

CITY OF MAYWOOD

Its Flawed Governance and Financial Mismanagement
Could Compromise the Basic Services It Provides
to Residents

Report 2015-803

HIGH RISK

COMMITMENT
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October 3, 2016

2015-803

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents the results of our audit of the city of Maywood, conducted as part of our high-risk local government agency audit program.

This report concludes that Maywood is a high-risk city because of substantial risk factors concerning the city's financial and operational management. Specifically, the city council did not adequately oversee the city's operations or monitor the performance of the former city manager over her five-year tenure, allowing numerous problems to remain uncorrected. The city council also inhibited transparency by repeatedly violating the State's open meeting law when making decisions that significantly affected city operations, including the hiring of individuals for the positions of the city manager and city attorney.

Maywood has reported a general fund deficit for the last six years, and it continues to face significant financial challenges that threaten its ability to provide services to its residents. Although the city projects a slight improvement in its financial condition, it still lacks the resources to fully repay substantial overdue debts, as of June 30, 2015, totaling over \$15 million, which is more than twice its annual operating costs. Further, the city undermined its ability to recover from its financial difficulties by failing to maximize revenue in several possible ways. For example, it understaffed its parking and code enforcement functions, leading to a loss of substantial amounts of revenue from parking citations and business license fees. Finally, Maywood spent millions on contracts it did not subject to a competitive bidding process, thereby failing to ensure the cost-effectiveness of its expenditures.

To help Maywood address these risk factors, we developed recommendations for the city to implement, including employing better personnel management practices and adhering to state laws governing the transparency of local governments' meetings. We also recommended preparing a repayment plan for the city's overdue debts, strengthening controls over procurement, and maximizing available revenue sources.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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HIGH RISK ISSUES

City of Maywood, Los Angeles County

Risk Designation: High Risk

ISSUE	PAGE:
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<p><i>City Council's Inadequate Oversight of City Operations</i></p> <ul style="list-style-type: none"> Failed to manage the city's financial and administrative functions properly and to monitor the performance of a former city manager adequately. Approved contracts without requiring competitive bidding, authorized flawed budgets, and spent city money for inappropriate purposes. 	5
<p><i>City Council's Lack of Transparency</i></p> <ul style="list-style-type: none"> Deprived the public of information concerning the city council's decisions by repeatedly violating the Brown Act, the State's transparency law. Made hiring decisions without using a competitive or structured selection process. 	9
INEFFECTIVE FINANCIAL MANAGEMENT HINDERS MAYWOOD'S ECONOMIC RECOVERY	
<p><i>Ongoing Deficits</i></p> <ul style="list-style-type: none"> Reported a general fund deficit for each of the last six fiscal years. Failed to develop a long-range plan for paying off significant overdue debts totaling more than \$15 million as of June 30, 2015. 	15
<p><i>Deficient Budgeting Process</i></p> <ul style="list-style-type: none"> Released poor-quality budget documents that omitted information critical to users' understanding of the city's financial condition. Failed to monitor effectively its revenue and expenditures and to use its budget to guide its financial decisions. 	20
<p><i>Failure to Maximize Revenue</i></p> <ul style="list-style-type: none"> Lost significant revenue from uncollected parking citation and business license fees. Allowed tenants to remain delinquent in paying the city more than \$60,000 in rent and related late fees. 	24
WEAK INTERNAL CONTROLS AND NONCOMPLIANCE WITH ITS MUNICIPAL CODE COMPROMISE MAYWOOD'S PROVISION OF BASIC SERVICES TO RESIDENTS	
<p><i>Poor Contract Administration</i></p> <ul style="list-style-type: none"> Violated competitive bidding requirements when approving contracts worth millions of dollars. Did not ensure its contractors' compliance with requirements for adequate insurance coverage. Failed to comply with the State's prevailing wage laws. 	31
<p><i>Inadequate Accounting Controls</i></p> <ul style="list-style-type: none"> Increased the risk of fraud because it failed to segregate incompatible duties by allowing staff both to handle cash and to record related transactions. Made little effort to correct significant deficiencies in its internal controls—its methods for ensuring the accuracy and integrity of its financial information—that continue to cause late financial reporting. 	38
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RISKS FACING THE CITY OF MAYWOOD

In July 2015, the California State Auditor (State Auditor) informed the city of Maywood that it had been selected for review under the high-risk local government agency audit program. This program authorizes the State Auditor to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. We initially identified Maywood as an entity that might be classified as a high-risk local government entity based on publicly available information. We conducted an initial assessment of Maywood in July and August 2015, and this assessment identified concerns regarding Maywood's persistent general fund deficit and significant overdue debts, which threaten Maywood's ability to provide services to its residents.

In Maywood's August 2015 response to our assessment, its former city manager agreed that Maywood is an at-risk entity and cited the city's efforts over the past five years to restructure its operations to avoid bankruptcy. We requested a subsequent update on Maywood's progress in addressing our concerns, and in December 2015 the city's newly appointed interim city manager reported that although the city had not yet taken any action to address our concerns, the new administration was committed to developing strategies to correct the city's condition. As a result of our continuing concerns about Maywood's financial condition, we recommended an audit of Maywood, which the Joint Legislative Audit Committee approved in January 2016.

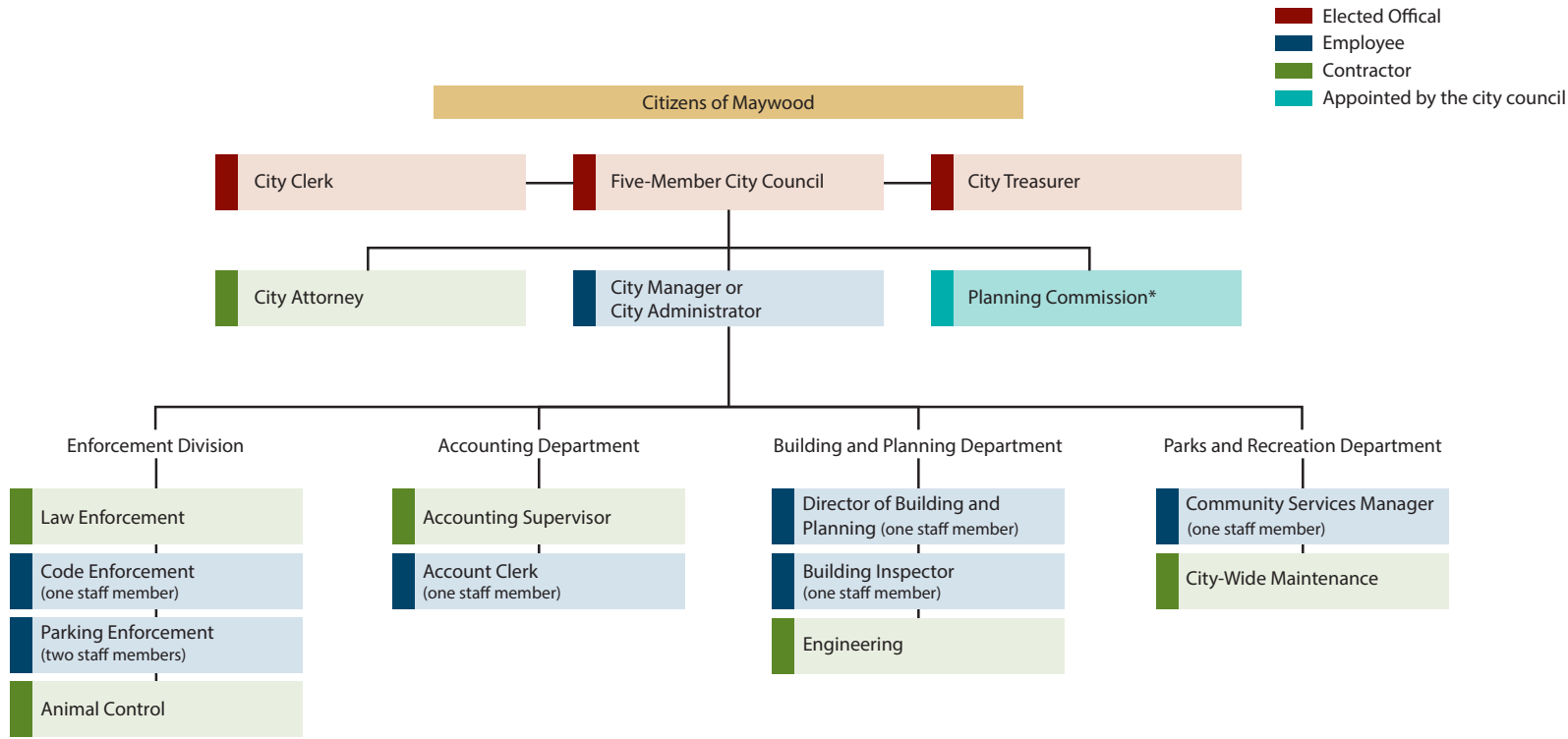
Maywood's financial and operational issues partly stem from the city's troubled history. In June 2010, Maywood reached a crisis point when—because it had lost its general liability and workers' compensation insurance—it disbanded its police department and laid off all city employees. The California Joint Powers

Insurance Authority (Insurance Authority) canceled Maywood's insurance coverage because of accumulating lawsuits against the city arising from police misconduct and the city's insufficient progress toward mitigating risks and preventing additional legal claims. At the same time, Maywood exhausted its general fund balance and had only \$136,000 left in available cash. Maywood briefly contracted with the city of Bell to provide the public services previously performed by city employees. In August 2010, Maywood hired the former city manager, who served the city until December 2015, but the city otherwise continued to rely largely on contract labor.

As shown in Figure 1 on the following page, Maywood still contracts for many of the services it provides to the public, including law enforcement, which accounts for nearly half of the city's general fund expenditures. Maywood contracts with the county for animal control services, and it relies on private companies to maintain its four parks and the city's facilities, which include the city hall and a community center, and to provide engineering services, which include building inspections and transportation planning.

In early December 2015—after our initial assessment—the city experienced additional turmoil following changes in the composition of the city council. As Figure 2 on page 3 shows, in early December, the city council swore in two new council members, selected a new mayor, and replaced the former city manager and former city attorney. During the following five months, the city council selected two new mayors and once again replaced the individuals in the positions of city manager and city attorney. The new city council's actions, including hurried personnel changes, raise additional concerns about Maywood's stability, particularly given the city's already precarious financial condition.

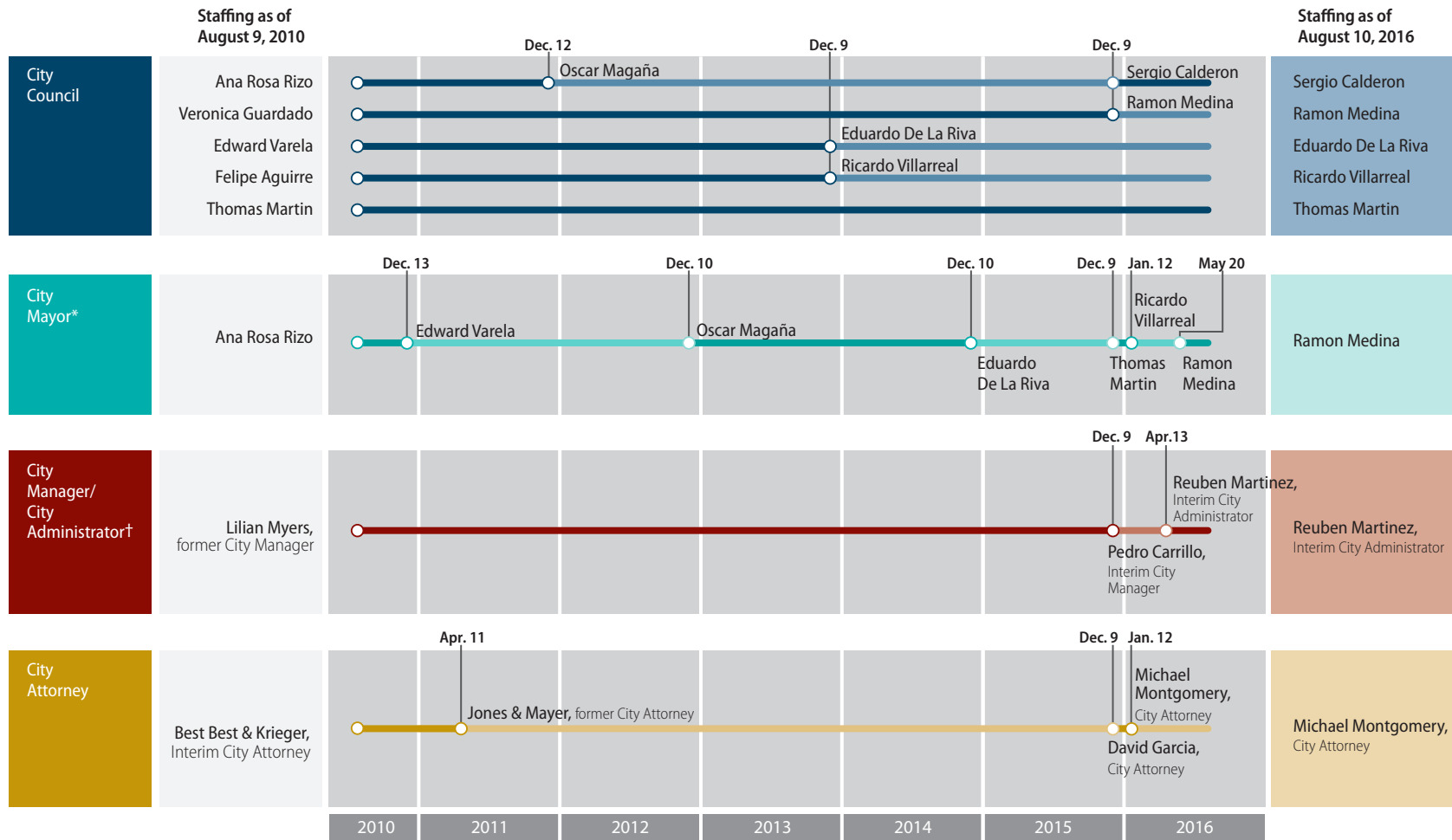
Figure 1
 The City of Maywood's Organizational Chart as of August 2016



Sources: Maywood's adopted budgets for fiscal years 2012–13 through 2015–16, interviews with key city employees, city council meeting minutes, and selected contracts.

* Members of the planning commission undertake projects to further the general plan of the city.

Figure 2
City Management Changes Between August 2010 and August 2016



Source: Minutes for Maywood City Council meetings that occurred from August 2010 through August 2016.

* The city council nominates and selects one of its own members for the position of city mayor.

† The city uses the positions of the city manager and the city administrator interchangeably.

Our audit concluded that Maywood should be classified as a high-risk local government agency because of substantial risk factors regarding the city's financial and operational management. Specifically, we identified indicators of an impaired financial condition, including the city's inability to pay its obligations and to maintain financial stability, its failure to comply with recognized financial reporting standards, and its exposure to unmitigated risk of fraud.

Furthermore, numerous aspects of Maywood's operations were ineffective, and these shortcomings contributed to the city's classification as a high-risk agency. In particular, ineffective management and insufficient oversight impaired Maywood's ability to recover from its fiscal difficulties. The city council did not oversee the city's operations adequately, nor did it monitor the performance of the former city manager over her five-year tenure, allowing numerous problems to remain uncorrected.

