



CITY OF MAYWOOD

Corrective Action Plan

Response to State Auditor Report 2015-803

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

Management intends to fully cooperate and work with our auditors to positively resolve all the issues stated in the State Audit Report; an outline of the plan of action follows this letter.

It is, however, important and necessary to include as part of our response the following:

- The State audit report received on October 2016 is a review of the fiscal year ending in June 2015 (and previous years) and the State auditors view and interpretation of the significance of the City's situation is not representative of the City's actual governance and present financial situation.

As of December 1, 2016, based on our financial data and changes in administration and governance, the City of Maywood is fully capable of continuing to operate and provide services to its residents without interruption. The City is pleased that a good number of the State recommendations were previously identified by the new administration and bold measures have already been taken to correct a poorly effective previous course of action. Our commitment and motivation is to get Maywood Finances and governance back on track.

A timely review of Maywood's financial condition from the State Auditors—far sooner than 2015- would have been helpful in implementations of a Maywood corrective action plan prior to a worsening financial situation. The City's publicly available audit, for the past five consecutive years, contains a "going concern" opinion. The auditor's state the following:

"As discussed in Note 12, the City, in prior years, has suffered substantial recurring losses in its General Fund resulting in a deficit fund balance, a deficit in unrestricted net position of the governmental activities and deficits in other special revenue funds. Also, those funds lack liquid resources available to meet obligations as they become due, which raises substantial doubt about the City's ability to continue as a going concern."

Even though it is unfortunate that the problems were identified years after their occurrence and are as a result of the City's facing fiscal challenges, the new administration is confident that their efforts and commitment will resolve the current financial challenges our city faces.

In summary, at the time of this response a new management is in place and key positions are now filled by qualified individuals committed to strengthening Maywood's governance and finances. Many of the policies, procedures, documentation, and training plans that form the basis for the City's corrective action plan are already in work. The City of Maywood expects to present the timeline for completion of these items at the state auditors six month review.

The City's new administration is committed to working along with our state auditors and has created a corrective action plan that the city administrator is confident will eliminate the High Risk designation inherited from previous administrations. The steps taken by the City are not "minor"; but rather are bold and clear and will bring the expected positive results if followed by the city council and city administration. An overnight change in finances cannot be expected after years of weak governance and deficit however we believe that the City is fully able to continue providing the most valuable and needed services to their residents.

Reuben Martinez

City Administrator, City of Maywood

January 2017

City of Maywood

Response to State Audit

RISKS FACING THE CITY OF MAYWOOD

The city council has made significant inroads in mitigating financial and administrative risk to the City. This has been accomplished by employing a city administrator whose sole focus is to properly run the City's day to day activities; a city administrator who will regularly review the City's state of financial health and react accordingly; identify risks early and act accordingly; nurture and develop staff abilities; implement an employee performance evaluation process and conduct half year performance evaluations.

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

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

Recommendations to Address This Risk (page 8)

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:

Recommendation

- Ensure that future contracts with the 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.

City's Response

Agree with the recommendation. The city administrator will recommend that future contracts with the city manager/city administrator do not contain provisions that

would make it overly difficult to terminate for cause a poorly performing manager/administrator. This recommendation will include a clause in all contracts indicating that poor performance is a cause for termination. Recommendation will be made to city council to NOT extend contracts no more than 6 months in advance of their expiration date. Any contracts that are renewed will be warranted by an assessment of performance.

These recommendations from the city administrator will also be reinforced with the creation of a manual that details the steps necessary to hire a city manager/city administrator. The timeline for completion of this policy/manual will be presented to the state auditors at the six month review.

The city council will then be prompted to adopt this manual as an ordinance to be in place going forward.

Recommendation

- 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 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.

