



Elaine M. Howle *State Auditor*

CONTACT: Margarita Fernández | (916) 445-0255 x 343 | MargaritaF@auditor.ca.gov

City of Lynwood Los Angeles County

Poor Management Has Contributed to Its Financial Instability and Led to Its Failure to Comply With State Law

Summary

Our audit of the city of Lynwood revealed that although the city projects that its financial condition will improve in fiscal year 2018–19, it has operated with a structural deficit for years and continues to face challenges that place the city at high risk of being unable to meet its future financial obligations. Further, the city violated state law and its weak oversight make it susceptible to fraud and waste. Additionally, its organizational inefficiencies may limit its ability to provide public services. Because we have classified the city as a high-risk local government agency, we will follow up with the city until it satisfactorily implements its corrective action plan.



Risk Designation: **HIGH RISK**

- 2016 Population: **71,000**
- 2016 Median Income: **\$43,800**
- 2016 Unemployment Rate: **10%**

Key Risks

- **Inadequate financial management:** Persistent operating deficits, inaccurate general fund balance estimates, and questionable use of one-time revenues coupled with inadequate budgeting practices and questionable salary increases hinder the city's fiscal stability.
- **Susceptibility to fraud and waste:** Its lack of adequate policies for procurement and financial reporting makes the city susceptible to fraud and waste in its operations. It has violated state law in the use of restricted funds and has not ensured the best value for its contracts—the city council's discretion to frequently forego competitive bidding and its discretion to amend current contracts without any limitations places the city at risk of wasting resources.
- **Ineffective organizational management:** Its lack of strategic direction, inability to effectively measure staffing needs, and significant turnover in key positions place the city at high risk that it will lose institutional knowledge and experience a disruption of core operations and services.

Key Recommendations

To help Lynwood address the risk factors we identified, we made numerous recommendations to better oversee its financial and organizational management, including the following:

- Develop policies and procedures to improve its budgeting process and to safeguard the city against waste, fraud, and inaccurate financial reporting.
- Cease the inappropriate use of restricted funds and tighten the procurement process by limiting the ability to bypass the competitive bidding process and require competitive bidding on certain contract amendments to ensure it obtains the best value for goods and services it procures.