



**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

City Council
City of Maywood
Maywood, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Maywood (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2015-1 to 2015-5 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Maywood's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Lant & Fankhaed, LLP

May 6, 2016

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-1 Accuracy of Accounting Records

Finding:

As noted in the prior year, the City's management is responsible for establishing and maintaining effective internal controls over financial reporting to help ensure that appropriate goals and objectives are met. This responsibility includes the selection and application of accounting principles, ensuring that financial information is reliable and properly recorded, and evaluating and monitoring ongoing activities.

In preparation for the annual audit, the City's Finance staff performed significant analysis and reconciliations of various accounts in the City's general ledger. However, when we began our year-end audit fieldwork, it became apparent that certain accounts had not yet been thoroughly analyzed and reconciled to supporting records. This includes receivables, certain revenue accounts, pooled cash accounts, and accounts payable. In addition, while performing audit procedures, we identified and proposed several material adjusting entries to the City's accounting records. We recognize the City had significant staff turnover in the Finance Department, which may be a contributing factor. Furthermore, *Statements on Auditing Standards No. 115, "Communicating Internal Control Related Matters Identified in and Audit"* states that "indicators of material weaknesses in internal control include: identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate the misstatement would not have been detected by the entity's internal control."

Reconciliation and review of all balance sheet accounts and various revenue and expenditure accounts on a recurring basis, and especially at year-end, is a vital part of maintaining the integrity of the accounting and financial reporting system. Periodic reconciliations of balance sheet and other selected accounts provide accurate data from which to base decisions, prevent costly errors and provide ease in identifying potential adjustments and corrections. If this is not done in a timely manner throughout the fiscal year, the year-end closing process tends to be more difficult and time-consuming, and may contribute to delays in issuing year-end reports.

Recommendation:

Therefore, in order to maintain the integrity of the accounting and financial reporting system, and to ensure timely reporting, we recommend that all balance sheet accounts and other selected accounts be analyzed on a monthly, quarterly or other periodic basis as appropriate. We suggest a schedule of accounting functions to be performed monthly, quarterly, etc., be prepared with the provision for signing off by date and initials when the procedure is complete.

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-1 Accuracy of Accounting Records - Continued

Management's Response:

Management concurs with the recommendation on this finding and will make efforts to employ more staff, as needed, to better perform the specific tasks assigned to the accounting team to improve the timeliness and accuracy of the accounting records. The timeliness and accuracy of accounting records still remains as a top priority by Finance Department, by Management and City Council. The revised Accounting Policies and Procedures approved and adopted by Council on November 12, 2014 should give better direction for greater supervisory controls to ensure the timely completion of the quarter-end and year end closings, along with a more comprehensive analysis of the balance sheet and other accounts. The Accounting Policies and Procedures will be updated and expanded to specifically include the items identified by the auditor along with other items. It is anticipated that the update will occur by June 30, 2016.

2015-2 Finance Department Staffing and Structure

Finding:

The City's Finance Department lacks full-time personnel at the management level, and has also experienced turnover in the accounting function. Although the City has a part-time contracted Accounting Supervisor and other part-time accounting technicians, the findings identified in Finding 2015-1 above may have resulted from the lack of oversight and consistency of Finance Department personnel. The City should consider evaluating and revising the structure of the Finance Department, to help ensure that the accounting and financial reporting functions are operating efficiently and effectively. Establishing a full-time management level position in the Finance Department, along with full-time accountant positions will ensure the day to day operations, as well as the monthly and year-end accounting, reconciliations, and analysis, are completed in a timely and accurate manner.

Recommendation:

The accounting and financial reporting functions are vital to the long-term success of any organization, including the City of Maywood. Management, including the City Council, should feel confident they are receiving and utilizing accurate and timely financial information. In addition, the City is subject to various laws and regulations requiring timely and accurate reporting. Therefore, we recommend the City consider establishing full-time Finance Department positions as described above. While we realize the City is subject to budgetary constraints, properly staffing the Finance Department will help ensure important financial decisions are based

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-2 Finance Department Staffing and Structure - Continued

on accurate financial information, which may ultimately improve the City's financial condition. The Finance Department should be consistently staffed by experienced and knowledgeable accountants, under the supervision of a highly-qualified Finance Manager/Director.

Management's Response:

The City will consider hiring long term permanent full time, experienced and knowledgeable accountant positions to help ensure that the accounting and financial reporting functions are operating efficiently and effectively.

2015-3 Internal Controls Over Cash Receipts

Finding:

The City uses a generic cash register that is not integrated with the general ledger accounting system. In addition, the Customer Service Representatives can use manual handwritten receipts for payments accepted at the front desk of City Hall. In a strong internal control environment, only one method of receipting payments should be established and consistently applied to all cash receipts. In addition, there is no independent verification of the numerical sequence of the manual cash receipts, including reconciliation to amounts deposited and ultimately recorded in the City's accounting records. Because there is no review of the sequential order of the receipts issued, there is a possibility that cash receipts forms could be issued without the related payment being deposited and recorded in the general ledger.