City's Response

The current city administrator communicates to the city council twice a month since September 2016 and once a month since April 2016 all project and financial status. Since September 2016 under the new city administration, the city council has at their disposal sufficient financial reports and data to make sound decisions. The following financial reports are available on a monthly basis:

- Check/warrant register
- Cash Flow
- Adopted Vs Actual Budget
- Trial Balance

It is a result of the City's worsening financial condition that management changes occurred in December 2015. It is the current city administrator's experience that performance appraisals are regularly done in the private sector in large companies as well as in small companies. The current city administrator will implement a performance appraisal process for the city manager/city administrator position. This evaluation will be done by city council and will occur twice a year. This evaluation will encompass the city manager's performance in areas such as

finance, personnel management, risk management, and services provided to the city.

This new process will be presented in a document that includes a memorandum of understanding (MOU) between the City and the city administrator/manager. The timeline for completion of this document will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

The city administrator presented to council on October 26, 2016 a recommendation to eliminate the monthly mileage stipend and institute a mileage reimbursement policy. The city council voted in favor of eliminating the mileage stipend. The stipend was eliminated effective October 30, 2016. The city administrator will implement a policy that defines mileage reimbursement procedures for both elected officials and city employees. This policy will use the current federal reimbursement rate (currently 54 cents per mile). The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- Carefully review expenditures and reject those that contain inappropriate costs.

City's Response

The city administrator has already implemented this practice. With careful review, the city administrator has rejected unallowable costs for various items including engineering services, legal counsel, and inappropriate billing. Additionally the city administrator has identified those costs that are exorbitant and has taken corrective action to minimize those costs.

The city administrator will regularly review expenditures with the city council and reject any and all unallowable costs. Since April 2016 all invoices regardless of the amount are personally reviewed by:

- The Director/ Manager/project supervisor
- The Principal Accountant (starting September 2016 and previously by the accounting supervisor)

- The City Administrator

This review policy with city council prior to any city council meetings will be documented in an accounting policy manual. The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- Reimburse the city for the \$3,250 cost incurred for the celebration after the December 9, 2015 meeting.

City's Response

The city administrator has communicated with the city council (via email) indicating that it would be in the best interest of the City and would show a commitment to the City if this cost would be reimbursed to the City. The timeline to review this corrective action will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

The City finds that The State Auditors are making the inference that city council is not familiar with the Municipal Code. The city administrator has recommended a municipal code review for all of the city council members. He is also planning training for City staff.

City staff meets weekly every Tuesday. As part of the staff meeting agenda, starting January 2017, 15 minutes will be devoted to review an aspect of the municipal code; this micro learning approach has proven to be effective and it's now incorporated as part of the weekly staff schedule.

A training plan for the city council will be formulated. The timeline for completion of this training plan will be presented to the state auditors at the six month review.

Recommendation

- Obtain comprehensive training in the following key areas over which they exercise important responsibilities: financial management, budgeting, contracting, and human resources.

City's Response

The city administrator has advised city council of the need to obtain this type of training. A training plan for the city council will be formulated. The timeline for completion of this training plan will be presented to the state auditors at the six month review.

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

Recommendations to Address This Risk (page 14)

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

Recommendation

- 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 avoid future violations of the law. In addition, the city council should immediately cure past violations.

City's Response

The city council undergoes Brown Act training every two years. In addition to city council training, the city administrator believes that this recommendation should be expanded to include all elected officials, which would include the city clerk, and city treasurer. In any event, the city council will undergo Brown Act training this year, 2017, and the evidence of completion will be recorded. Additionally a monitoring mechanism will be put in place to ensure accurate record keeping of this important training. The training and the monitoring mechanism will be part of a comprehensive training plan and policy. The timeline for completion of this plan and policy will be presented to the state auditors at the six month review.

The city administrator is working with the city attorney to cure past violations. Once the past violations are cured, the proof of curing and supporting documentation will be provided to state auditors. The timeline to provide this proof of curing will be presented to the state auditors at the six month review.

Recommendation

- Ensure it receives reliable legal advice concerning the Brown Act and other areas of state law affecting Maywood's operations.