Although Maywood has projected a slight improvement in its financial condition, it still lacks the resources to fully repay substantial overdue debts, including \$10.3 million it owes to the Insurance Authority mainly for lawsuits resulting from the misconduct of police officers who worked for the now-dissolved Maywood Police Department. Although the city has experienced a persistent deficit in its general fund, it has not created a long-term plan for rebuilding its general fund reserve—critical in times of economic downturn—and

for repaying its overdue obligations. As a result, Maywood's precarious financial condition compromises its ability to provide services to its residents, such as public safety, parking enforcement, and infrastructure maintenance and repair. Notwithstanding Maywood's fiscal challenges, the city council made some wasteful spending decisions, and the city council together with the former city manager failed both to ensure the cost-effectiveness of city contracts and to maximize available revenue.

To help Maywood address these risk factors, we have developed recommendations for the city to implement, including employing better personnel management practices; discontinuing its wasteful mileage reimbursement policy; recouping inappropriate expenditures; adhering to state laws governing the transparency of local governments' meetings; improving its budgeting process and preparing a repayment plan for its overdue debts; strengthening controls over procurement, accounting, and financial reporting functions; and maximizing available revenue sources.

Agency's Proposed Corrective Action

Maywood provided an initial response to our audit report, in which it generally agreed with our recommendations. The city is in the process of preparing a detailed corrective action plan, which it will submit to us within 60 days.

MAYWOOD'S WEAK GOVERNANCE INHIBITS RECOVERY FROM ITS PRECARIOUS FINANCIAL AND OPERATIONAL CONDITION

Maywood's city council has failed to oversee the city's operations adequately and has violated its fiduciary duty—its responsibility to act with the utmost good faith for the benefit of the city. Specifically, the city council did not monitor the performance of a former city manager but continued to approve generous contract amendments for that individual. As a result, the city council allowed numerous financial and administrative problems, such as the city's failure to maximize revenue and its lack of the most rudimentary internal controls, to remain uncorrected. The city council also approved contracts that did not undergo a competitive bidding process and accepted flawed budgets that did not address significant overdue debts that continue to threaten Maywood's ability to provide such services to its residents as law enforcement and maintenance of public roads.

In addition, the city council has also repeatedly violated the Ralph M. Brown Act (Brown Act)—the State's open meeting law for local governing bodies, which generally requires a publicly posted agenda before city council meetings—when making critical decisions that significantly affect city operations. On several occasions, the city council inappropriately took action on items, such as the hiring of a new city manager that the publicly posted agenda did not include, and city council members discussed in closed sessions topics that the law does not allow to be discussed in closed session. Moreover, months after receiving an order by the Los Angeles County District Attorney's Office to cure and correct some of these actions, Maywood has failed to do so. The city council has also made hasty hiring decisions when filling the most important positions in the city government, including

those of the city manager and city attorney. Because the city council has not used a competitive or structured selection process, it cannot demonstrate that it hired the most qualified candidates, thus increasing the risk that Maywood's financial and operational problems will worsen.

Maywood's City Council Has Provided Inadequate Oversight of the City's Financial and Administrative Functions

Maywood's five-member city council has failed to oversee adequately the city's financial and administrative functions, and it has breached its fiduciary responsibility to Maywood's residents. For example, the city council did not sufficiently monitor the performance of its former city manager, who was employed from August 2010 until the city council placed her on leave in December 2015. During that period, the former city manager allowed many significant financial and operational problems to remain uncorrected. Despite the requirement in the former city manager's contract that the city council conduct annual performance appraisals, the city council provided her with only a single appraisal in December 2012, two years into her appointment. Because Maywood laid off all of its employees in 2010 and was in financial distress during this time, it was critical that the city council closely monitor the former city manager's efforts to stabilize the city's operations and improve its financial situation. However, the lack of regular appraisals of the former city manager's performance clearly indicates that the city council did not hold her accountable for improving these conditions.

Although the city council did not adequately monitor the former city manager's performance, it continued to extend her contract while also adopting amendments restricting its own ability to dismiss her. In this way, the city council acted in clear violation of its fiduciary responsibility to act with utmost good faith for the benefit of the city. The original contract and the first amendment would have allowed the city council to dismiss the former city manager with or without cause by a simple majority vote. The first amendment extended the term of the contract to April 2016. However, in April 2015, a full year before the former city manager's contract was to expire and seven months before the election changed the council's composition, the city council again amended her contract. Even though the city council had not formally assessed the former city manager's performance since late 2012, the amendment extended her term to April 2019. This second amendment also raised the number of votes required to dismiss the former city manager, and it increased her severance package from 12 to 18 months of pay.

The city council acted in clear violation of its fiduciary responsibility to act with utmost good faith for the benefit of the city.

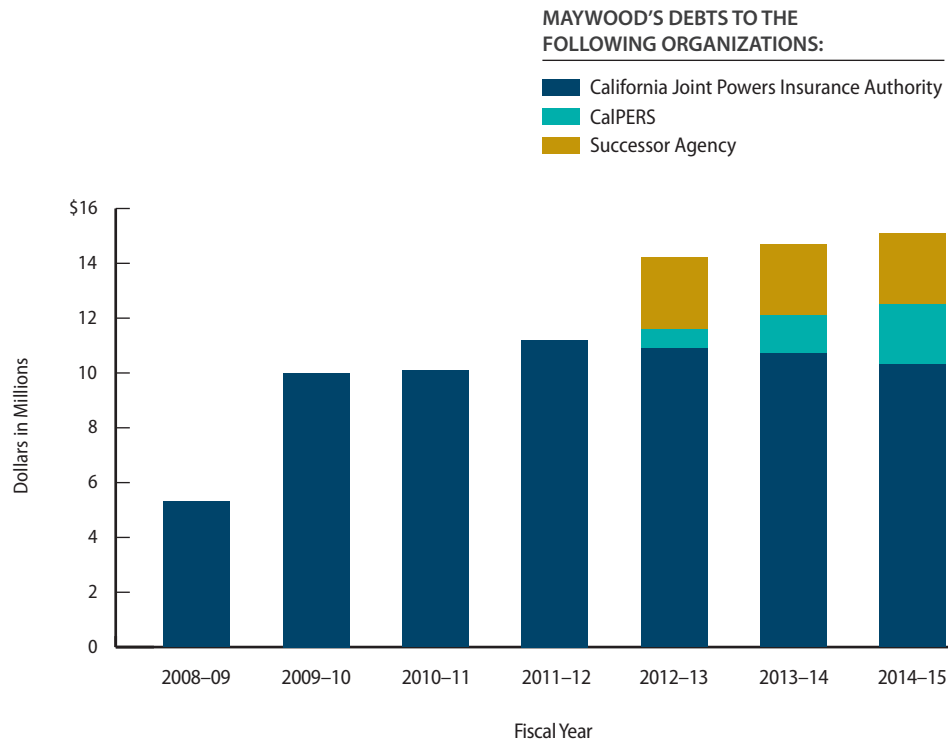
As a result of the second amendment, termination of the former city manager's contract due to poor performance required a unanimous vote of the five-member city council and a severance payment of \$270,000. One of the city council members who voted for the second amendment explained that he supported the voting requirement change because it required agreement among a greater number of council members, which would include both the majority and minority that often split three to two on

most issues. Additionally, he stated that the amendment prevented three members of the city council from suddenly dismissing the former city manager. Given the former city manager's failure to adequately manage the city's financial and operational functions, the city council's vote to strengthen her contract in this manner raises questions about council members' motivations and potential bias toward the former city manager.

Two new members were elected to the city council during the November 2015 general election. On December 9, 2015, just before the two new members were sworn into office, the sitting city council members and the former city manager agreed to a third amendment to the former city manager's contract that allowed the city council to terminate her employment with or without cause with a four-fifths vote. On that same day, the new council voted to put the former city manager on administrative leave with full pay. The city subsequently terminated the former city manager's employment on April 25, 2016.

We identified a multitude of financial and operational problems that the former city manager allowed to persist under her leadership. These operational problems affected multiple functions of city government that included poor procurement practices in which Maywood repeatedly violated competitive bidding requirements contained in the municipal code and thus failed to ensure the cost-effectiveness of its contract expenditures. Other problems involved inadequate accounting and financial reporting caused by the former city manager's failure to implement fundamental internal controls, thereby exposing the city to risk of fraud or errors that would not be detected. We also found that the former city manager missed opportunities to maximize business license and parking citation revenue, and she did little to address the city's growing overdue debts, which totaled more than \$15 million at the end of fiscal year 2014–15, as Figure 3 shows.

Figure 3
Maywood Has Accumulated More Than \$15 Million in Overdue Debts



Source: Maywood's audited financial statements for fiscal years 2008-09 through 2014-15.

In addition, the former city manager failed to provide performance appraisals to city staff responsible for the city's operations. We discuss several of these issues in detail in subsequent sections of this report.

Although it is not responsible for directing the city's day-to-day operations, the city council's actions and, in certain instances, its inaction over the past five years contributed to some of Maywood's operational and financial problems. For example, the city council on several occasions approved contracts that did not undergo the competitive bidding process required by Maywood's municipal code. Additionally, the city council has not overseen the city's finances adequately. Although the municipal code assigns city management the responsibility of keeping the city council fully apprised of the city's financial condition through monthly reports, the city council has

received only sporadic reports over the past five years. The absence of regular reports has deprived the city council of critical information it needs to make informed decisions concerning the city's finances. Specifically, the city council has received only monthly listings of Maywood's disbursements and the city's annual financial reports. However, these financial reports provided to the city council have been chronically late—by as much as 15 months after the end of the fiscal year. Moreover, the city council has approved flawed budgets that have not contained sufficient detail to effectively convey the city's financial position, and has not developed any long-range plans to deal with significant overdue debts that threaten the city's ability to provide services to its residents. For instance, the city council has allowed more than \$10 million in debt to the Insurance Authority to remain substantially

unresolved and unpaid since 2010. We discuss each of these issues in more detail in subsequent sections of the report.

Despite the election of new members to the city council in December 2015, the city's governing body has continued to exhibit poor stewardship. As the next section describes, the city council has made hasty hiring decisions, changing the city manager twice in the span of four months and hiring a new city attorney only to replace him one month later, all while violating the state open meeting law because it did not properly notify the public of these actions through posted agendas.

Additionally, the city council has made wasteful spending decisions that advanced the council members' personal interests to the detriment of Maywood's residents. Acting in a special meeting held just two days after swearing in two new members, the city council approved a monthly mileage payment of \$250 for each of the five council members and the two other elected officials, totaling \$1,750 in monthly expense for the city, instead of approving monthly payments that reimburse these individuals only for their actual mileage related to city business.

The city council has made wasteful spending decisions that advanced the council members' personal interests to the detriment of Maywood's residents.

Because one of the council members recently decided not to accept this payment, Maywood's monthly spending on these mileage payments decreased to \$1,500. Given that council members are by law required to reside in the city, we find it unlikely that

each council member will incur \$250 in mileage costs in a city of 1.14 square miles. We acknowledge that council members may also incur mileage costs driving to locations outside the city for official business. However, using the current federal reimbursement rate of 54 cents per mile, we calculated that to justify the full payment for mileage, each elected official would have to drive 463 miles every month, an equivalent of a round trip between Maywood and Fresno. The city pays the council members the \$250 for mileage in addition to the monthly compensation that they already receive, which includes a \$556 stipend; a \$40 phone stipend; and pension, health, dental, and vision benefits. A council member's compensation thus amounts to as much as \$2,500 per month.

Not only have council members paid themselves generously, but they have also used city funds inappropriately to pay for the costs of a celebration—\$2,450 for catering and \$800 for entertainment—of the new city council at the December 2015 meeting. These spending decisions represent a breach of the city council's fiduciary responsibility to safeguard the city's public resources—resources that should be spent on providing services to Maywood's residents or on improving the city's dire financial condition.

Recommendations to Address This Risk

To fulfill its obligation to Maywood's residents, the city council should better oversee the city's financial and administrative functions by taking the following actions:

- Ensure that future contracts with city managers and other employees do not include provisions that make it overly difficult to terminate a poorly performing employee. In addition, the city council should not extend contracts far in advance of their expiration date and should only renew contracts when warranted by an assessment of performance.

- Effectively monitor the city administrator's or city manager's performance and document that oversight in annual appraisals. For example, the city council should closely monitor the city administrator's or city manager's efforts to improve the city's financial condition and to address the other findings and conditions contained in subsequent sections of this report.
- Eliminate its monthly payment of \$250 for each council member's mileage and instead implement a mileage reimbursement policy that allows city council members and other elected officials to claim reimbursement only for actual, documented mileage they incur when engaged in official city business.
- Carefully review expenditures and reject those that contain inappropriate costs.
- Reimburse the city for the \$3,250 in costs incurred for the celebration after the December 9, 2015, meeting.
- Familiarize themselves with the provisions of Maywood's municipal code and ensure their actions and the actions of the city administrator or city manager and other city officials and employees comply with the code's requirements.
- Obtain comprehensive training in the following key areas over which they exercise important responsibilities: financial management, budgeting, contracting, and human resources.

The City Council Violated the State's Open Meeting Law When It Failed to Notify the Public Before Making Important Decisions

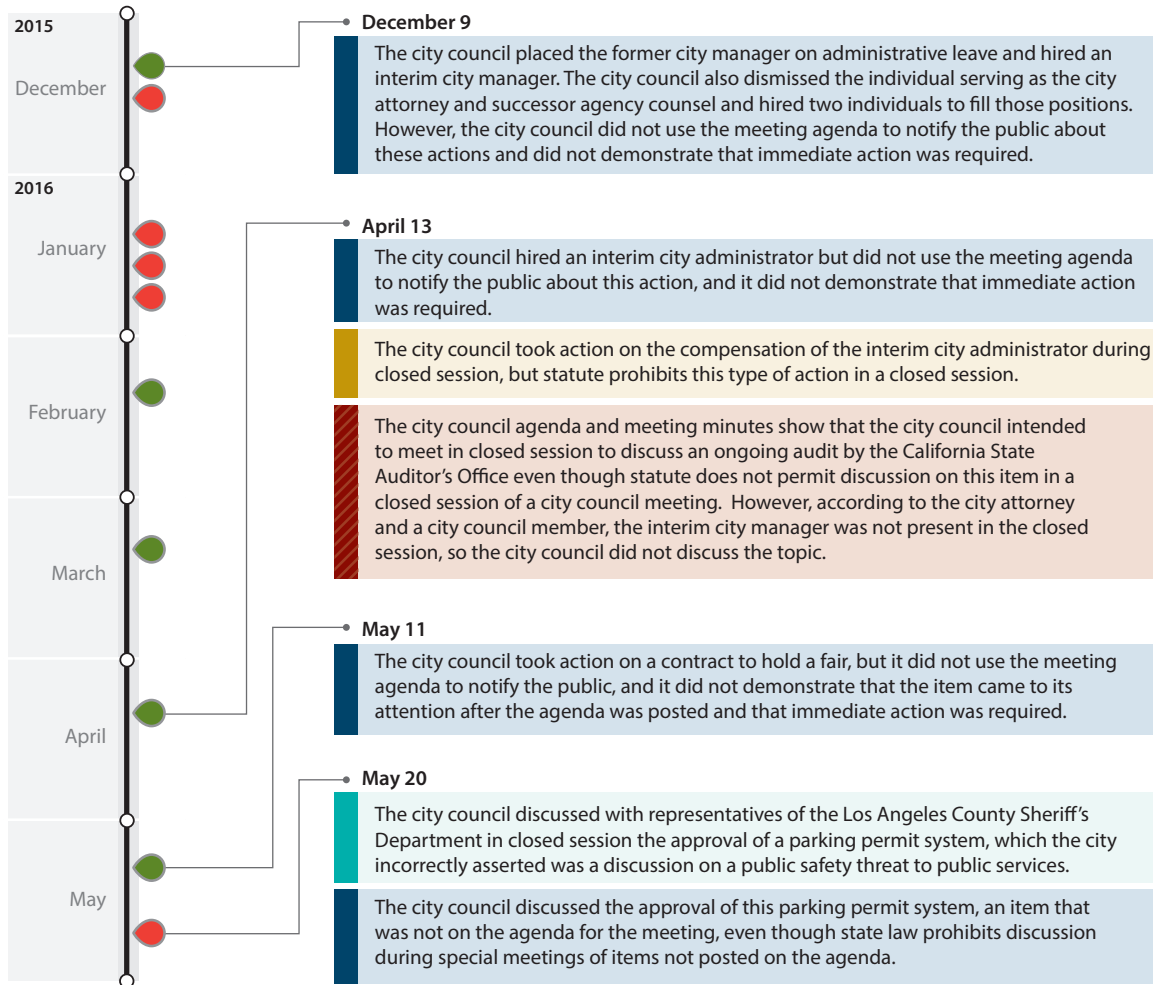
The city council routinely violated provisions of the Brown Act, the State's open meeting law for local governments, including when making critical decisions that significantly

affected city operations, thereby depriving Maywood residents of important information about actions affecting their city government. The Brown Act promotes transparency by generally requiring local agencies' legislative bodies, such as Maywood's city council, to deliberate in public and to post an agenda in advance of their meetings. However, our review of meetings the city council held between December 2015, when the composition of the city council last changed, and May 2016 revealed six violations of the Brown Act, three of which involved important hiring decisions. As shown in Figure 4 on the following page, the city council inappropriately took action on items not included in a posted agenda and held closed session discussions of subjects that they were not permitted by state law to discuss in closed session. We also became aware of an active investigation by the Los Angeles County District Attorney's Office (District Attorney) of some of the same Brown Act violations.

