
|-----------------------------|--|----------|---|--------------|---|-----------------------------|
| | | Y | N | Y | N | |
| MONITORING | | | | | | |
| 16. | Conducts Ongoing Monitoring Activities | | | | | |
| | a. Establishes a baseline to monitor the internal control system | | X | | X | Refer to Finding 6. |
| | b. Considers a mix of ongoing and separate evaluations | X | | | X | Refer to Findings 9 and 10. |
| | c. Objectively evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues | X | | X | | |
| 17. | Evaluates Issues and Communicates and Remediates Deficiencies | | | | | |
| | a. Reports internal control issues through established reporting lines to the appropriate internal and external parties in a timely manner | X | | X | | |
| | b. Evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies | X | | X | | |
| | c. Monitors, completes, and documents corrective actions | X | | X | | |

**Attachment—
City of Baldwin Park Response to Draft Review Report**



Shannon Yauchzee, CEO/City Manager

May 26, 2020

Efren Lose, Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250

Dear Ms. Yee,

Thank you for the opportunity to review and comment on the draft report of the State Controller's Office review of the City of Baldwin Park's internal control systems. We also appreciate the extension of time provided for our review and comments due to the declaration of State, County and Local emergencies due to the COVID19 pandemic. I also want to comment that your staff assigned to this project were friendly, very professional, communicated well with us, and were easy to work with.

Below you will find our comments to each of the issues raised in the draft report. The City will and in some cases already has, developed plans to address our policies and procedures that may need improvement. The City Council will receive periodic updates at public meetings of the progress in implementing any plans.

We had mentioned to your staff that it may have been more clear and helpful if findings were classified as non-conformance, observations, or opportunity for improvement. However we do appreciate your review of our comments below and trust that they will be well taken in the spirit of cooperation and transparency. We have provided some background information as well as how the City has or will respond to each item. We ask that you adjust your report appropriately after the review of our comments.

Please feel free to contact me at Syauchzee@baldwinpark.com or Finance Director Rose Tam at Rtam@baldwinprk.com should you have any questions.

Sincerely,

Shannon Yauchzee, CEO

cc: Mayor and City Council
City Directors

Attachments:
Response to draft report

City of Baldwin Park Response to Draft Report

Finding 1

- We concur the City paid for and still has possession of shovel ready plans for a Park in the Downtown. However at the time, and even more so currently, the City does not have the funds to construct or maintain the park. This issue was discussed extensively with the City Council at several public meetings. While it may seem unfortunate that the City Council decided to make a policy change for the downtown after the expenditure of Park Dedication Funds (not General Funds) for construction documents, it should be noted that the new direction is to explore the construction of affordable housing in the downtown. As we all know there is a shortage of affordable housing in California and the State of California is setting goals for Cities to build more affordable housing. Currently the City is in exclusive negotiations for the construction of about 150 units of affordable housing, certainly a noble project. If the affordable housing project proceeds the developer could pay the City up to \$1.65 million for the land value, in addition to either providing open space or the payment of Park Funds. If the affordable housing project is not viable then the City still has a shovel ready park project and may apply for future funding grants. The Council made a decision between a Park project that we could not afford to build or maintain, and the construction of affordable housing with the potential to bring revenue back to the City. We believe this was a governmental body decision made after weighing all the facts, and is not related to internal controls of the City.

Response

- We believe the City Council had a full understanding of the decisions made in this case.

Finding 2

- We believe the City is in compliance with the City municipal code and State Law. The City went through an RFP process (actually two RFP's in the last 7 years) and the City Council has approved the contract that exceeds \$24,999. We believe this system has more controls compared to other cities' contracts for on call-services, in that it requires additional City Council approval of projects which exceed a higher threshold. In addition all of the projects under \$120,000 have been previously approved by City Council as part of the Capital Improvement Projects Budget (CIP). In addition, during the last RFP process the City negotiated into the new contract a set percentage of fees to the consultant, therefore guaranteeing the City a fair design fee for every task. The requirement for quarterly report occurred in a previous contract. While we believe some reports were provided they may not have been consistent. The newest and current contract with Infrastructure Engineers (IE, aka AAE) does not require quarterly reports. However we believe it is a good suggestion and will incorporate quarterly reports in the future.
- The project that exceeded the \$120,000 was approved in error by staff. However the project had already been approved by City Council in the CIP. As soon as staff realized that the project was approved in error, it was then taken to City

Council for approval and ratification. Public Works and Finance have since set up a system where requisitions will not be approved under this contract if the amount exceeds \$120,000.