City's Response

The city administrator is in the process of reviewing the implementation of a corrective action for this recommendation with the city council. The timeline for completion of this corrective action will be presented to the state auditors at the six month review.

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

Recommendation

- Ensure that all hiring decisions are based on a comprehensive and documented staffing analysis that clearly demonstrates the need for each position.

City's Response

Agree with the recommendation. The city administrator has identified the current staffing needs. Each need has been matched with the present staff levels and abilities. Personnel hiring and vendor contracting processes are under review by the city administrator to ensure that the City hires the most qualified individuals to work for the City in all levels and job positions. Newly revised personnel policies that will support the City's efforts with regards to staffing analyses and hiring decisions are being formulated. The timeline for completion of these policies will be presented to the state auditors at the six month review.

Recommendation

- 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 applications, and conducting hiring interviews with the strongest candidates. Both the selection process and the final hiring process should also be documented.

City's Response

The city administrator has begun formulating a detailed, documented process for hiring the most qualified individuals. This process will include properly advertising positions, developing the appropriate criteria, conducting interviews, and

confirming candidates' experience, qualifications, and good conduct as appropriate. While not formalized, a similar process was implemented during the hiring of the City's principal accountant position.

A Human Resources expert has been contracted on a consulting basis by the City to assist in this effort. The timeline for completion of this documented process will be presented to the state auditors at the six month review.

Recommendation

- Ensure it promptly executes written contracts for applicable positions before allowing the contract employees to begin work.

City's Response

The city administrator has already instituted this practice for recently contracted positions. However, a more formalized process that describes the execution of written contracts for applicable positions is being documented. The timeline for completion of this formalized process and policy will be presented to the state auditors at the six month review.

INEFFECTIVE FINANCIAL MANAGEMENT HINDERS MAYWOOD'S ECONOMIC RECOVERY

Maywood Lacks Resources to Pay Significant Debts That Remain Overdue

Recommendations to Address This Risk (Page 19)

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:

Recommendation

- Develop a plan that includes funding sources and a realistic timetable for repaying the Insurance Authority, its successor agency, and CalPERS.

City's Response

The City of Maywood has prepared a projected monthly cash flow for the general fund. This document assists the City in determining how much and when debt repayments, which have already been expensed, can be made. On its own initiative, Maywood has prepared a projected cash flow document for the general fund and retirement fund.

At the time of the budget preparation and adoption (the budget for FY2016-17 and FY2017-18) the city was in negotiations with the insurance authority regarding a

repayment plan. Additionally, CalPERS had been contacted regarding a repayment plan. A repayment plan has already been approved by CalPERS and the first payments have already been made.

The City of Maywood has prepared a projected monthly cash flow for the general fund. This document assists the City in determining how much and when debt repayments, which have already been expensed, can be made. On its own initiative, Maywood has prepared a projected cash flow document for the general fund and retirement fund.

CalPERS debt repayment plan:

The following proposed action plan has been approved by CalPERS.

Background

Prior City Management, for reasons not known by current management or city council, had not remitted to CalPERS amounts due for the CalPERS Safety retirement plan and some other amounts due CalPERS. Current City of Maywood management has taken the amounts due CalPERS as a serious matter that needs to be resolved. Recognizing that the City needed to pay the delinquent amounts and also recognizing the inability of the City to pay the entire amount due in one year the City initiated contact with CalPERS in order to work out a repayment plan that fully pays the debt and at the same time allows the City to continue to operate and provided needed services to the residents of Maywood. In May or June of 2016 the City had contacted the CalPERS actuary assigned to Maywood in order to negotiate a repayment plan. After that there were, over an extended period of time, conversations between the City and CalPERS staff. During those discussions the City continued to state its goal to fully repay the delinquent amounts within a framework and time period that allows the City to continue to operate.