Despite the lack of advance notice to the public, as required by law, the city council made sweeping personnel changes shortly after swearing in two new council members during the meeting on December 9, 2015. Specifically, the city council placed the former city manager on administrative leave and hired a new interim city manager. Additionally, the city council dismissed the individual then serving as both the city attorney and the counsel for the successor agency to Maywood's former redevelopment agency¹ (successor agency counsel) and replaced him with two other individuals. Just four months later, during its meeting on April 13, 2016, the city council, again acting on an item not included on the publicly posted agenda, voted to replace

¹ California's redevelopment law provided local governments the ability to improve blighted areas using property tax revenue. In 2011 the State Legislature approved the dissolution of the more than 400 redevelopment agencies in California, leading to the creation of *successor agencies*, which continue to manage the remaining obligations of the redevelopment agencies.

Figure 4
Maywood City Council Demonstrated an Ongoing Lack of Transparency Between December 2015 and May 2016



- Regular Council Meeting
- Special Council Meeting

CRITERIA LEGEND FOR VIOLATIONS

- Government Code sections 54954.2 and 54956: The city council inappropriately discussed or took action on an item not posted on the regular or special meeting agenda notice.
- Government Code section 54957.6: The city council inappropriately discussed and took final action on the proposed compensation of an unrepresented employee during a closed session rather than in an open session.
- Government Code section 54957: The city council inappropriately discussed or took action on an item in closed session, but this discussion was not permitted by statute and should have occurred in open session.
- Government Code section 54956.75: The city council would have inappropriately discussed in closed session a topic that statute does not allow the city council to discuss in closed session; however, the city council did not do so.

Sources: State law, Maywood city council meeting agendas, meeting minutes, meeting audio recordings, and interviews with Maywood employees and council members.

Note: The timeline above shows all meetings that took place during this period, including those for which we do not report any violation.

the interim city manager with an interim city administrator. The Brown Act prohibits action or discussion on items not posted on the agenda of a regular meeting with three exceptions: (1) in an emergency, such as a work stoppage, crippling activity, or a natural disaster, as determined by a majority vote of the legislative body; (2) on items, as approved by a two-thirds vote of the members of the legislative body, requiring immediate action that came to the legislative body's attention after it posted the agenda; and (3) in limited circumstances for items posted on the agenda for the prior meeting. The current city attorney defended the city's actions citing the second exception. However, the city failed to demonstrate that immediate actions were required when the city council discussed these items not included on the respective agenda.

The current city attorney asserts that the city council's decisions are not subject to challenge, but we disagree. We believe that the Brown Act requires both a vote and facts supporting the need for immediate action on items not included in the agenda that come to the city council's attention after city staff has already posted the agenda.

The then-newly appointed mayor's explanation for the need to immediately replace the former city attorney during the meeting on December 9, 2015, offers a striking example of the city council's disregard for state law. Our review of the audio recording for the meeting showed that after the past mayor announced the motion to consider the appointment of a new city attorney, the former city attorney warned that this would entail acting on an item not posted on the agenda. The former city attorney informed the past mayor of the need to demonstrate that the issue came to his attention after city staff posted the agenda and that the issue required immediate action. In response, the past mayor stated that he received the former city attorney's resignation letter after the agenda was posted and that the city needed legal counsel to transition and to work with the city. However, the letter clearly stated

that the former city attorney was providing a 30-day notice, making the termination effective January 6, 2016. Furthermore, the letter states, and the former city attorney reaffirmed verbally during the meeting, that he would be willing to continue serving as needed to facilitate a smooth transition to the new city attorney. Nonetheless, in conflict with the Brown Act, the past mayor insisted on acting upon this item that was not properly posted on the agenda by appointing a new city attorney, citing the need for new legal counsel despite facts indicating no immediate need to do so. When we contacted the past mayor to obtain additional information about this and other hiring decisions the city council made during this meeting, he refused to answer our questions.

Because the then-mayor attended the legally required ethics and Brown Act training only a week before this meeting, we expected him to have been aware of the importance of the open meeting law and his obligation as an elected official to comply with its every provision. Another city council member who voted to add the consideration of a new city attorney to the agenda during the meeting of December 9, 2015, attended the same training session. However, two other council members who supported this motion either had no training record on file with the city or had not demonstrated attendance within the last two years, as mandated by law. The remaining fifth member of the city council had a current training record and voted against adding a new item to the agenda in this and two other instances when the city council violated the Brown Act.

Instead of advising the city council on how to comply with provisions of the Brown Act, the current city attorney, appointed in January 2016, gave unsound legal advice at the meeting on April 13, 2016, and at two subsequent meetings in which the city council acted improperly on items not posted on the agendas. After the city council voted in the regular council meeting on April 13, 2016, not to approve a contract with the interim city manager, the current city

attorney explained that the city council could consider the appointment of an interim city administrator as long as four of the five council members agreed to add the item to the agenda. In a subsequent written response to the District Attorney, the current city attorney clarified that in his view, as a legal matter, the city code required a city administrator and, as a practical matter, the ongoing State Auditor's audit required a city administrator as designee. However, while Maywood's municipal code requires the city council to appoint a city administrator, the municipal code of general law cities such as Maywood may not conflict with state law by necessitating the city council to act in violation of the Brown Act. Additionally, our audit did not require a city administrator as a designee if that position was vacant. Moreover, according to the District Attorney, Maywood had the option to appoint a new city administrator two days later if it had chosen to hold a special meeting with proper notice.

During the meetings on May 11, 2016, and May 20, 2016, the current city attorney continued to provide unsound legal advice, which may have caused the city council to commit additional violations of the Brown Act, as shown in Figure 4. The current city attorney proposed the additions of new agenda items, and when asked by a council member at both meetings whether the city council met all legal requirements, he incorrectly answered in the affirmative. Specifically, at the May 11, meeting, the city council took action on a contract to hold a fair, but it did not use the meeting agenda to notify the public and inappropriately added this item during the meeting.

In May 2016, the current city attorney continued to provide unsound legal advice.

On May 20, during a special meeting, which the city council scheduled in addition to the regular monthly meeting, the city council added an item to take action on the approval of a parking permit system even though the Brown Act prohibits considering business not on the special meeting agenda. The city council also improperly discussed this matter in a closed session when they were not permitted by law to do so.

The current city attorney also incorrectly asserted that the city council had corrected the Brown Act violations the District Attorney's investigation identified from the meeting on December 9, 2015. Specifically, the District Attorney demanded that the city council cure its Brown Act violations by making the public aware of the issues that did not appear on the agenda, providing the public with an opportunity to comment on those issues, explicitly withdrawing from any commitments made, and disclosing at a subsequent meeting why individual council members took their respective positions on each issue. Although the current city attorney claims that the Maywood city council cured the Brown Act violations in a timely manner, the District Attorney disagrees. Months after the District Attorney requested action, Maywood still has not redressed the illegality of the personnel decisions.

In addition to violating state law and inhibiting the transparency of the city council's decisions, the city council has neglected its fiduciary responsibility to Maywood by making hasty hiring decisions for the most important positions in Maywood's city government. Given the operational and financial challenges facing Maywood, we expected that the city council would be methodical in its selection of individuals for these positions: first, by widely advertising the positions to ensure competition; second, by carefully screening submitted applications; and third, by conducting interviews to identify the candidates best equipped for each position.

However, the city council did not follow any of these steps when it hired the first interim city manager, the current interim city administrator, or the new city attorney and successor agency counsel. Furthermore, it is not clear what process or criteria the city council used when it made those important hiring decisions. In fact, two city council members confirmed that the city council did not use a formal selection process to hire the interim city manager or the interim city administrator. Interestingly, the interim city administrator did not even know he was being considered for the position before the city council appointed him. According to the council member who recommended the candidacy of the interim city administrator, he did not specify the title or job duties in discussing a possible employment opportunity with the interim city administrator before the appointment. Further, the council member noted the surprised reaction of the interim city administrator when he called with the offer the day after the April 13, 2016, meeting.

That same month, the city hired a former employee for its newly created position of director of building and planning (planning director), with an annual salary of \$120,000, the city's second-highest-compensated position, without conducting a staffing analysis or a competitive selection process. We expected that Maywood would base its hiring decisions on a comprehensive analysis in which the city compares its staffing needs against available resources to identify gaps. However, city officials were unable to provide any analysis that identified the need for a new full-time planning director position, nor was such a position included in the city's fiscal year 2015–16 budget. In addition, because the city did not use a competitive process to hire the individual for this position, it has no assurance that it hired the most qualified person for the job.

Further, despite conversations with multiple current and former city officials, we were unable to determine who made the decision to hire this

individual. The new planning director claims that the former interim city manager (who held the position between December 10, 2015, and April 13, 2016), hired him for the position. However, the former interim city manager told us that although he met the planning director twice, he never offered him the position or negotiated his compensation.

The city has no assurance that it hired the most qualified person for the position of director of building and planning.

The former interim city manager also claimed that he was repeatedly pressured by one of the council members to hire the planning director, but that council member denies the allegation. The current interim city administrator, who was appointed just two business days before the planning director was hired, also could not tell us who made the hiring decision. According to the current city attorney, the city council was interested in rehiring this individual because of his past work history with the city. Nevertheless, the city officials we interviewed could not provide documentation to clarify who hired this individual or show why it was necessary to create this position.

The city council's hurried employment decisions, coupled with a lack of any competition or selection process, suggest that city council members do not understand the critical effect these positions have on the city's operations and raise questions about the impetus for those decisions. Lack of a thorough selection process may also increase turnover unnecessarily, as illustrated by the city council's dismissal of the interim city manager just four months after appointing him to the position.

Finally, the city council also allowed high-ranking officials to operate without written contracts, risking confusion and disagreement about contract terms. For example, the former interim city manager never had a written contract, while the interim city administrator and the successor agency counsel, who later became the current city attorney, worked without written contracts for parts of their tenures. The confusion about the employment contract terms is evident in a memorandum the successor agency counsel sent to the former interim city manager about his billing rates. Because the city council had not committed in writing to specific compensation, the successor agency counsel sent a memorandum to the former interim city manager explaining the successor agency counsel's billing rates and the methods he used to bill the city. However, he did not cite any previous agreement with the city council to support his assertions about compensation. Given the possibility that contract employees will overbill, the lack of written contracts exposes Maywood to the risk of excessive and unnecessary spending at a time when the city already has insufficient resources to pay its existing debts.

Recommendations to Address This Risk

To improve its ability to properly govern the city, Maywood's city council should do the following:

- Undergo required ethics and Brown Act training every two years and strictly observe Brown Act provisions to engage Maywood's residents in the decision-making process and to avoid future violations of the law. In addition, the city council should immediately cure past violations.
- Ensure it receives reliable legal advice concerning the Brown Act and other areas of state law affecting Maywood's operations.

To improve its hiring process, Maywood's city council should also do the following:

- Ensure that all hiring decisions are based on a comprehensive and documented staffing analysis that clearly demonstrates the need for each position.
- Ensure it hires the most qualified individuals to fill critical city positions by using a structured and competitive recruiting process, which should include properly advertising positions, developing specific and objective selection criteria for screening applicants, and conducting hiring interviews with the strongest candidates. Both the selection process and the final hiring process should also be documented.
- Ensure it promptly executes written contracts for applicable positions before allowing the contract employees to begin work.

INEFFECTIVE FINANCIAL MANAGEMENT HINDERS MAYWOOD'S ECONOMIC RECOVERY

Since first reporting a general fund deficit in 2010, Maywood has remained in a precarious financial condition as a result of poor oversight by the former city manager and the city council. Maywood faces significant overdue debts that threaten the city's ability to continue providing services to its residents. However, despite the risk these debts pose to city operations, Maywood has not developed any long-term repayment plans. Although the city has budgeted for small payments toward two of these obligations over the next two years, it will need to increase revenue and better control its spending to significantly reduce its debts and replenish its general fund balance. The city also needs to correct weaknesses in its budgeting process, which diminish management's and the city council's ability to make informed decisions about city finances. Finally, the city has failed to maximize its revenue in several possible ways, thus hindering its ability to improve its financial condition. For example, it understaffed its parking and code enforcement functions, leading to a loss of substantial amounts of revenue from parking citations and business license fees. The city also failed to enforce the terms of its lease agreements, allowing tenants to remain delinquent on rent payments to the city for several years.