- The procedure of IE submitting projects has been discontinued. The amounts of on-call-services are limited by the amounts approved for capital projects in the CIP. In addition the newest contract limits design services to a percentage of construction costs. The amounts for on-call services increased over a number of years due to an aggressively funded CIP budget as well as some staff vacancies.

Response

- The City Council will be provided quarterly reports pertaining to Capital projects and on-call services.
- The City is in compliance with the Municipal Code.
- The total amounts for on-call services are dictated by the Capital Improvement budget which is pre-approved by City Council.
- This practice was already discontinued.

Finding 3

- **Aim Consulting and Legal Services.** We concur that the City needs to update and clarify its purchasing ordinance as it is outdated and somewhat unclear. We agree that a competitive process is good in many cases. However, many City codes do not require the lowest responsible bidder be chosen for professional services as often times quality, experience or other factors can outweigh fees for service. In fact, some cities seal the monetary bid amount and only reveal the cost once a bidder is chosen.

In regards to Legal services the City maintains contracts with various firms. There is no State law or requirement to bid out legal services. These legal service contracts are approved by the City Council. In many legal cases the City council did not initially direct the staff "to obtain...services" because of time constraints related to legal deadlines in litigation. For example in a case where the City is sued, and the City has 30 days to obtain legal services and respond to the complaint, there is not time to perform an RFQ. In this case there are firms already on contract that have the experience to handle the case. For this reason and others, the City has developed a City Council approved list of law firms that the City can rely upon for its litigation needs.

- In the case of trash services and tree trimming, staff always surveys other surrounding City services to insure that the City is confident that we are receiving competitive rates. We believe our competitive process for waste removal services which is a franchise and in ways different than standard contract services, is consistent or better than the industry standards, as many cities still have evergreen contracts. In addition the last increase for the WCA contract was an adjustment to compensate for the increase in State minimum wage law.

Waste Management - The WM Contract was temporarily extended in June 2013 on a month-to-month basis to allow for further negotiations as the contract would have expired prior to reaching an agreement. The contract was subsequently negotiated to favorable terms and approved and reinstated in Sep 2013. The main areas of negotiations were improving services, ensuring compliance with new laws and keeping rates low in light of the Puente Hills landfill closure. The City performs yearly rate surveys to ensure that the City's rates remain competitive and that the residents benefit from some of the lowest rates in the region.

West Coast Arborist - WCA's contract was amended per contractual request in response to increase in minimum wage laws as a result of Tree Trimmer reclassifications by the California Department of Industrial Relations. Again, a survey of comparable City's shows that West Coast Arborist are among the lowest.

- We concur that soliciting quotes is a very important control and staff will research code amendment options for the municipal code and present them to City Council for consideration.
- We concur that there were some questionable sole source contracts and even though they were relatively small amounts and most were approved by the City Council, staff will tighten up policy and has already tightened up procedures on sole source purchases.

Response

- The City will amend and update its Municipal Code pertaining to competitive procurement.
- The City is now enforcing a strict policy pertaining to sole source vendors.

Finding 4

- At the time, City staff and the former Police Chief (Taylor) both solicited input from CalPERS in regards to Taylor working on an interim basis and coming out of retirement to be full-time again. We believe our process followed all of the advice and guidance provided by CalPERS staff. It should be noted that technically Taylor did not receive a pay increase, as he negotiated a brand new contract in order to come out of retirement and work full time again.

Response

- In light of the information provided the City will consult with PERS again in regards to this item.

Finding 5

- Normally all projects are approved in the budget or in the Capital Program Budget. However some projects have different timelines. The energy project was dependent on a Loan from the State of California and had a different timeline. We concur that project such as this should be added into the budget during subsequent midyear budget updates as necessary.

Response

- A procedure has been put in place to ensure that all capital project and new appropriations approved during the year will be added as amended budget items.

Finding 6

Response

- We concur the City will continue to update policies and manuals and disseminate the information.

Finding 7

Response

- We concur and have already implemented these procedures and will update policies.

Finding 8

- As noted in the report, in the majority of cases, detailed receipts have been provided. In a few cases invoices did not contain the details of the purchases however the purchases all still appear to be valid.

Response

- We concur and have already implemented these procedures and will update policies to require detailed receipts and documentation to support the business purpose of the expense.

Finding 9

Response

- We concur and have already implemented these procedures and will update the bank reconciliation policy.

Finding 10

Response

- We concur that evaluations should be done in a timely manner. Reports are now sent to Directors quarterly indicating to them which evaluations are outstanding.

Finding 11

Response

- We concur and will develop internal controls to properly monitor adherence to the City policies requiring pre-authorization of purchases; and ensure that City employees follow purchasing policy and requirements.

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

www.sco.ca.gov