Actions Taken / About to be Taken

1. In September of 2016 the City repaid the following debt:
 - a. Unfunded Liability (Miscellaneous) FY 15-16 - \$34,180
2. This Fiscal year CalPERS contributions have been paid timely as follows:
 - a. July-December Payroll Contributions - \$50,409
 - b. July'16- January'17 Health Premium - \$102,815
 - c. July- December- Unfunded Liability (Safety) - \$417,109
 - d. July-December'16 Unfunded Liability (Miscellaneous) - \$43,841
3. Additionally November and December of 2016 the City paid the following:
 - a. Arrears YR 13-14- \$194,758

- b. Arrears Admin Fees for YR 13-14 - \$14,500
4. The city council took the bold action to significantly increase the property tax rate for the purpose of paying the cost of PERS at an additional rate from \$.04 to \$.10 per \$100.00 assessed valuation. Those increases are effective for FY 2016-17 and the City expects to receive about half of the amount by mid-January of 2017 and the other half by Mid-May of 2017.

Proposed Action Plan

With the steps taken and the payments previously made as of December 2016, the amounts still owed by the City are the four (4) payments of the unfunded liability for the safety plan and the negotiated accrued interest. Those amounts are as follows:

- FY 12-13 Unfunded Liability – Safety: \$693,557.00
- FY 13-14 Unfunded Liability – Safety: \$706,837.00
- FY 14-15 Unfunded Liability – Safety: \$781,428.00
- FY 15-16 Unfunded Liability – Safety: \$548,590.22
- Accrued Interest: \$ 409,561

Based on the increase in property tax levy for retirement, and the time in which those increased property taxes receipts will be received by the City, the City's repayment plan for the remaining amounts due is as follows:

Fiscal Year 2016-17

- Pay mid to late January 2017 - \$ 682,603
- Pay mid to late May 2017 – \$ 682,603

Fiscal Year 2017-18

- Pay mid to late January 2018 – \$ 682,603
- Pay mid to late May 2018 – \$ 682,603

Fiscal Year 2018-2019

- Pay mid to late January 2019- Accrued Interest of \$ 409,561

With this schedule the City will have paid all delinquent amounts due before the end of Fiscal Year 2017-18 **which is actually less than 19 months from now.**

In addition to the repayment schedule the City intends to pay all FY 2016-17 and FY 2017-18 amounts due in a timely manner.

- **Insurance authority (CJPIA) debt repayment:** the City has met several times with insurance authority representatives to discuss a repayment plan.
- The City initially made a payment of \$20,000 to CJPIA to express our commitment to the repayment of this debt. The City has since paid a total of \$70,000 to the CJPIA. The City has established automatic (ACH) payments so as to ensure timely payments of \$10,000 a month per as per the City's agreement with CJPIA.
- The City will be meeting once again with representatives of CJPIA in January 2017 to discuss next steps and to review the City's progress in repayment of this debt.

- **Successor Agency debt repayment:** The State Auditor mentions in its report a \$2.6M debt to the successor agency. This \$2.6 million debt the State Controller's Office determined that the City must repay the City's successor agency has not been verified by the City. The State has not provided any documents to substantiate this determination. The City intends to retain a consultant to review the State Controller's determination. It is the City's plan to have this review completed by August 2017.

Recommendation

- Begin requiring its city council members and city staff to pay employees' share of their retirement benefit costs.

City's Response

The city administrator and principal accountant are in the process of reviewing documentation and previous contractual agreements in place. The City will respond with appropriate recommendations to the state auditors by the six month review.

Maywood's Inadequate Budgeting Practices Exacerbated Its Poor Financial Condition

Recommendations to Address This Risk (Page 24)

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

Recommendation

- Budget documents conform to best practices, such as those issued by the Government Finance Officers Association.

City's Response

The current budget model used by the City will be updated to meet the best practices issued by the Government Finance Officers Association as suggested by our state auditor. The timeline for review of the new budgeting procedures, policies and model will be presented to the state auditors at the City's six month review.