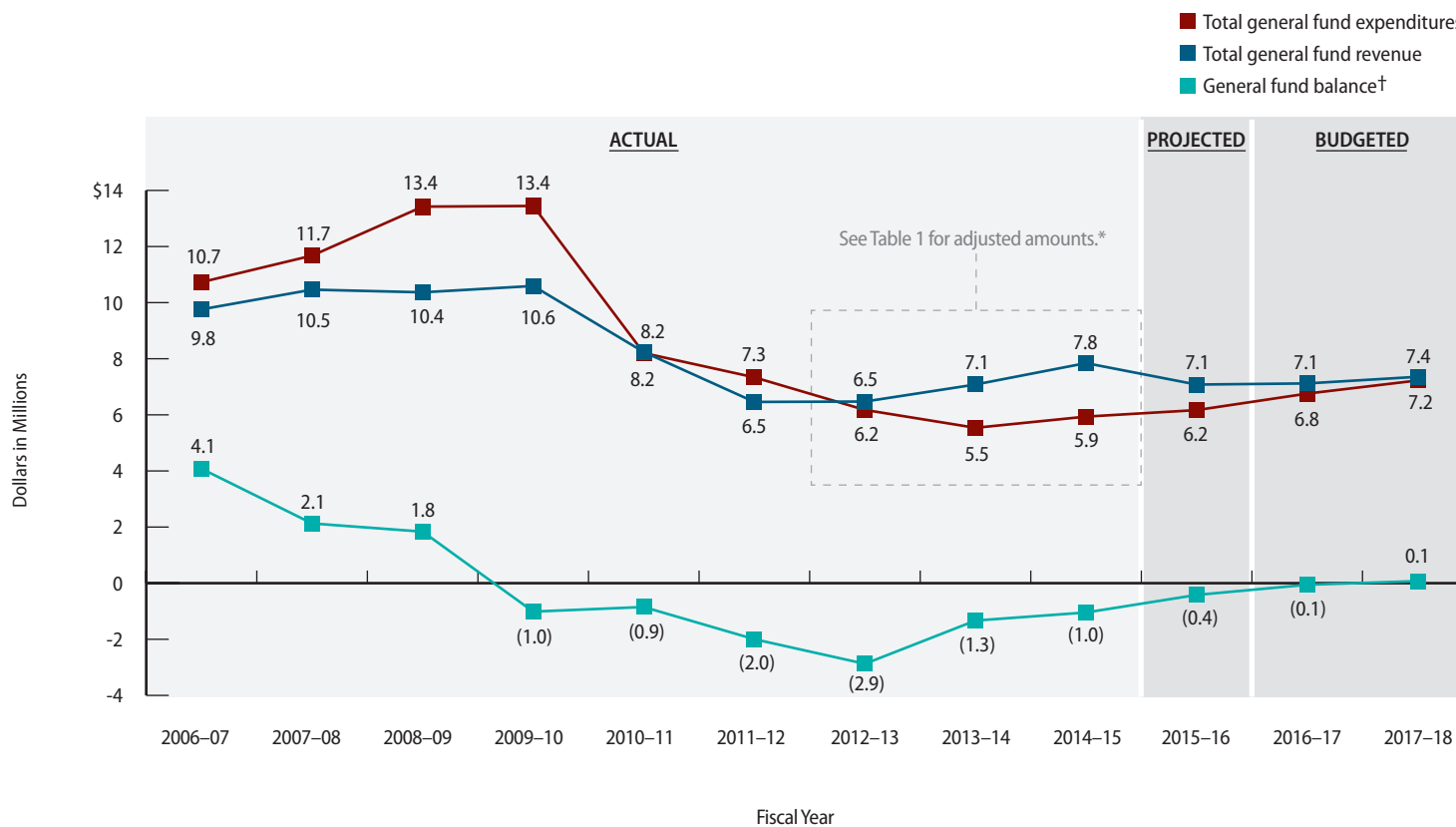
Maywood Lacks Resources to Pay Significant Debts That Remain Overdue

Since exhausting its general fund balance in fiscal year 2009–10, Maywood has accumulated more than \$15 million in overdue debt, which is more than twice its annual operating costs, and it has no formal

repayment plan. As shown in Figure 5 on the following page, Maywood's history of overspending began before the Great Recession that started in December 2007. According to statements made in a budget document by Maywood's former chief administrative officer, the city's rapid growth in service, operations, and personnel costs led to the overspending before 2008. That same year, the city hired a financial adviser who recommended reducing spending, addressing the city's pension liability, and improving its accounting and budgeting practices. However, Maywood continued to overspend in fiscal years 2008–09 and 2009–10, consuming the remaining general fund—the city's primary operating fund—balance and plunging the fund into a deficit, which persisted during the following five fiscal years. As a result, in each of those five fiscal years, the city's financial auditor expressed substantial doubt about the city's ability to continue its operations because insufficient financial resources were available to meet its obligations when due.

Although Maywood recently reversed the trend of overspending, its general fund continues to have a deficit because the city recognized in its financial statements certain overdue debts. For example, the State Controller's Office (State Controller) determined that Maywood must repay \$2.6 million that a former redevelopment agency (now successor agency) transferred to the city in June 2011 and January 2012 because the transfers were unallowable under state law. This debt has contributed to the persistence of the general fund deficit because the city recorded the debt in its financial statements in fiscal year 2012–13.

Figure 5
 Maywood’s Continuous Overspending Led to Its General Fund Deficit



Sources: Maywood’s audited annual financial statements (fiscal years 2006–07 through 2014–15) and adopted biennial budget (fiscal years 2016–17 and 2017–18), which includes projections for fiscal year 2015–16.

* Revenue and expenditures in fiscal years 2012–13 through 2014–15 included non-recurring revenue and/or excluded required pension contributions, which masked Maywood’s true financial condition. See Table 1 for adjusted amounts.

† The general fund balance is affected by transactions other than revenue and expenditures, including transfers with other funds and adjustments for prior-year errors as well as implementation of new accounting standards.

Maywood's response to the State Controller expressed a disagreement with the assessment, however, the city has not taken any steps to challenge the results of the assessment. According to the former city manager, the city has been waiting for a resolution between the State and other cities in similar situations before taking any further steps. As a result, Maywood has not made a single payment toward this debt or successfully negotiated a repayment plan, leaving the city indebted for the full \$2.6 million three years after the initial assessment.

Although revenue began to exceed expenditures in fiscal year 2012–13, as shown in Figure 5, this apparent improvement in the city's financial situation was primarily driven by Maywood's receipt of nonrecurring revenue and its failure to pay its required pension contributions. The city received \$800,000 and \$1.1 million in fiscal years 2013–14 and 2014–15, respectively, in legal settlements and exchanges of funds with neighboring cities. These exchanges occurred when Maywood—in following a practice allowed by Los Angeles County, which awards these funds—traded restricted funds it would have had to spend on public transportation for a reduced amount of funds it can spend on general operating expenditures.

Further, Maywood did not make \$2.2 million in required pension payments, as shown in Figure 6 on the following page, to the

(California Public Employees' Retirement System (CalPERS) from fiscal years 2012–13 through 2014–15 for its inactive safety retirement plan, which includes former employees of the now-dissolved Maywood Police Department. Moreover, the city did not record this debt in its general fund until fiscal year 2014–15. As shown in Table 1, adjusting Maywood's revenue and expenditures to remove the effect of the nonrecurring revenue and missed pension payments significantly narrows the margin of general fund revenue over expenditures for this three-year period.

By failing to make the required pension contributions, Maywood has also jeopardized pension benefits it promised to its former employees. Although Maywood disbanded its police department in 2010, making its safety retirement plan inactive, the city is still required to make regular payments for this plan to CalPERS. The city began to make payments for these pension benefits in fiscal year 2015–16, but the liability has grown to \$2.7 million because Maywood paid only a portion of its required pension contribution that year, as shown in Figure 6. According to the assistant division chief of CalPERS' Financial Reporting and Accounting Services Division, CalPERS, whose collections unit is currently pursuing these overdue obligations, warned Maywood that termination of the plan is one of the potential consequences of the city's failure to repay missed pension

Table 1
Maywood's Revenue and Expenditures Adjusted for Non-Recurring Revenue and Missed Pension Contributions (Dollars in Millions)

FISCAL YEAR	BEFORE ADJUSTMENTS			AFTER ADJUSTMENTS*		
	REVENUES	EXPENDITURES	SURPLUS (DEFICIT)	REVENUES	EXPENDITURES	SURPLUS (DEFICIT)
2012–13	\$6.5	\$6.2	\$0.3	\$6.5	\$6.9	\$(0.4)
2013–14	7.1	5.5	1.6	6.3	6.2	0.1
2014–15	7.8	5.9	1.9	6.7	5.9	0.8

Sources: Maywood's audited annual financial statements and general ledger reports (fiscal years 2012–13 through 2014–15).

* We adjusted revenue in fiscal years 2013–14 and 2014–15 by removing the nonrecurring amounts the city received from legal settlements and exchanges of funds. We also adjusted expenditures in fiscal years 2012–13 and 2013–14 by increasing them by the amounts of missed pension contributions. Fiscal year 2014–15 expenditures already include the missed pension contribution for that year.

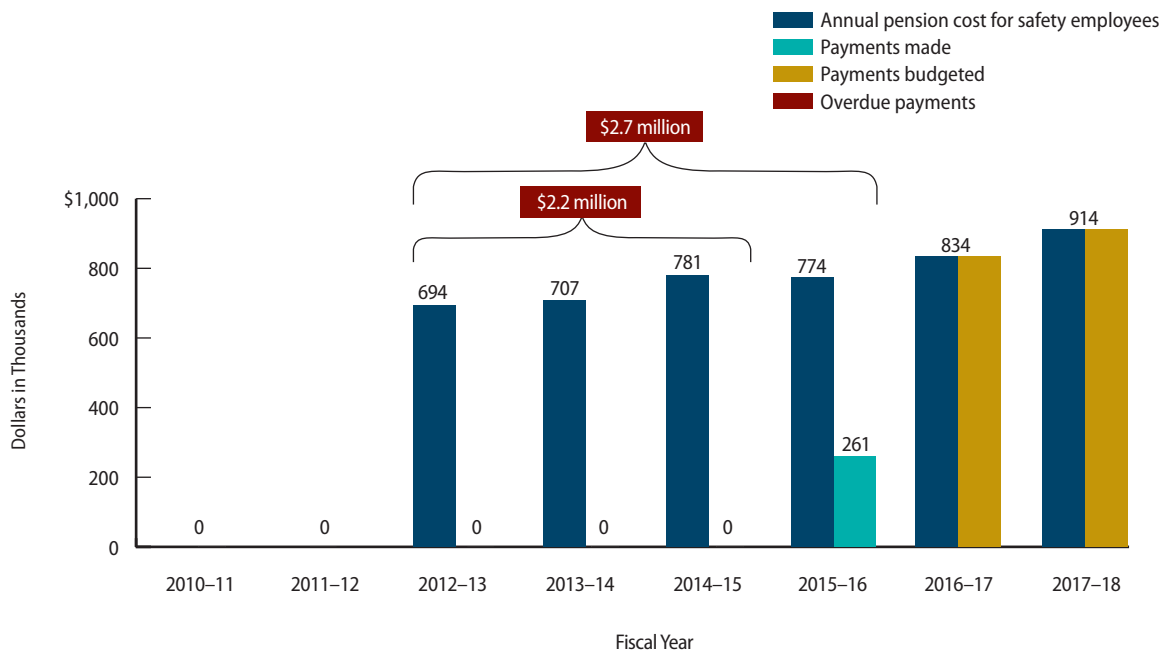
contributions and that it should restart regular payments for its inactive safety retirement plan. The assistant division chief further stated that if the plan is terminated, CalPERS will begin paying reduced pension benefits to Maywood’s former employees enrolled in the plan. The interim city administrator asserted that the city fully intends to pay the missed pension contributions.

Without maximizing its revenue and better controlling its spending, Maywood is unlikely to repay its debts and rebuild its general fund reserve—a critical buffer needed to protect services for residents during an economic downturn. As Table 1 indicates, removing the nonrecurring revenue and factoring in the cost of the missed pension payments reveal overspending instead of savings in fiscal year 2012–13 and a narrowing of the margin of general fund revenue over expenditures in the subsequent two fiscal years. Similarly, as shown in Figure 5, Maywood’s budget

for fiscal years 2016–17 and 2017–18, which includes future required pension payments and excludes one-time revenue, forecasts that the city will use nearly all of its annual revenue to cover recurring expenses, leaving little room for payments toward its substantial overdue debts.

In fact, Maywood’s large overdue debts continue to threaten its financial stability. If its creditors were to demand an immediate repayment in full, the city would be unable to continue paying for its ongoing operating expenses. Still, the city will have better control over its financial future if it negotiates a realistic repayment plan for each of the three overdue obligations and makes consistent payments until it satisfies those obligations. Maywood nevertheless has not included in its biennial budget sufficient payments toward its overdue debts. The city budgeted annual payments of only \$100,000 toward the \$2.6 million that the State Controller has determined it owes the

Figure 6
Maywood Repeatedly Missed Required Pension Contributions for Its Inactive Safety Retirement Plan



Sources: Maywood’s audited annual financial statements (fiscal years 2010–11 through 2014–15), adopted biennial budget (fiscal years 2016–17 and 2017–18), CalPERS 2013 and 2014 actuarial valuation reports, and Maywood’s CalPERS statement.

successor agency. In addition, while Maywood's budget includes required pension payments for its inactive safety retirement plan that are due in fiscal years 2016–17 and 2017–18, the budget does not reflect the more than \$2.7 million it owes CalPERS for previously missed payments. In August 2016, the city proposed a repayment plan to CalPERS; however, according to the interim city administrator, Maywood is still negotiating the specific terms of the plan.

Further, Maywood owes the Insurance Authority \$10.3 million stemming from civil lawsuits against the city's dissolved police department related to officer misconduct. According to the Insurance Authority director of finance, the Insurance Authority canceled Maywood's general liability and workers' compensation insurance coverage in 2010 because of accumulating lawsuits and the city's insufficient progress toward mitigating risks and preventing additional general liability claims. The director of finance stated that he had engaged the former city manager in extensive negotiations regarding the \$10.3 million liability, but they did not reach a formal agreement before the former city manager's departure in December 2015. Maywood recently restarted discussions with the Insurance Authority but has not yet negotiated a final repayment plan. The Insurance Authority agreed to meet periodically with the city while Maywood makes nominal monthly payments of \$10,000. Although these payments represent an important first step, Maywood will need to significantly increase its payments to address this debt effectively, as it would take the city 86 years to pay off the debt at this monthly rate, assuming no interest charges on the debt.

In addition to the pressure created by these overdue debts, Maywood is facing a 44 percent increase in total required CalPERS pension contributions over the next five years. As shown in Figure 7 on the following page, Maywood's annual retirement contributions for its inactive safety retirement plan and its active miscellaneous retirement plan for city employees and elected officials total

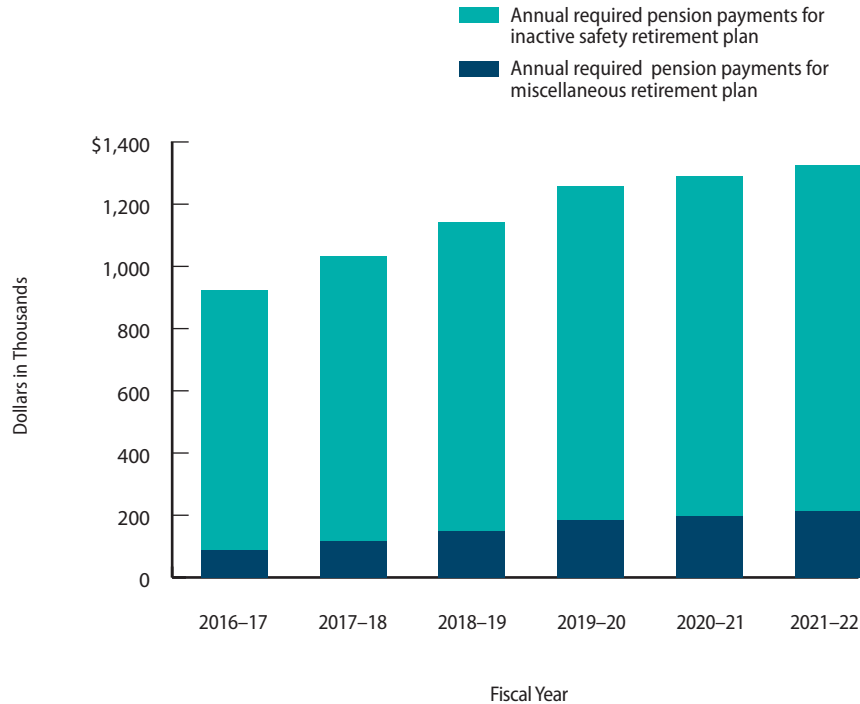
\$921,000 and \$1 million in fiscal years 2016–17 and 2017–18, respectively. These contributions represent 14 percent of budgeted general fund spending. Further, Maywood's required pension contributions are scheduled to increase to \$1.3 million by fiscal year 2019–20, with slight increases continuing through fiscal year 2021–22. These changes will put further pressure on Maywood's general fund. Although Maywood has budgeted full payment for the annual required pension contributions for its inactive safety retirement plan and its active miscellaneous retirement plan in fiscal years 2016–17 and 2017–18, the city will be challenged to find additional funds to cover rising pension costs or to reduce spending elsewhere, potentially affecting the level of services it provides to its residents.