Recommendation:

We recommend, in order to strengthen the internal controls over the cash receipts function, the City review the cash receipts procedures currently in place at City Hall. Specifically, we recommend a cash receipt system that can be integrated with the City's general ledger accounting system that requires user identification login through passwords. A cash receipt system that is integrated with the City's general ledger accounting system can provide increased control over the cash receipts collected by the City.

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Year Ended June 30, 2015

2015-3 Internal Controls Over Cash Receipts - Continued

Management's Response:

Management concurs with the recommendation on this finding on the need to strengthen the internal control over cash receipts functions. The City is looking into procuring a cash receipt system that can be integrated and interfaced with the City's Abila Financial Management System to eliminate duplication of bookkeeping entry, manual issuance of receipts, as well as eliminate the possibility of committing errors in the process of transferring data. Until such time, the City continues to avail the current cash system imposing stronger internal controls; i.e., performing a daily reconciliation of receipts with amounts deposited, and having an independent verification of numerical sequence of manual cash receipts.

2015-4 Business Licenses

Finding:

The City collects a business license tax from businesses operating within the City limits. While obtaining an understanding of the billing and payment collections from the business licenses, we found there is a lack of segregation of incompatible duties. A Customer Service Representative is responsible for mailing the annual business license renewals, along with accepting payments at the front desk. This individual also has access to mail payments, and is responsible for maintaining the business license software. There is no independent review and reconciliation of the business licenses issued to the revenues collected for business licenses. Due to the lack of segregation of incompatible duties, it is possible that business licenses could be issued with no receipt posted in the City's accounting records.

Recommendation:

While we recognize this finding may be the result of the City's limited staff size, we recommend strengthening internal controls over the issuance of business licenses. The City could implement a procedure to generate reports from the HdL business license program, periodically (daily, weekly, monthly), and have someone independent of the business license issuance and collection functions review and reconcile the amounts from these reports to the revenues posted in the City's general ledger. If possible, the billing and collection functions should be segregated.

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2015-4 Business Licenses - Continued

Management's Response:

Management is initiating the possibility of interfacing data from HdL Business License program into the City's Abila Financial system. We concur with the recommendation to generate reports from the HdL periodically (daily, specifically). The City has assigned a staff, independent of the business license issuance and collection functions, to generate the reports and review and reconcile the amounts from these reports to the revenues collected and deposited prior to posting the transactions in the City's general ledger. Due to limited staffing, the segregation of billing and collections remains a challenge for the City to implement internal control at its optimum level.

2015-5 Parking Permits

Finding:

The City charges a parking permit fee for residents of the City that can be paid at City Hall. The parking permits are a pre-numbered sticker that are given to customers upon payment. However, the same individual issuing the permits is also responsible for collecting and receipting the payments from the customers. In a strong internal control environment, the individual responsible for collecting payment from customers should not have access to, or maintain, the parking permit inventory. Due to a lack of segregation of incompatible duties in this process, there is a potential for parking permits to be issued without a corresponding receipt collected and receipted into the City's general ledger.

Also, the City has two parking meter machines for residents and visitors to purchase overnight parking passes. The keys to unlock the cashbox of the machines is kept in the vault at City Hall which is accessible by all City Hall personnel. In addition, periodically, a Customer Service Representative will obtain the keys from the vault and collect the payments from the machine. Each time the machine is opened a receipt is printed which indicates the amount of money collected since the previous opening and collection. In addition, the receipt indicates the total number of times the machine has been opened and money collected. However, there is no indication that a City staff member, independent of the collection of the parking receipts, is reviewing the numerical sequence of the numbered collections indicated on the receipt to ensure that each time the machine was opened and the moneys collected, all amounts were deposited and recorded in the City's general ledger.

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2015-5 Parking Permits - Continued

Recommendation:

We recommend the City implement controls over the issuance of parking permits to segregate the control over the parking permit sticker issuance and the collection of payments from customers. In addition, we recommend the key to the parking meter machines be locked and accessible by only one individual responsible for emptying the cash collected in the machines. An individual independent of this process (with no access to the key) should then reconcile the information on the receipts issued by the parking meter machine; i.e. verifying that the sequence of the pickups and opening of the machine is in sequential order and that the amounts agree.

Management's Response:

Management concurs with the recommendation. The City has implemented the segregation of functions of collecting parking permit fees and issuing the permit stickers. Payment receipt is presented to a staff, not associated with collections of parking permits, who then issues the pre-numbered parking permit stickers.

The City has also implemented a recording system for the two parking meter machines for residents and visitors to purchase overnight parking permits. The system will account the numerical sequence of the pre-numbered pickup collections indicated on the receipt, thereby, ensuring that each time the machine is opened, moneys collected are reconciled and deposited in the sequential order.

In addition, the key to the parking meter machines is being kept with the Executive Assistant and can only be accessible by the staff responsible for emptying the cash collected in the machines at the time the parking meter machines are to be opened.