Recommendation

- Timely presentation of budgets for the city council's approval.

City's Response

Agree with the recommendation. The City has adopted a biennial budget prepared on an accrual basis for all of its governmental funds. The Chief Administrative Officer (City Administrator) authorizes to transfer budgeted amounts between the accounts in the same department or fund. Revisions that alter the total appropriations of any program must be approved by the city council. Prior year appropriations lapse unless they are re-appropriated through the formal budget process.

A Mid-Year Budget review will be presented to city council in February of each year to provide information about the City's finances during the first six months and expected results for the last six months of the fiscal year. The Mid-Year Budget Review will inform the Chief Administrative Officer (City Administrator) and city council on any areas that deviate substantially from the budget and need corrective action.

The biennial Budget process will begin April of every other year. During the month of April, the accounting records will be reviewed and adjusted to obtain a clear picture of the operating results of the first nine months of the fiscal year. The revenue and expenditures reports are provided to the Chief Administrative Officer (City Administrator) who reviews the information. The revenue and expenditures reports will provide an estimate for the end of the fiscal year along with the projected budget for the new fiscal year. After the budget document has been completed, the Chief Administrative Officer (City Administrator) will review the budget information. The Chief Administrative Officer (City Administrator) has the discretion to adjust any part of the budget.

The city council will review several drafts of the budget over the span of several months. When the city council's work is complete, the principal accountant will submit the budget with the city council's recommendation for adoption.

When the budget is adopted, staff will proceed to take the necessary steps to implement the budget projects during the new fiscal year. If the budget is not adopted at the first submittal, staff will make any changes requested by the city council and resubmit the budget at an appropriately designated meeting or a special council meeting if necessary. The Principal Accountant is responsible for the budget and the creation of the new budgeting policies and procedures. These new policies and procedures will be included in the timetable to be presented to the State auditor in the six month review.

Recommendation

- Continuous monitoring of actual expenditures against the budget and seeking city council approval of budget augmentations when necessary.

City's Response

Agree with the recommendation. The City has adopted a "Budget vs. Actual" report that is reviewed on a monthly basis by the city administrator. In the event that a budget augmentation is necessary, city council will be advised and council approval will be sought. All budgeting processes and policies will be documented to safeguard that future administrations and city councils continue the established guidelines by the current administration and city council. The City will present the timeline for review of these policies at the six month review by the state auditor.

Recommendation

- Monitoring of the differences between actual and budgeted revenue and expenses, and developing plans for the use of any excess revenue.

City's Response

Agree with the recommendation. If there is any excess of revenue or expenditures lower than budget, then the City can determine if any of the amounts should be used for creating reserves and/or paying debts. This will be part of a fiscal policy.

The City, for the general fund, has determined the amount to be received or expended each month. This is not simply dividing the amounts by 12, but rather by amounts that are expected each month. For example, property tax revenue is received in two large portions (December/January and April/May). Also the most significant general fund revenue is Vehicle License Fee (\$2.5 million) which is

received $\frac{1}{2}$ in January and $\frac{1}{2}$ in May. This will be used for the periodic reports provided to the city council and is especially useful when comparing year-to-date actual vs. budget. See reference to “Budget vs. Actual” report above.

Excess revenue will be used for any debt payments and to provide urgent city services. The timeline for completion of this fiscal policy will be presented to the state auditors at the six month review.

Recommendation

- Development of a comprehensive framework for the multiyear fiscal planning to better inform its decision-making process. This framework should identify the funding sources and timetable for paying off its long outstanding debts.

City’s Response

Agree with the recommendation. The Principal Accountant is required to prepare a five-year financial plan, which will be reviewed and revised on a yearly basis and will include the City’s capital, revenue and expenditure projections and outlines proposed repayment plans of outstanding obligations for the upcoming fiscal years. The timeline for completion of this fiscal policy will be presented to the state auditors at the six month review.

Recommendation

- 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.