Maywood can partially offset the cost of its retirement plan for miscellaneous employees by requiring its staff and elected officials to begin contributing to the costs of their retirement benefits. Currently, the city pays both the employer's share and the employees' share of these costs. Maywood's spending on current employee contributions in fiscal year 2014–15 was about \$25,000, and the city will be paying higher amounts starting in 2016, when it adds several newly hired employees to the miscellaneous retirement plan.

Recommendations to Address This Risk

To begin addressing its overdue debts and to avoid the accumulation of further debt, Maywood's city council should ensure that the city does the following:

- Develop a plan that includes funding sources and a realistic timetable for repaying the Insurance Authority, its successor agency, and CalPERS.
- Begin requiring its city council members and city staff to pay the employees' share of their retirement benefit costs.

Figure 7**Maywood's Required CalPERS Pension Contributions Will Grow by 44 Percent Over the Next Five Years**

Source: CalPERS actuarial valuation as of June 30, 2014.

Maywood's Inadequate Budgeting Practices Exacerbated Its Poor Financial Condition

The poor quality of Maywood's budget documents has diminished the city council's ability to make informed decisions about the city's finances. We assessed Maywood's four biennial budgets for fiscal years 2010-11 through 2017-18 using criteria established by the Government Finance Officers Association, an organization that promotes best practices in government finance. As Table 2 indicates, the city's budgets lack consistency and certain components critical for understanding the city's financial position. For example, only two of the four budgets include a complete budget message that highlights the principal issues facing Maywood, and none of the budgets fully articulates either the city's financial policies, which should form a foundation for budgeting decisions, or its long-range

plans to fund its significant overdue financial obligations. Maywood also failed to provide any information about the impact of budgeted revenue and expenditures on fund balances in its 2014-15 and 2015-16 biennial budget even though such information is particularly important given the persistent deficit in the city's general fund. Nonetheless, the city council continued to approve these inadequate budgets without requesting revisions, thereby failing to oversee this critical financial function effectively.

These deficiencies stem from the city's lack of formalized budgeting processes or procedures, a budget template constructed in accordance with best practices, and a timeline for the development and approval of the city budget. The city's current accounting policies, adopted by the city council in November 2014, do not contain any information concerning the budgeting process.

Table 2
Maywood’s Inconsistent Budget Documents Lack Critical Components

BUDGET COMPONENT	BIENNIAL BUDGET DOCUMENTS FOR FISCAL YEARS			
	2010-11 2011-12	2012-13 2013-14	2014-15 2015-16	2016-17 2017-18
	DOES THE BUDGET DOCUMENT MEET THE CRITERIA OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION?			
Table of contents	○	●	◐	●
Budget message outlining priorities and issues for the upcoming year	○	●	◐	●
Overview of significant budgetary items and trends	○	●	○	◐
Organizational chart	●	●	○	○
Statement of long-term financial policies	○	◐	◐	◐
Description of the process for preparing, reviewing, adopting, and amending the budget	◐	○	○	○
Summaries of major budgeted revenue and expenditures	●	●	●	●
Summaries of revenue and expenditures for the prior year; estimated or budgeted expenditures for the current year, and the budget year	●	●	◐	●
Projection of changes in fund balances	◐	◐	○	◐
Descriptions of and assumptions about major revenue sources and discussion of significant revenue trends	◐	◐	◐	○
Summary and description of capital expenditures	◐	●	◐	◐
Financial data on debt obligations, information about current debt levels and legal debt limits, and data on current operations	◐	◐	◐	◐
Schedule of personnel or position counts for prior, current, and budget years	◐	◐	◐	◐
Description of activities carried out by organizational units	◐	◐	◐	●
Totals				
Yes	3	7	1	5
No	4	1	4	3
Partial fulfillment of criteria	7	6	9	6

Sources: Government Finance Officers Association’s Mandatory Criteria for the Distinguished Budget Presentation Awards Program and Maywood’s adopted biennial budgets (fiscal years 2010–11 through 2017–18).

- = Yes
- = No
- ◐ = Partial fulfillment of criteria

The lack of documentation of Maywood’s budgeting process leaves the city particularly vulnerable in the event of staff turnover, which occurred in spring 2014 when Maywood should have been preparing the biennial budget for fiscal years 2014–15 and 2015–16. According to the accounting supervisor, the city hired a contractor to work on the city budget around May 2014, but he left before finishing the budget, which was already behind schedule. The accounting supervisor explained that to avoid further delays, the city simplified its budget by

consolidating reporting within three types of activities—general government, community services, and community development—and by removing overviews of various sections of the budget. As shown in Table 2, the biennial budget for fiscal years 2014–15 and 2015–16 ranks most poorly out of the four budgets we reviewed, and its contents were insufficient to make it useful for management and the city council. The former city manager was also three months late in presenting the budget for the city council’s approval, causing Maywood to operate using the previous budget well into

the new fiscal year. Had the city implemented a proper budgeting process, it could have mitigated the effects of staff turnover on budget preparation, and it could have submitted in a timely manner a complete budget document.

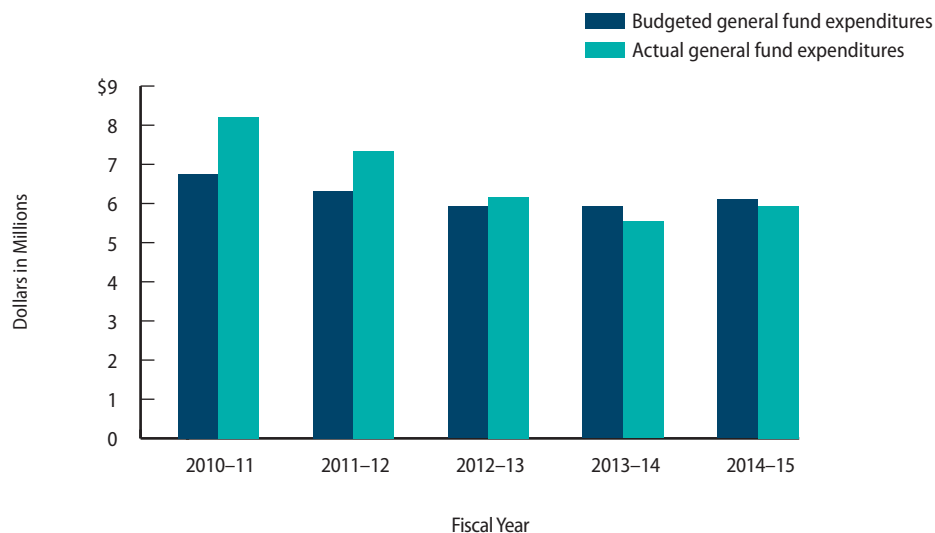
In addition, Maywood has not consistently used the budget for its intended purpose of guiding the city's spending decisions, and this failure has led to overspending that further deepened the city's general fund deficit. According to the accounting supervisor, the city spends funds as needed based on the invoices it receives during the current period regardless of the amounts of disbursements authorized in the budget. As a result of the former city manager's failure to implement adequate controls over its expenditures, Maywood's general fund spending exceeded budgeted amounts in fiscal years 2010–11 through 2012–13, or three out of the five fiscal years we reviewed, as shown in Figure 8. Despite the requirement to obtain the city council's approval to exceed original appropriations, the former city manager did

not request any budget amendments for these three fiscal years. Consequently, the excessive spending in fiscal year 2011–12 alone, when the city's spending exceeded incoming revenue, contributed nearly \$1 million to the growth in Maywood's general fund deficit. The city council did not request periodic reports that would have allowed it to monitor actual expenditures against the budgeted amounts.

Maywood also missed opportunities to improve its financial condition because city management did not effectively monitor its revenue and cash. For example, the accounting supervisor stated that due to limited staffing, the city has not always monitored its cash balances and does not regularly compare actual revenue to the budget. As Figure 9 indicates, in four of the past five fiscal years, actual general fund revenue exceeded budgeted amounts. The excesses during fiscal years 2012–13 through 2014–15 were caused primarily by the city's receiving nonrecurring revenue from fund exchanges and legal settlements, as we describe on page 17. Consequently, Maywood

Figure 8

Maywood's Actual General Fund Expenditures Exceeded Budgeted General Fund Expenditures in Three of Five Fiscal Years



Sources: Maywood's audited annual financial statements and its adopted biennial budgets (fiscal years 2010–11 through 2014–15).

accumulated a cash balance, which grew from \$269,000 to \$3.9 million over the same three-year period.

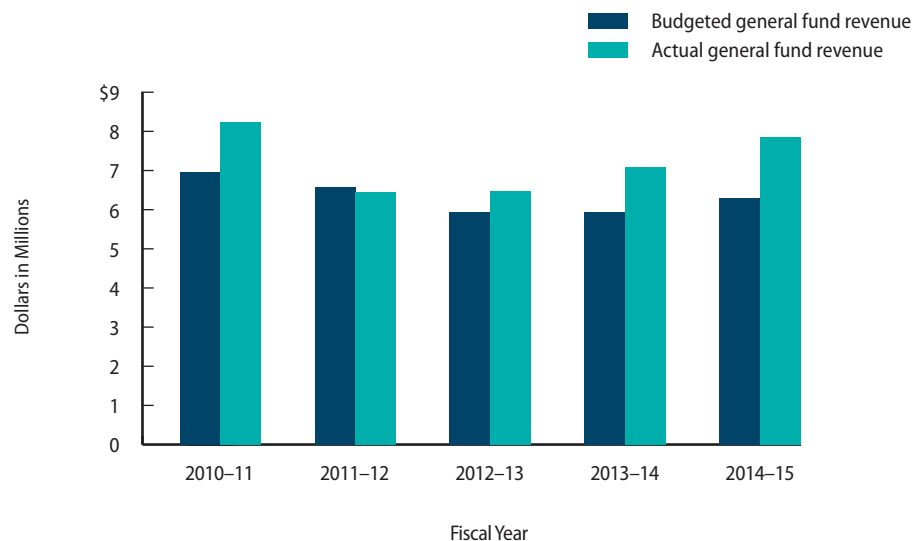
Despite the increase in its cash balance, Maywood did not address existing and newly created liabilities. For example, Maywood failed to make required annual pension contributions for its inactive safety retirement plan with CalPERS. Because Maywood did not make these payments, it unnecessarily accrued a new \$2.2 million liability to CalPERS at the end of fiscal year 2014–15, and, as shown in Figure 6; this liability further increased to \$2.7 million in fiscal year 2015–16. Although the city should maintain a cash reserve sufficient for funding ongoing operating expenses, Maywood’s considerable cash balance still would have allowed the city to partially or fully pay the annual pension contributions or to begin addressing its other overdue obligations to the Insurance Authority (\$10.3 million) or to the successor agency (\$2.6 million).

According to the accounting supervisor, the previous two temporary accounting workers had fallen nine months behind in completing fiscal year 2013–14 bank reconciliations, so Maywood was not paying its bills on time because it did not know how much cash was available. She explained that from the time she joined the city in May 2014 throughout fiscal year 2014–15, she focused on ensuring timely payment for ongoing operational expenses as opposed to paying large outstanding debts. Further, the former city manager told us that she was unaware that the city had not made the payments to CalPERS until we brought these missed payments to her attention during our preliminary assessment in July 2015. This lack of awareness is surprising given that Maywood’s financial statements clearly disclose the liability for missed pension payments.

Recently, Maywood has taken steps to begin to improve its budgeting process. After a change in administration in December 2015, the city hired a financial consultant to develop

Figure 9

Maywood’s Actual General Fund Revenue Exceeded Budgeted General Fund Revenue in Four of Five Fiscal Years



Sources: Maywood’s audited annual financial statements and its adopted biennial budgets (fiscal years 2010–11 through 2014–15).

its two-year budget for fiscal years 2016–17 and 2017–18 and to assist in other financial matters. In May 2016, the city council approved the budget in a timely manner. We reviewed the revenue and expenditure projections in this budget and determined that they are reasonable. In addition, for the first time since the safety retirement plan with CalPERS was inactivated, Maywood budgeted for the full annual required contributions for the plan. The city also budgeted for the \$10,000 monthly payments to the Insurance Authority. However, the city still lacks a long-range plan for paying off its significant overdue obligations, and it should develop a plan that identifies the funding sources and timetable for paying off these debts. By implementing a multiyear fiscal planning framework—including policies, revenue and expenditure projections, long-term debt affordability analysis, and a multiyear budget for its capital improvement program—as recommended by the Government Finance Officers Association—the city would better inform its decision-making process and help maintain its commitment to Maywood’s residents, creditors, and other stakeholders.

Recommendations to Address This Risk

Maywood city management should develop and implement effective budgeting policies and procedures to ensure the following:

- Budget documents conform to best practices, such as those issued by the Government Finance Officers Association.
- Timely presentation of budgets for the city council’s approval.
- Continuous monitoring of actual expenditures against the budget, and seeking city council approval of budget augmentations when necessary.
- Monitoring of the differences between actual and budgeted revenue and expenses, and developing plans for the use of any excess cash.
- Development of a comprehensive framework for multiyear fiscal planning to better inform its decision-making process. This framework should identify the funding sources and timetable for paying off its long-standing debts.

Maywood’s city council should regularly request reports from city management showing a comparison of budgeted to actual expenditures to ensure the city does not exceed appropriation levels in the approved budgets. Additionally, the city council should request reports showing a comparison of budgeted to actual revenue so that it can monitor revenue throughout the year and decide how to use any excess revenue.

Ineffective Controls and Understaffing of Maywood’s Parking and Code Enforcement Functions Resulted in Significant Losses of Revenue for Maywood

Maywood did not maximize collection of revenue from multiple sources, thus forgoing opportunities to improve its poor financial condition. We assessed Maywood’s practices affecting several revenue-generating functions, including parking enforcement, business licensing, property management, building permitting, and waste management. We found that the city lost large amounts of revenue due to understaffing, significant weaknesses in controls, and poor management of those revenue-generating functions, further impairing Maywood’s ability to recover from its financial difficulties.

For example, Maywood’s lack of sufficient staff to enforce its parking laws has resulted in significant lost revenue from parking citations that Maywood never issued or payments that it did not collect. Using Maywood’s parking

citation data from October 2015 through June 2016, we determined that the city issued nearly 4,700 parking citations worth a total of \$260,000. We estimate that at this rate the city has been issuing about \$370,000 in citations per year. However, Maywood could likely issue many more citations if it had more parking enforcement staff. According to city staff, since October 2010 Maywood has employed only one parking enforcement officer who has worked 32 hours per week during weekdays but not on weekends. We found that the parking officer generally has covered some city blocks only once per week. Because Maywood has enforced its parking laws for only a limited number of hours, it has probably reduced the amount of parking fees it could assess. More optimal staffing of the parking enforcement function would have allowed Maywood to provide more complete coverage of the city, enabling multiple officers to work through different areas of the city at the same time and to extend parking enforcement into late afternoon and evening hours as well as on weekends.

After we brought this issue to the attention of the interim city administrator, he hired one additional part-time parking enforcement officer, who began covering weekends in addition to weekdays. During the first weekend, this officer wrote 75 citations totaling nearly \$5,000. Although this amount might have been unusually high because residents were likely unaware that the city would enforce parking laws on the weekends, this number of citations still indicates the potential for Maywood to generate significant additional revenue by deploying more parking enforcement officers. Further, Maywood's efforts to strengthen its parking enforcement function will potentially increase existing revenue from sales of parking permits: as residents notice more regular enforcement, they will be more likely to purchase parking permits. In fiscal year 2014–15, Maywood collected \$74,000 in parking permit revenue.

In addition, Maywood needs to improve its subsequent collection of parking citation revenue. Despite Maywood's adoption in October 2015 of a new parking citation system with more functionality, as of June 2016, Maywood had not collected more than \$177,000 in unpaid tickets issued since October 2015 and associated late fees. This amount reflects a collection rate of only 44 percent of \$260,000 in issued parking citations and \$55,600 in related late fees.