City’s Response

Agree with the recommendation. The city administrator will include in the accounting policies and revised procedures a six month review by the city council of the budgeted to actual revenue and expenditures. It is important to mention that monthly comparison budget reports are already available to the city council since October 2016. The city administrator presents a summary of the Budgeted versus actual revenue and expenditures every month. By the State Auditor’s six month review, the City will have a timeline for all accounting and budgeting policies to be completed.

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

Recommendations to Address This Risk (Page 29)

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

Recommendation

- 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.

City's Response

Agree with the recommendation. The City has hired an additional parking enforcement officer who is working full time (40 hours per week) was hired in July 2016. From the period of July 16, 2016 to October 4, 2016 this newly hired parking enforcement officer issued 1,755 citations which resulted in \$107,673 in additional revenue.

It has also been determined that the City needs at least one more parking enforcement officer to cover weekend overnight parking concerns. The City has posted a position on their City website for this. A comprehensive overview of the City's parking enforcement needs is being documented. This overview will be presented to the state auditors at the six month review.

For the code enforcement function, the current city administrator realized that this function was costing the City over \$100,000 per year and was performed by an engineering services contractor for four hours per day (half time). As a first step, the city administrator hired a full time employee at a substantial reduction in cost to the City to fulfill the building/code inspection duties. A further overview of the City's code enforcement needs is being evaluated and documented. This overview will be presented to the state auditors at the six month review.

For business license fees, interns are mailing business license renewal notices. City staff closely monitors this activity. For reconciliation of business licenses entered and processed, two separate staff members will perform these functions. The business license policy for the City is being refined. The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- Develop a process to ensure that all businesses operating within city limits, including its contractors, have a valid business license. For example, Maywood should consider hiring an outside vendor to identify businesses that are operating in the City without a valid business license. 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.

City's Response

The City contracts with a firm for sales tax analysis and tracking. Prior to the release of the State Audit, the City contacted that firm and was able to obtain a file containing all the businesses in the City that collect sales tax. Since the business license software is from the same firm providing the sales tax analysis, the City has been able to find those businesses that collect sales tax, but do not have a Maywood business license. Maywood is in the process of contacting those businesses. Note: this was accomplished without paying a consultant or firm to canvass the City. The City administration will study the option to hire a collection agency to reach those businesses that do not pay sales tax; an update on the results will be available to the State auditors at the six months review.

Recommendation

- Require business owners to provide supporting documentation for their reported revenue that the City uses to calculate the cost of the business license.

City's Response

The City has already formulated a requirement that calls for all business owners to submit their Federal Income Taxes for tax verification. This determines the cost of their business license payment and confirms their reported gross receipts. The process was implemented in November 2016 for all 2017 license renewals. The documentation of this process is in work. The timeline for completion of the documentation of this process will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

Agree with the recommendation and the following procedures are already in place

- The accounting department sends monthly invoices by mail on the 1st day of each month to all lessees. Lessees have ten days to submit payment. If timely payment is not received, the accounting department sends a delinquent invoice notice which would include late fees according to their respective contract. This procedure has been in place since June 2016. All lessees have been paying on time since this procedure has been implemented and the City has not been in the need to send a delinquent invoice notice. It is the Principal Accountant's responsibility to oversee that this procedure is followed in a timely manner.
- A spreadsheet of all vendors and lessees the City has business with containing the name and contract expiration date has been created. The accounting department and the city administrator are in the process of reviewing that all contracts are current and that there are no breaches of any contracts. As a result of this review, the city administrator has been meeting with some of our lessees and vendors whose contracts are about to expire or have expired in order to negotiate the terms of the new contract.
 - It has been established that the executive assistant to the city administrator will keep track of all contracts. As an internal control measure, the accounting department has documented all contract's expiration dates. Contract's expiration dates are now being tracked by the accounting department.