Maywood needs to improve its subsequent collection of parking citation revenue.

However, Maywood's collection rate was likely worse before it switched to the new system. According to Maywood's parking enforcement officer and permit technician, the city's old parking citation system's handheld units used by parking enforcement officers took poor-quality photographs, causing the city to dismiss many contested citations because the city lacked adequate evidence of the violations. Additionally, city staff explained that for two years they experienced technical difficulties with the old system, which at one point resulted in the city's having to write tickets by hand for at least three months. The staff members noted that during that time the city could not track citations and only knew that an officer had issued a ticket when the violator appeared to pay the fine. Since fully transitioning to its new system, Maywood has gained access to an additional functionality that should increase collection rates: in addition to reporting delinquent citations to the Department of Motor Vehicles, a functionality that was also available in the old system, the new system can transmit data to the Franchise Tax Board, which can then deduct the fines and late fees from any tax refund that vehicle owners with delinquent

citations would otherwise receive. However, until we inquired about this feature, the city did not take advantage of the system's ability to transmit information on delinquent citations to the Franchise Tax Board, and the neglect of this reporting functionality may partially explain the 44 percent collection rate. Finally, Maywood was able to submit old citation data to the company that administers the new database to enable collections on overdue citations issued through its previous system. As of August 2016, however, the company had yet to make the old data available to the city through the new parking citation database.

Significant weaknesses in Maywood's business license program also resulted in reduced collections of revenue. Maywood's municipal code requires all businesses operating within the city to pay an annual business license fee largely based on a progressive tiered system in which businesses that generate more revenue pay higher fees. Fees range from \$50 for businesses with revenue of less than \$10,000 per year to \$2,000 for businesses with revenue exceeding \$2 million per year. In fiscal year 2014–15, Maywood collected \$188,000 in revenue from sales of business licenses. However, because Maywood's code enforcement officer works limited hours—approximately four hours per week—Maywood cannot reasonably ensure that all city businesses have licenses. To determine whether Maywood was missing opportunities to collect revenue from business license fees, we spent an hour using Google Street View, a popular mapping technology, to identify businesses operating within city limits. We then compared those results to Maywood's list of 535 currently licensed businesses and 555 currently licensed rental properties, including apartments, included in Maywood's business licensing database.

Using this simple exercise, we identified eight businesses and one apartment that were not in Maywood's business licensing database and that city staff later confirmed were operating without business licenses. One of

the businesses that did not have a license—a popular national sandwich franchise—was located just one block from Maywood's city hall. After we informed Maywood about the results of our review, city staff issued several notices of violation and immediately collected nearly \$3,000 from three of the businesses that had operated without business licenses.

The results of our limited review indicate that Maywood likely has many more businesses operating without current business licenses. In fact, during our review of six of the city's contracts, we identified two more businesses that did not have business licenses. One was an engineering firm, Willdan Group, Inc., that served the city for more than five years and the other was a legal firm, Best Best & Krieger, LLP, that provided special legal services to the city. Maywood's failure to ensure that even its own contractors possessed a business license highlights the extent of lax control over this important revenue-generating function.

Maywood's failure to ensure that even its own contractors possessed a business license highlights the extent of lax control over this important revenue-generating function.

Businesses operating in Maywood must submit a form to obtain a business license. However, because the amount of the license fee is generally based on reported revenue, business owners can reduce their license fees if they underreport their total revenue when applying for a license, potentially causing Maywood to undercollect even from those businesses that register with

the city. Despite this possibility, Maywood does not require business owners to provide any supporting documentation for reported revenue amounts. In addition, Maywood has no formal policies or procedures governing the licensing process; therefore, it conducts only limited follow up with delinquent business owners. In addition, even when Maywood is aware of a business within city limits, it does not always collect the revenue that the city is due. According to the city's business license database, as of March 2016, 167 businesses known to Maywood were delinquent in their payments of license fees. Although some of these businesses may no longer be in operation, a significant number of them likely remain active. In the year before they became delinquent, these businesses paid a total of \$19,000 in business license fees.

Maywood also generates revenue by leasing city property, but it has failed to collect more than \$60,000 in rent revenue and late fees since 2012. Lessees are contractually required to make monthly payments to the city in exchange for the use of city property, and late fees are triggered when a lessee is delinquent. The four properties that Maywood leases to other entities should generate a total of \$75,000 in annual revenue. We reviewed the two largest properties: an industrial property that the city leases to its maintenance contractor, V & M Iron Works (V & M), and a field it leases to a softball league, Latin and American Men's Softball League. In the case of the industrial property, V & M made only one of its lease payments on time in more than three years, and city staff failed to assess a \$250 late fee on each of the 42 late payments—forgoing \$10,500 in late fees. Using the city's accounting records, we also determined that the maintenance contractor made its lease payments to Maywood only sporadically since leasing the property in late 2012, resulting in \$37,500 in outstanding lease payments. Maywood did not collect these outstanding lease payments until we brought this issue to the attention

of the interim city administrator. Although V & M still owed \$10,500 in late fees, the interim city administrator explained that during negotiations, the city waived these fees in an attempt to secure the full payment of the delinquent lease payments. A V & M representative stated that he did not make regular lease payments because the city was not paying for services his firm provided to Maywood. Further, Maywood continued to allow V & M to occupy the property for two years after the initial contract expired, a situation that may have contributed to the ongoing collection problems by signaling to the lessee that the city was not strictly monitoring or enforcing its contracts.

In the case of the softball field, the Latin and American Men's Softball League failed to make a single on-time payment in the nearly three years it leased the property. We determined that the lessee owes Maywood \$9,000 in outstanding lease payments and \$3,500 in late fees. After we questioned Maywood staff in April 2016 about these overdue amounts, the interim city administrator contacted the lessee, who contested the amount due but the city has yet to achieve a resolution of this matter. Maywood's failure to monitor its leases adequately and to ensure that it collects lease payments promptly is in large part due to the fact that it has no written policies or procedures related to its leases, and it is uncertain as to who is even responsible for monitoring leases. In fact, the accounting supervisor stated that the city only recently implemented the practice of sending lessees invoices each month.

We also found that Maywood has not updated its building permit fees or even performed a fee study in eight years, and this failure to reevaluate fees has resulted in yet another loss of revenue. In contrast, Los Angeles County ties fees related to building and planning services to the rate of inflation and reassesses them annually. These recurring adjustments allow Los Angeles County to ensure that it

is recouping the costs of its services, such as providing building plan approvals and issuing electrical permits. We subsequently shared our concerns about this issue with Maywood's planning director, and about one month later, in June 2016, Maywood's city council adopted Los Angeles County's fee schedule. As we show in Table 3, adopting Los Angeles County's fee schedule resulted in increases in some of Maywood's fees; the new fee increases ranged from 32 percent for a commercial building alteration to more than 100 percent for a replacement of an electric service panel.

Finally, we reviewed payments Maywood received from its waste management contractor, Republic Services, Inc., to determine if those payments, which in fiscal year 2014–15 amounted to about \$200,000, complied with the contract's terms. We conducted this testing using the contract contained in Maywood's file, which had an effective date of November 1995 and according to its terms, automatically extended annually after its expiration date until the city acts to cancel the contract. Maywood's waste contractor picks up garbage from all residential and commercial locations in the city and collects payments from these customers for its services. Maywood's copy of the contract with Republic Services specifies that it will pay Maywood 10 percent of its collections for residential customers and 12 percent for commercial customers. However, we found

that for the last five years, Republic Services paid Maywood only 10 percent of the revenue it collected from both types of customers, an amount that appears to indicate that the contractor has been substantially underpaying the city.

Maywood only had the 1995 Republic Services contract on file; however, following our fieldwork and our exit conference with the city, city staff sent us a more recent version of the contract with an effective date of April 1999 that staff members had just obtained from the vendor. This contract specifies that Republic Services will pay Maywood 10 percent of the payments collected from all types of customers. Nevertheless, because the city itself did not have a current copy of the Republic Services contract with the correct payment terms, Maywood had no way of knowing whether this contractor had been remitting the correct amount of payments going back to 1999. Conceivably, Republic Services could have been underpaying the city significantly for years, and the city would not have noticed because it has not had any process in place to ensure that the contractor remitted the full amount due according to the terms of the contract. Because Maywood has not maintained current copies of this contract, it also has had to take the vendor's word that the 1999 contract is, in fact, the most recent version.

Table 3
Increases in Building and Planning Fees After Maywood Adopted Los Angeles County's Fee Schedule

SAMPLE PROJECT	PRIOR FEE FOR PERMIT	NEW FEE FOR PERMIT	PERCENTAGE INCREASE IN FEE
Replacement of residential roof (\$7,000 cost)	\$220	\$294	34%
Alteration of commercial building (\$50,000 cost)	991	1,309	32
Construction of new home (\$250,000 cost)	4,055	7,431	83
Replacement of water heater	26	46	77
Installation of wall furnace	30	58	93
Replacement of electric service panel	35	70	100

Sources: Maywood's prior building and planning fees and the Los Angeles County code of ordinances.

Recommendations to Address This Risk

To maximize revenue and improve its financial condition, Maywood should do the following:

- Evaluate its staffing needs for the parking enforcement and code enforcement functions, and add positions to maximize its capacity to collect revenue from parking citations and business license fees.
- Develop a process to ensure that all businesses operating within city limits, including its contractors, have valid business licenses. For example, Maywood should consider hiring an outside vendor to identify businesses that are operating in the city without valid business licenses. Maywood should structure such a contract so that it pays the vendor only a percentage of the additional revenue generated from businesses that it identifies as operating without valid business licenses.
- Require business owners to provide supporting documentation for their reported revenue that the city uses to calculate the cost of the business license.
- Implement policies and procedures to ensure the effective management of its leases, including timely renewals of lease contracts and cancellations in the case of a breach. Additionally, Maywood should develop controls to help ensure that it receives lease payments on time and that it assesses and promptly collects late fees for delinquent payments.
- Continue to follow up with the new parking citation system's vendor to ensure that it promptly uploads Maywood's old parking citation data into the new system.
- Ensure that it maintains current copies of its contracts with all vendors and lessees, including its waste contractor.
- Review all past payments received from Republic Services to ensure that it complied with the terms of the appropriate contract. If any underpayments are identified, Maywood should pursue the collection of those amounts to the extent possible.
- Develop a process to monitor all future payments from Maywood's waste contractor to ensure that they are in accordance with the terms of the contract.

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WEAK INTERNAL CONTROLS AND NONCOMPLIANCE WITH ITS MUNICIPAL CODE COMPROMISE MAYWOOD'S PROVISION OF BASIC SERVICES TO RESIDENTS

Maywood spent millions on contracts it did not subject to competitive bidding processes, thereby failing to ensure the cost-effectiveness of its expenditures. Moreover, the city failed to oversee its contracts effectively, allowing contractors to operate without requisite insurance policies, and it did not verify contractors' compliance with the State's prevailing wage laws. Its ineffective contract monitoring also allowed contracts for critical city services to expire.

Weaknesses in Maywood's internal controls over its accounting function have also exposed the city to the risk of fraud, errors, or abuse that may go undetected. Finally, Maywood's poor financial reporting practices have resulted in noncompliance with generally accepted accounting principles, and for years this noncompliance has prevented its external auditor from expressing an opinion on Maywood's financial statements. As a result, users of Maywood's financial statements for those years have had diminished assurance that those financial statements accurately reflected the city's true financial position at the time.

Maywood's Failure to Comply With State Labor and Local Contracting Laws Has Exposed It to Legal Liability and the Risk of Overspending

Maywood's city council and former city manager failed to oversee adequately the city's procurement of various services. Maywood has used contractors to perform many critical functions, with well over half of the city's general fund expenditures during the last five fiscal

years incurred for contracted services. Despite its reliance on contractors, Maywood frequently used a noncompetitive process to contract for vital city services, and thus it has not ensured the cost-effectiveness of those services. Maywood's municipal code specifically assigns to the city manager, or his or her designee as purchasing officer, the responsibility for overseeing the procurement function, and the municipal code establishes the goal of obtaining full and open competition for city purchases of goods and services. The executive assistant who has been with the city since 2010 stated that the city had neither employed an individual with the title of a purchasing officer nor designated an existing employee as such. However, as we demonstrate throughout this section, the former city manager failed to oversee procurement effectively, allowing numerous instances of noncompliance with competitive bidding requirements and with other provisions of the municipal code, state law, and the terms of Maywood's contracts with its service providers. The city council also failed to uphold its fiduciary responsibility to Maywood's citizens by repeatedly approving such contracts.

Maywood's municipal code requires the city to conduct a bidding process for professional services contracts of more than \$30,001. Additionally, any time the city amends a contract to increase compensation to more than \$30,001, the amendment is subject to the same requirement. The city has the option of either publicly posting a notice inviting bids or sending such an invitation to potential contractors of its choosing; under either option, the city must attempt to obtain three bids.

To determine Maywood's compliance with the contracting requirements contained in its municipal code, relevant state laws, and certain contract terms, we reviewed six of the city's contracts and related amendments. Maywood could not provide evidence that it had conducted the required bidding process on four occasions, as shown in Table 4.

Given Maywood's significant reliance on contracted labor, its noncompliance with the competitive bidding requirements affecting four of the six contractors we selected indicates a risk of overspending. For example, Maywood spent \$13 million on a four-year law enforcement contract with the Los Angeles County Sheriff's Department, but the city could not provide evidence that it had subjected the contract to a competitive selection process. The city entered into the contract shortly after disbanding its police department in June 2010. Although the

municipal code allows Maywood to forgo the bidding requirement in cases of emergency that have the approval of four-fifths of the city council, the city lacked the records necessary to demonstrate that the city council appropriately declared an emergency before signing the contract. Even if the city council had declared an emergency, we believe that the city should have entered into a short-term contract not to exceed one year and subsequently selected a contractor based on a competitive bidding process. Nonetheless, Maywood committed to a four-year contract before attempting to find out whether other law enforcement organizations could provide the same services at a lower cost.

Maywood also could not provide evidence that it conducted a competitive bidding process before it spent nearly \$1 million on legal services. Maywood entered into a contract with a legal firm, Best Best & Krieger, LLP,

Table 4
Maywood Did Not Always Solicit Competitive Bids When Awarding Contracts

SERVICES PROVIDED BY CONTRACTOR	DID MAYWOOD FOLLOW AND DOCUMENT THE REQUIRED BIDDING PROCESS?			PERIOD IN WHICH MAYWOOD'S VIOLATIONS OCCURRED	AMOUNT MAYWOOD SPENT ON CONTRACT THAT VIOLATED BIDDING REQUIREMENTS
	DID THE CITY ISSUE REQUEST FOR PROPOSALS OR QUALIFICATIONS CONTAINING REQUIRED ELEMENTS?	DID THE CITY RECEIVE PROPOSALS?	DID THE CITY CONDUCT A VALID ANALYSIS TO SELECT THE TOP BIDDER?		
Law Enforcement	No	No	No	July 2010 to June 2014	\$13,242,000
Special Legal Counsel	No	No	No	September 2010 to present	998,000*
Engineering	Yes [†]	Yes [†]	No [†]	January 2011 to June 2016	1,091,000*
Project Management	Yes	Yes	Yes	NA	NA
Accounting	No	No	No	May 2014 to present	72,000*
Citywide Maintenance	Yes	Yes	Yes	NA	NA

Sources: California State Auditor's analysis of Maywood's individual contracts, accounting data, and other related documents.

NA = Not applicable.

* We used a cutoff of June 2015 to quantify the amounts that Maywood spent on contracts that violated bidding requirements for special legal counsel and engineering because this was the most recent month for which audited financial statements were available. We were able to obtain copies of checks the city issued from June 2015 to present to support the full amount Maywood paid to the accounting contractor.

[†] Maywood issued a request for proposals (RFP) for various municipal services, including engineering, but the RFP lacked any of the details necessary to enable a contractor to submit an informed bid. Therefore, we consider Maywood's subsequent analysis of bids submitted in response to the RFP to be invalid.

in September 2010 partly to handle lawsuits against the city, including four specific lawsuits listed in the contract. The contract specified hourly rates with no cap on total compensation. Because Maywood ultimately paid the firm approximately \$700,000 in the first year of the contract, we believe the city should have reasonably expected contract expenses to surpass \$30,001. However, Maywood was unable to provide evidence that it conducted a competitive bidding process, as required by Maywood's municipal code.

Maywood also issued an extremely vague request for proposals seeking engineering services and therefore could not conduct a valid analysis to select the contractor. In 2011 Maywood contracted with an engineering firm, Willdan Group, Inc., to provide engineering services for the city, and it spent approximately \$1.1 million from 2011 through 2015 on this contract. Although the city had issued a request for proposals, the request was insufficiently detailed and did not include even a basic description of services that Maywood expected the contractor to provide.

Maywood was unable to provide evidence that it conducted a competitive bidding process, as required by Maywood's municipal code.

Specifically, in describing solicited services, the city's request for proposals stated only that Maywood was seeking services in "public works and engineering," and the request failed to provide any additional information. Because the request for proposals lacked any of the details necessary to enable a contractor to submit an informed bid, we

consider Maywood's subsequent analysis of bids submitted in response to the request for proposals to be invalid. Consequently, the city could not ensure that it selected the most qualified engineering firm at a competitive cost.

Finally, Maywood did not renew its written contract with Willdan Group, Inc., after the contract expired in January 2014. Instead, as evidenced by communications between the parties, it relied on an informal agreement with the contractor to continue providing services until terminated by either party. As we discuss further in this section, the city later terminated this contractor and hired a new engineering firm on an interim basis.

After employing a string of temporary workers to oversee the city's finances, in 2014 the city entered into a contract with a retired annuitant to manage the accounting function. Although the city previously spent more than \$100,000 annually on temporary accounting staff serving in the same role, the former city manager capped the contract with the retired annuitant at \$30,000, just below the threshold that would require a competitive bidding process and city council approval. This cap allowed the former city manager to make this hiring decision unilaterally. However, our review of Maywood's payment records revealed that the city ultimately paid the new accounting contractor \$72,000 over the last two years. According to the city's executive assistant, the former city manager did not amend the contract and failed to use a competitive process to solicit bids to obtain these accounting services, thus circumventing the requirements spelled out in the municipal code.

Furthermore, Maywood's weak financial condition—and its need for a well-qualified finance professional who has the skill set to administer the city's financial affairs, including the accounting, budgeting, collections, and financial reporting

functions—calls into question the wisdom of limiting to \$30,000 the overall compensation for the accounting manager position. Specifically, we believe that the former city manager diminished the city’s ability to find the best-qualified candidate for managing this critical function by capping the compensation at such a low level. Her decision resulted in the city’s contracting with an individual whose experience, by her own admission, was limited to budgeting and supervision of specific accounting and accounts payable functions (with a notable absence of financial reporting experience) in a neighboring city. Her status as a retired annuitant also restricted her to an annual limit of 960 hours, an amount that translates to just 18 hours per week—a limitation that could undercut the ability of even the most competent professional to successfully manage the city’s accounting functions. As other sections of this report explain, Maywood’s lack of skilled financial professionals has prevented the city from strengthening its accounting practices and controls and from improving its budgeting and financial reporting.

The circumstances surrounding the city council’s recent decision to hire a new engineering firm has also called into question the soundness of the city’s contracting decisions and has created the appearance of impropriety. Specifically, the city terminated its contract with Willdan Group, Inc. for engineering services, some of the most expensive services for the city, without a substantiated cause. In May 2016, the city council voted to hire on an interim basis a new engineering firm, ECM Group, Inc. (ECM), that was under investigation by a nearby city for overbilling. The staff report that city management provided to the city council made only a vague reference to concerns about the then-current level of engineering services and failed to describe in sufficient detail the reason why it recommended termination of the engineering contract in place at that time. The city council’s vote to hire the new engineering firm without competitive bidding followed

several failed attempts occurring five months earlier to replace the existing engineering contractor. The attempts are evidenced by repeated appearances of related action items on the agendas for three consecutive city council meetings in December 2015 and January 2016; however, none of these meetings took place because the city council lacked a quorum.

The circumstances surrounding the city council’s recent hiring decision . . . called into question the soundness of the city’s contracting decisions.

We also noted that shortly before the last city council election in November 2015, ECM made an allowable political contribution of \$250 to one of the newly elected city council members. Further, ECM employed an aggressive marketing tactic in pursuing business with the city right after the change in the council’s composition in December 2015. Specifically, the firm delivered to the just-appointed interim city manager a promotional packet that included a letter to the city council purported to be from the interim city manager with a recommendation to hire ECM as the new engineering firm. The interim city manager promptly communicated to the city council the fact that he did not write the letter, and he did not provide the letter for their consideration.

Nevertheless, the city council ultimately approved a three-month pay-per-service contract with ECM and bypassed the competitive bidding requirements, thereby failing to ensure the cost-effectiveness of expenditures related to this engineering contract. Given the significance of the

engineering contract—the previous contractor, Willdan Group, Inc., charged more than \$200,000 on average in each of the prior four years—we expected that Maywood would conduct a competitive process to secure long-term services from the most qualified contractor at a competitive price. In fact, ECM billed the city more than \$40,000 for just two months' worth of services, thus exceeding the \$30,001 threshold for the bidding requirement. The city council's initial attempts to change the contractor in December 2015 and January 2016, five months before the vote to hire the new engineering firm, demonstrate that Maywood had ample time to hire a new contractor using a competitive process, which would have included publicly posting a request for proposals and analyzing each submission to select the best candidate. However, the city council's decision to abruptly terminate Willdan Group, Inc., which had been performing engineering services for more than five years, and to replace that contractor with ECM, a firm that it did not adequately vet, at a minimum raises questions about the soundness of the city council's decision-making process and, at worst, creates an appearance of impropriety.

Had the city conducted a proper selection process and checked ECM's references, it might have learned about the firm's inappropriate billing practices. In June 2016, a month after the Maywood city council approved the new engineering firm's contract, auditors hired by a nearby city released a forensic report that detailed multiple instances of false billings by ECM. The principal of ECM admitted to creating fictitious timesheets to secure the maximum fee allowed under the contract with that city. In one of the examples documented by the auditors, ECM submitted invoices claiming that a single staff member worked as many as 25 to 27 hours in a single day. In another instance, the firm claimed that a staff member worked on city business for 70 hours during a four-day period—an amount of time that the auditors said strongly indicated false billing.

Finally, the city allowed ECM to begin work despite the absence of a signed contract. According to the interim city administrator, Maywood did not obtain a signed contract until August 16, 2016, six days after the contract expired.

Further, Maywood exposed itself to legal liability when it did not ensure that its contractors had insurance and that they were complying with prevailing wage laws. City contracts require Maywood's contractors to possess various insurance policies, such as workers' compensation and general liability insurance, to protect the city from risk.

The city allowed ECM to begin work despite the absence of a signed contract.

These risks include property damage, theft, and worker injury. Although Maywood includes provisions in its contracts that specify the types of required insurance along with the mandated policy limits, it does not ensure that all contractors obtain the required insurance, thus increasing the risk that the city will have to pay for damages in cases in which the contractors are not covered by insurance. For example, we found that the accounting supervisor—the retired annuitant who is under contract to Maywood—did not possess the contractually required liability insurance. Shortly after we inquired about it, she did purchase the insurance. In addition, Maywood's maintenance services contractor, V & M, did not possess automobile insurance coverage at a level required by its contract. The contractor is required to have a policy covering any vehicle, with a combined single claim limit of \$1 million, but V & M only had coverage for vehicles listed in the policy and with individual coverage of less than \$500,000. Language in the contracts

for both the accounting supervisor and the maintenance services contractor instructed those contractors to furnish proof of all required insurance before they began work for the city; however, Maywood's inadequate monitoring system allowed instances of noncompliance with these contract terms to go uncorrected.

Similarly, Maywood did not ensure that one of its contractors, V & M, complied with prevailing wage laws, which are designed to ensure that workers employed on contracted public works projects that cost more than \$1,000 are paid wages prevailing in their communities. State law requires the city to obtain prevailing wage information from the Department of Industrial Relations (Industrial Relations), and it places the burden on the contractor for paying the prevailing wage rates. Although the individuals who oversaw the contract in question are no longer employed by the city and were not available to comment, the current planning director told us that he had not obtained prevailing wage information produced by Industrial Relations since he was hired in April 2016. Further, the \$50-per-hour skilled labor rate that Maywood specified in its public works contract with V & M (the citywide maintenance contract we identify in Table 4) is lower than the prevailing wage rates for some of the services the city expects the contractor to provide.

Maywood did not ensure that one of its contractors, V & M, complied with prevailing wage laws.

In fact, we identified a number of instances in which the contractor billed Maywood for wages that may have been below the prevailing wage rates for Los Angeles

County.² In a street maintenance project worth \$18,000 that likely required the prevailing wage rate of \$52.15 per hour, V & M billed for skilled labor at \$50 per hour.

In another instance, V & M performed repairs on an air conditioner that totaled approximately \$2,000, and it billed the city for skilled labor at a rate of \$50 per hour despite the likely higher applicable prevailing wage rate of \$61.51. State law requires the city to be aware of and to monitor for potential violations of prevailing wage law and then to report any suspected violations to the labor commissioner. This contractor's billing at rates apparently less than the prevailing wage rate should have alerted the city that the contractor might not have been paying its workers in compliance with state law. Although the current planning director was not yet working for the city when these billings occurred, he acknowledged that he had not reviewed invoices from this contractor for compliance with prevailing wage rates. He told us the reason was because he believed the prevailing wage requirement only applied to public works projects that cost more than \$30,000 rather than just \$1,000 as required by law. Given the planning director's lack of understanding about the prevailing wage law, the city probably never would have questioned this contractor about invoices until we brought this issue to the attention of the planning director.

Maywood's failure to comply with the State's prevailing wage laws and to ensure possession of adequate insurance by its contractors stems from ineffective contract management practices and lack of a detailed procurement policy with clearly designated roles for city staff. Maywood's municipal code requires the city manager to prepare and implement a policies and procedures manual necessary

² We do not know how Industrial Relations would have classified these workers in these instances. However, we made reasonable determinations based on information we obtained from Industrial Relations.

for implementing the city's purchasing regulations. However, Maywood does not maintain purchasing policies or procedures. If properly developed, such policies would outline an effective process for verifying contractors' compliance with contract terms, provide separate guidance for public works contracts subject to prevailing wage laws, and detail procedures for contract monitoring as well as assigning the responsibility for each activity to specific staff.

Maywood's municipal code also requires the city manager to maintain a listing of city contractors. However, the tracking document provided to us by the city contained inaccurate and incomplete information regarding the city's contractors and vendors, and these problems severely undermined the document's usefulness. For example, the tracking document listed a contract that had an expiration date that was a year earlier than the contract's start date. Maywood's document also listed certain contracts multiple times but failed to include other contracts. Particularly troubling was the absence of contract information for key services and positions, including the city attorney, accounting supervisor, financial auditor, and animal control services.

Maywood's lack of effective contract management also jeopardizes vital city services. For example, flaws in Maywood's contract monitoring resulted in the expiration of its contract for animal control services, which are important for a densely populated residential community like Maywood. A letter from the Los Angeles County Department of Animal Care and Control (Animal Control), the city's animal control services contractor, dated 18 months after the expiration of Animal Control's contract, demonstrates the former city manager's neglect of the city's need to renew the contract. In the letter, Animal Control noted the repeated attempts it had made to obtain a renewal of its contract with the city and advised Maywood that it would terminate its services unless the city entered into a new agreement even though the city continued to

make regular payments to Animal Control after its contract expired. Maywood eventually renewed the contract, nearly two years after the expiration of the original contract and five months after receiving the letter from Animal Control. However, because the city signed the contract retroactively 11 months into fiscal year 2015–16, the contract expired once again, and Maywood has yet to renew it.

Recommendations to Address This Risk

To make certain that Maywood adheres to state law and its own municipal code when procuring goods and services, the city council should do the following:

- Ensure that the city uses a competitive process, when required, to contract for goods and services so that the city hires the most qualified vendors at the best price.
- Verify that each city council member and city staff member involved in the procurement function obtains training on the contracting requirements contained in Maywood's municipal code.
- Ensure that its contracts accurately specify the city's needs in terms of the required services and allowable maximum contract amount.
- Ensure that the city administrator or city manager develops and implements the purchasing policies and procedures manual required by Maywood's municipal code.
- Implement processes to better monitor its contracts. These processes should be designed to ensure the following:
 - Contracts do not lapse, so there is continuity in service.
 - Contractors adhere to all terms of their contracts.
 - Contractors comply with applicable state laws, such as the prevailing wage law.

Maywood's Extreme Lack of Internal Controls Has Exposed the City to the Risk of Fraud and Weakened Its Accounting and Financial Reporting Function

The former city manager's inadequate oversight of the city's accounting function led to serious deficiencies in fundamental internal controls or safeguards. Although the former city manager faced the challenge of rebuilding every city department in 2010—after Maywood laid off its entire workforce because of the city's inability to obtain affordable commercial liability insurance coverage—we expected to see sufficient controls in place to ensure the effective operation of the accounting department by the end of her five-year tenure with the city. However, the number and significance of the findings identified by the city's external financial auditor in its May 2016 report on Maywood's internal controls indicates that the former city manager failed to implement even the most rudimentary accounting controls.

Specifically, Maywood's independent external auditor, responsible for auditing the city's financial statements, identified multiple instances of poor segregation of employees' duties in areas that exposed Maywood to the risk of fraud by allowing staff to potentially divert cash without it being noticed. For example, the external auditor reported that because of weaknesses in the city's controls over cash receipts, Maywood provided the opportunity for city staff to issue cash receipts without depositing the related payments in Maywood's bank account or recording them in the accounting records. In other words, city staff could take cash without it being detected.

In addition, the external auditor reported that one city employee was responsible for mailing annual business license renewals, accepting the subsequent walk-in payments made at the front desk of the city hall (in addition to having access to payments received in the mail), and monitoring the

business license database. This situation created the opportunity for this employee to divert cash without detection. Specifically, the city did not have a different employee review and reconcile independently the business licenses issued to the related revenue collected. Consequently, it is possible that the employee in charge of business licenses could issue the licenses without depositing the subsequent receipts in Maywood's bank account or posting the receipts to the city's accounting records. Similarly, the external auditor noted significant weaknesses in the city's internal controls over parking permits. For example, in highlighting Maywood's absence of basic safeguards, the auditor pointed out that the same city employee who monitored and issued parking permits was also responsible for collecting and recording the payments received from customers. Therefore, this individual could issue parking permits without depositing the corresponding receipts in Maywood's bank account and without recording them in the accounting records.

During our fieldwork in Maywood, we too observed weaknesses in the city's internal controls. On one occasion, we observed a large open box of blank city checks in plain sight and within reach of all city staff. When we questioned the accounting supervisor, she told us that the checks contained a misprint and that the city was planning to shred them, further explaining that the bank would not honor the checks because of the misprint. However, after we asked her about the blank city checks, she inquired at the bank and learned that the bank would, in fact, have honored those checks. The city subsequently shredded the checks.