The City Administration is aware of the importance to have procedures and policies in place in order to ensure effective management of its leases. The Principal Accountant will be including this policy as part of the administrative and accounting policies review that is currently taking place. The timeline for completion of the updated and revised accounting policies and procedures manual will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

Agree with the recommendation. The City's new parking citation contractor, *Phoenix Information Group Systems*, is in the process of converting the data from a prior company (*CiteZone*) to enable the City to capture all unpaid citations.

Phoenix claims that the process of converting the data is tedious. The timeline for completion of this conversion will be presented to the state auditors at the six month review.

Recommendation

- Ensure that it maintains current copies of its contracts with all vendors and lessees, including its waste contractor.

City's Response

Agree with this recommendation. See above response regarding lessees and vendors. A process and policy for these items is being documented. The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- Review all past payments received from Republic Services to ensure that they complied with the terms of the appropriate contract. If any underpayments are identified, pursue the collection of those amounts to the extent possible.

City's Response

Agree with the recommendation. The city administrator has given the principal accountant the task to review past payments received from Republic Services. If any underpayments are identified, the City will pursue the collection of those amounts accordingly. The City will present its findings to the state auditors at the six month review.

Recommendation

- 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.

City's Response

Agree with the recommendation. The City is in the process of reviewing the terms of each contractor for all future payments. This process is being documented and formalized at this time. The timeline for completion of this process will be presented to the state auditors at the six month review.

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

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

Recommendations to Address This Risk (Page 37)

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:

Recommendation

- 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.

City's Response

The new city administration understands the importance and has demonstrated commitment to adhere to the municipal code and state law and regulations when required to contract new vendors and independent service providers. Since April 2016 and to the extent of his authority, the city administrator advises and presents detailed information to the city council so that the most qualified vendors at the best price are chosen as rightly recommended by the State Auditors.

Recently the City has issued various RFPs for services. These services include engineering services, grant writing services, transportation services, and special legal counsel services. In all these instances the City has followed the bidding and contracting process according to code. The city administration is committed to continue doing so. The City is considering amending the municipal code to further define this competitive process. The timeline for completion of this process will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

Agree with recommendation. The city administrator will ensure that city staff members involved in any procurement activity will receive the proper training. The city administrator and city attorney will review recommendation with city council so

that the city council can also receive the proper training. These two actions are being formalized in a comprehensive training plan. The timeline for completion of this training plan will be presented to the state auditors at the six month review.

Recommendation

- Ensure its contracts accurately specify the city's needs in terms of the required services and allowable maximum contract amount.

City's Response

The city administrator recently directed staff to provide and maintain a list of current contractors and their respective contract termination dates. Additionally this list includes any contracts that automatically renew. All current vendor contracts are under review by the City staff and the city attorney. Staff and legal counsel are responsible for the completion of this review and have been instructed to complete this review no later than February 28, 2017. So far, this review has revealed no contract breaches, nor contracts missing the specification of the required service or the allowable maximum contract amount. However, the City recognizes the need for a more formal process in this regard. So the City is committed to formulating a detailed policy with regards to contractors. This policy will include specific details on what is expected of the contractor, time limits, terms, etc. The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- Ensure that the city administrator or city manager develops and implements the purchasing policies and procedures manual required by Maywood's municipal code.

City's Response

Maywood has purchasing policies in place and adopted by the city council. The city administrator is in the process of reviewing these policies and will modify as appropriate. The timeline for completion of these policies will be presented to the state auditors at the six month review.

Recommendation

- 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.
- Comply with applicable state law, such as the prevailing wage law.

City's Response

Agree with recommendation. The City has not determined any bridges to contracts nor lapse in service since the new administration began (April 2016). The new city administration appreciates the state auditors' recommendation and will continue to closely monitor all contractors. The financial aspect of the contractor is closely reviewed by the Principal Accountant. Depending on the project or the contract, the city administrator or his designee is directly responsible for the verification that contractors adhere to all terms of their contract. This process of monitoring contractors, contracts, contractor performance, and addressing prevailing wage laws is being formalized in a city contractor policy. The timeline for completion of this policy will be presented to the state auditors at the six month review.