In fiscal year 2014–15, for the fourth year in a row, the external auditor also reported that Maywood's accounting staff did not thoroughly and periodically analyze and reconcile to supporting records the city's account balances, including receivables, certain revenue accounts, cash accounts,

and accounts payable. Likely because of this internal control weakness, the auditor proposed several significant corrections to the city's accounting records. In addition, the collective lack of controls over Maywood's cash and accounting records exposes the city to the heightened risk that fraud, errors, or irregularities could occur and not be detected. Considering Maywood's precarious financial condition and its current inability to pay its long overdue debts, the city can ill afford weak controls that expose it to the potential loss of city funds.

As a result of the gaps in its internal controls, Maywood has also been chronically late in publishing its audited financial statements in each of the five fiscal years from 2010–11 through 2014–15. The significant delays in Maywood's release of its financial statements—with issuance dates as much as 15 months (fiscal year 2011–12) and 10 months (fiscal year 2014–15) after the end of the fiscal year—have deprived decision makers, including the city council and the public, of timely information needed to understand the city's financial condition. Timely and complete financial reporting is particularly important for Maywood, given its continued financial distress.

These deficiencies in internal controls were caused in part by Maywood's failure to properly oversee and staff its accounting department. For years the former city manager failed to staff the accounting department adequately, inhibiting its ability to carry out the most basic functions. Since 2011 the former city manager entrusted the accounting function to two temporary workers, giving them full control with little oversight. By her own admission, the former city manager did not realize that these individuals were unqualified to do the work until she began receiving calls from vendors who had not been paid and noticed other signs of poor performance.

The collective lack of controls over Maywood's cash and accounting records exposes the city to the heightened risk that fraud, errors, or irregularities could occur and not be detected.

She dismissed the two temporary workers in May 2014—three years after hiring them. Our review of Maywood's accounts payable records during the temporary workers' tenure revealed that Maywood was often late by two to five months in paying its largest contractors, and in one instance, the city was late by nearly a year after the contractor had provided the service. The accounting supervisor told us that these late payments apparently occurred because the temporary workers did not perform bank reconciliations during a nine-month period, and they were therefore unsure how much cash the city had available to cover vendors' billings. These late payments were costly for Maywood. For example, the city incurred a \$49,000 late fee because it was late paying its largest contractor, the Los Angeles County Sheriff's Department, for services provided from July 2013 through December 2013. The city could have used this money to improve its accounting department or to fund a portion of the payments on overdue debts discussed previously. Nevertheless, after dismissing the two temporary workers, the former city manager cut spending on accounting staff even further and hired a part-time accounting supervisor, who like her predecessors, received minimal supervision. For these reasons, deficiencies in the accounting and financial reporting function continued, as evidenced by the external auditor's repeated findings about the inadequacies of the city's accounting records.

Maywood has also had poor financial reporting practices that resulted in noncompliance with generally accepted accounting principles, and for years this noncompliance prevented the external auditor from expressing an opinion on Maywood's financial statements. Specifically, because Maywood failed to implement a new accounting standard that required it to measure and disclose certain information about its liability for postemployment benefits other than pensions, the external auditor was unable to reasonably determine the effect of this departure from accounting standards on the city's expenses, liabilities, and financial position. Consequently, the auditor did not express an opinion as to whether the city's financial statements were fairly presented for the three fiscal years from 2010–11 through 2012–13. Maywood finally implemented the standard in fiscal year 2013–14, several years after the former city manager joined the city and five years after the city should have implemented the standard. Further, Maywood's financial statements have continued to omit an important component required by the accounting standards—the management discussion and analysis section. This information is essential to place the city's financial statements in an appropriate operational, economic, and historical context. For example, this information should include an overview of the city's financial position and results of the current year's activities, and it should describe any conditions that will have significant effects on the financial position of the city.

The current interim city administrator is in the process of improving the city's internal controls and updating its accounting policies and procedures manual to explain these controls. These changes are critical because the city's current manual does not adequately describe important accounting, budgeting,

and financial reporting procedures or internal controls. The city is also currently in the process of recruiting for a principal accountant to run its accounting department.

Recommendations to Address This Risk

The city council should ensure that the city administrator or city manager takes the following steps:

- Promptly strengthen the city's internal controls over its accounting and financial reporting functions. This effort should include instituting proper segregation of duties over cash receipts, blank check stock, and the issuance of business licenses and parking fees, and it should include regularly reconciling general ledger account balances to supporting records.
- Update the city's accounting policies and procedures manual to thoroughly describe all accounting, budgeting, and financial reporting functions and to document key internal controls.
- Ensure that staff follow the updated policies and procedures in the manual through training and proper oversight.
- Adequately staff the accounting department with qualified individuals who will periodically analyze and reconcile account balances to supporting records and avoid late fees by paying vendors on time.
- Ensure that the city's financial statements are issued in a timely manner and that they meet generally accepted accounting principles and include all required components, such as the management discussion and analysis section.

We conducted this audit under the authority vested in the California State Auditor by section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in Appendix A. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: October 3, 2016

Staff: Mike Tilden, CPA, Audit Principal
Norm Calloway, CPA
Lisa Ayrapetyan, CPA, CIA, CFE
Brandon A. Clift, CPA, CFE
Brian E. Dunn, CPA, CFE
Ryan J. Mooney, CFE

Legal Counsel: Scott A. Baxter, Sr. Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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APPENDIX A

Scope and Methodology

In July and August 2015, the California State Auditor (State Auditor) conducted an initial assessment of the city of Maywood in which we reviewed the city’s financial and operating condition to determine whether the city demonstrated characteristics of high risk pertaining to the following six risk factors specified in state regulations:

- The local government agency’s financial condition has the potential to impair its ability to efficiently deliver services or to meet its financial or legal obligations.
- The local government agency’s ability to maintain or restore its financial stability is impaired.
- The local government agency’s financial reporting does not follow generally accepted government accounting principles.
- Prior audits reported findings related to financial or performance issues, and the local government agency has not taken adequate corrective action.

- The local government agency uses an ineffective system to monitor and track state and local funds it receives and spends.
- An aspect of the local government agency’s operation or management is ineffective or inefficient; presents the risk for waste, fraud, or abuse; or does not provide the intended level of public service.

This initial assessment identified concerns about Maywood’s financial condition, financial stability, and budgeting practices as well as the effectiveness of aspects of its operations. We also found that Maywood did not take adequate corrective action to address prior audit findings and failed to comply with generally accepted government accounting principles in its financial reporting.

Based on these initial findings, the Joint Legislative Audit Committee approved our proposal in January 2016 to perform an audit of the city of Maywood under the State Auditor’s local high risk program.

Table A lists our audit objectives and the related procedures we used to address those objectives.

Table A
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1	
Review and evaluate the laws, rules, and regulations significant to the audit objectives.	<ul style="list-style-type: none"> • Reviewed relevant laws, regulations, and other background materials applicable to the city of Maywood (Maywood). • Reviewed Maywood’s municipal code and relevant city policies and procedures.
2	
Assess the city’s financial condition and ability to pay its obligations when due using the most current financial information.	<ul style="list-style-type: none"> • Reviewed Maywood’s audited financial statements for the prior five fiscal years (2010–11 through 2014–15) to determine the city’s financial condition and its ability to pay its obligations when due. • Conducted interviews with key city staff and contractors as well as representatives of the California Joint Powers Insurance Authority and CalPERS to assess Maywood’s efforts to negotiate a repayment plan for its major overdue obligations.

continued on next page...

AUDIT OBJECTIVE	METHOD
<p>3 Assess the city's ability to maintain a balanced budget in the coming years, including the following:</p> <p>a. The reasonableness of the city's revenue assumptions, in particular assumptions related to economic growth.</p> <p>b. The analysis supporting expected expenditures and how the city ensures projections are reasonable.</p> <p>c. The city's ability to monitor the budget throughout the year and to respond to decreased revenue and increased expenditures.</p>	<ul style="list-style-type: none"> • Reviewed Maywood's revenue and expenditure projections for fiscal years 2016–17 and 2017–18. Using historical data and information about the city's priorities for these two fiscal years, verified the reasonableness of the projections. • Found that Maywood's projections for fiscal years 2016–17 and 2017–18 are based on realistic assumptions and are in line with actual revenue and expenditures the city reported during the prior years. • Assessed whether Maywood adequately monitored revenue and expenditures from fiscal year 2010–11 through 2014–15 by doing the following: <ul style="list-style-type: none"> – Determining whether city management sought approval of a budget augmentation, as required, when its actual expenditures exceeded levels approved by the city council. – Analyzing its actions when it received more or less revenue than it budgeted.
<p>4 Examine the city's operational structure and assess its management controls and practices. Determine whether controls over significant financial and administrative functions are adequate to identify, prevent, and address waste, fraud, abuse, and conflicts of interest.</p>	<ul style="list-style-type: none"> • Interviewed Maywood staff and reviewed policy documents to understand the city's control environment. Performed walkthroughs, analyzed relevant documents, and observed city staff to determine whether controls were operating effectively. • Reviewed internal control reports issued by Maywood's external auditor for fiscal years 2011–12 through 2014–15 to determine whether the city corrected in a timely manner the identified weaknesses in its internal controls.
<p>5 Determine the extent to which the city council and city manager exercise adequate oversight of the city's financial and administrative operations.</p>	<ul style="list-style-type: none"> • Evaluated city council's oversight of the former city manager by reviewing the existing record of performance appraisals and contract extensions approved for the former city manager. • Reviewed city council meeting agendas and minutes as well as other relevant documents to assess decisions the city council made concerning personnel changes, approvals of contracts, and other important functions of the city government. • Interviewed the former city manager and city staff to understand the extent of oversight of city operations provided by the former city manager and specific decisions she made during her tenure, which extended from 2010 to 2015. • Evaluated the effectiveness of the former city manager's oversight by reviewing various reports and documents as well as by performing testing of contracts and revenue described below.
<p>6 Assess the cost-effectiveness of Maywood's expenditures on behalf of its residents.</p>	<ul style="list-style-type: none"> • Selected for in-depth testing six contractors with the largest billings and those that provided vital services to the city. • For the selected contractors, assessed Maywood's compliance with the procurement requirements contained in Maywood's municipal code, relevant provisions of state law, and contract terms.
<p>7 Review and assess any other issues that are significant to the audit.</p>	<ul style="list-style-type: none"> • Tested city council's compliance with the provisions of the Brown Act during city council meetings held between December 2015 and May 2016. • Evaluated the quality of Maywood's current and past three budgets using best practices developed by the Government Finance Officers Association for its Distinguished Budget Presentation Award program. • Assessed the extent to which Maywood undercollected revenue from parking citations and business license fees by analyzing data obtained from Maywood's business license and parking databases for those functions and other relevant information. • Reviewed a selection of Maywood's lease agreements and related collections data to determine whether the city obtained all revenue from these sources to which it was entitled.

Assessment of Data Reliability

In performing this audit, we relied upon various electronic data files obtained from Maywood. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer processed information that is used to support our findings, conclusions, or recommendations. We used Maywood's Abila MIP Fund Accounting system to determine revenue and expenditure amounts to assist our analysis of the city's financial condition and to quantify the city's spending on specific contracts. We also used Maywood's business license database, HdL Prime, to determine whether certain businesses operating in Maywood obtained a business license and to calculate the number of businesses with

current and expired business licenses. Finally, we used Maywood's Phoenix Information System's WINCITE Parking Citation Program to determine the number and dollar value of parking citations the city issued during the period from October 2015 through June 2016. However, we did not perform accuracy and completeness testing on the data because this audit is most likely a one-time review of a city, and we determined it did not warrant the same level of resource investment as a state agency whose systems produce data that may be used during numerous future audit engagements. As a result, we assessed that the data were of undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

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APPENDIX B

The California State Auditor's High-Risk Local Government Agency Audit Program

California Government Code section 8546.10 authorizes the California State Auditor (State Auditor) to establish a high-risk local government agency audit program (local high risk program) to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. Regulations that define *high risk* and describe the workings of the local high risk program became effective July 1, 2015. Both statute and regulations indicate that the State Auditor must seek approval from the Joint Legislative Audit Committee (Audit Committee) to conduct high risk audits of local entities.

California Cities

To identify local entities that may be high risk, we analyzed publicly available information, such as financial reports and prior audit reports or analyses, for more than 450 California cities. Using this analysis, we identified various cities for which we performed a more detailed financial analysis. This detailed analysis included using the financial data to calculate fiscal indicators that may be indicative of a city's fiscal stress. We also reviewed publicly available information to assess the city's fiscal outlook over the next five years, using financial and budgetary reports and other information that could affect the city's operations. We then analyzed the results to determine whether each city is at risk for potential waste, fraud, abuse, and

mismanagement, or whether it has major challenges associated with its economy, efficiency, or effectiveness.

Based on our initial analyses, we identified six cities, including the city of Maywood, which appeared to meet the criteria for being at high risk. To better understand the factors that led us to this determination, we visited each of the six cities and conducted an initial assessment to determine the city's awareness of and responses to those issues and to identify any other ongoing issues that could affect our determination of whether the city is high risk. After conducting our initial assessment, we concluded that Maywood warranted an audit. In January 2016, we sought and obtained approval from the Audit Committee to conduct an audit of Maywood.

If the local agency is designated as high risk as a result of the audit, it must submit a corrective action plan. If it is unable to provide its corrective action plan in time for inclusion in the audit report, it must provide the plan no later than 60 days after the report is published. It must then provide written updates every six months after the report is issued regarding its progress in implementing the corrective action plan. This corrective action plan must outline the specific actions the local agency will perform to address the conditions causing us to designate it as high risk and the proposed timing for undertaking those actions. We will remove the high risk designation when the agency has taken satisfactory corrective action.

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City of Maywood

4319 East Slauson Avenue • Maywood, California 90270
Tel: (323) 562-5700 • Fax (323) 773-2806

September 15, 2016

Office of the California State Auditor *
621 Capitol Mall Suite 1200
Sacramento, CA 95814

Dear California State Auditor:


The City of Maywood appreciates the efforts of the Office of the California State Auditor to provide direction and guidance in moving the city toward a more efficient, effective and transparent government for the residents of the city. We believe effort to cooperate with the audit is a genuine attempt on the part of the mayor and the city council to bring about a state of improved performance, accountability, and transparency that its citizens deserve.

Having reviewed the initial draft of the audit recommendations there are some excellent findings that have already been implemented or are in the process of being implemented. Some will require more time. It was also apparent that a vast number of items that have caused the city to be placed in a "high risk" category predate my tenure as interim city administrator and the newly elected members of the city council and are a direct result of the actions or inactions of the previous city administrator and city council. Let me assure you that I and the current city council members are committed to bringing about good governance and agreeing on a corrective action plan that gets the city back on track.

Finally, in the spirit of cooperation, we would like to provide a more comprehensive response to the audit but due to limited resources, are not in a position to respond within the five day time allotted for a formal response. Any detailed response or corrective action plan provided within the short time frame would be counterproductive and a disservice to our joint effort to improve the governance in the City of Maywood.

Therefore the City's detailed response and corrective action plan is forthcoming.

Sincerely,


Reuben Martinez
Interim City Administrator

* California State Auditor's comment appears on page 51.

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COMMENT

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE CITY OF MAYWOOD

To provide clarity and perspective, we are commenting on Maywood's response to the audit. The number below corresponds to the number we have placed in the margin of Maywood's response.

State regulations for the high-risk local government agency audit program allow Maywood five business days to respond in writing after receiving the draft of the report and have its response included as part of the public version of the report. Additionally, regulations require Maywood to prepare a corrective action plan. However, if Maywood is not able to provide its corrective action plan by the time of the report's public release, regulations allow Maywood up to 60 days after the publication of the report to provide its corrective action plan.

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