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

Recommendations to Address This Risk (Page 40)

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

Recommendation

- 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, the issuance of business licenses and parking fees, and regularly reconciling general ledger account balances to supporting records.

City's Response

Agree with this recommendation and the following actions have been taken to improve the current status of our internal controls and financial reporting.

The Principal Accountant has started a thorough review of the City's current accounting processes and the establishment of new policies. As a result, a proper segregation of duties and supervision over cash receipts, accounts payable, invoice support documentation and the issuance of business licenses and parking fees has been established assigning responsibility for different parts of a process to different people so that no one person can control the entire process. An

automated cashier system that allows viewing on a secure server the data of all monies received and delivers detailed reports has replaced the old, hand written system previously used by the City. This new automated cashier system has been in place since July 2016, per the new city administrator's direction. A daily summary at the end of each business day allows the accounting staff to easily verify all transactions and speeds up the preparation of the daily deposit and revenue recording.

Blank check stocks, parking permits and valuables are kept under lock in a secure location. The Principal Accountant is the one who has access and distributes blank checks for printing of check payments. An accounts Payable Check Log that includes date, check numbers in the specific batch, description and the signature of the accounting clerk receiving the blank checks is kept along with the blank checks. A copy of the key to the lock is kept in a secured location.

The following monthly financial reports are generated and utilized to detect possible errors in accounting records and to support the city administrator in the decision making process involving the City finances and adopted budget.

- Budget Vs Actual Report
- Cash Flow
- Trial Balance
- A monthly bank reconciliation is timely performed.
- In preparation for the external audit we are currently undergoing for the FY 15-16 the accounting department is in the process of reviewing all General Fund balances.

The aforementioned policies and procedures are in the process of being formally documented in the City's accounting policy. The timeline for completion of this policy will be presented to the state auditors at the six month review.

Recommendation

- 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.

City's Response

Agree with this recommendation. The principal accountant already started with this process and is scheduled to complete documentation of the accounting policies and procedures by the end of the third quarter of the fiscal year 2016-2017. This documentation will include a schedule to perform quarterly reconciliations of selected general ledger account balances to supporting records.

Recommendation

- Ensure that staff follows the updated policies and procedures in the manual through training and proper oversight.

City's Response

Agree with this recommendation. To ensure the implementation of the updated accounting policies and procedures the principal accountant will be offering relevant and repeated supportive training.

As a new policy is implemented all relevant employees have been informed via email and via one-on-one meetings, where the principal accountant explains the policy or new procedure and solicits questions. We understand that policies should be evaluated and that are only effective when they are enforced. The city administrator keeps an open door policy giving all employees the space to express any doubts and suggestions; a space where we explain the steps we are taking and why, with the intention to foster good faith among all employees.

Recommendation

- 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.

City's Response

Agree with this recommendation and the following actions have been taken. The City of Maywood is staffed with a full time principal accountant since September 7, 2016. The city administrator is evaluating the accounting department needs and a consideration to hire a second accounting clerk is being discussed. The current City's organizational chart, job descriptions and work load of all employees are being reviewed by the city administrator to assure that all departments are properly staffed. The new organizational chart will be ready no later than January 30, 2017.

Please note that since September 2016 all vendors have been paid on time. Exceptions are made when there is a discrepancy or unresolved issue regarding the invoice or service provided. A new policy of Net 30 (invoice payable 30 days after invoice submittal) is now in place and currently practiced. All accounting, personnel and administrative policies will be available for review by the State in the City's six month response review.

Recommendation

- 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.

City's Response

Agree with this recommendation. The Principal Accountant is responsible for generating all internal financial reporting. As previously stated, the following financial reports are currently generated:

- Monthly Budget Vs Actual Report for Internal review by the Principal Accountant and City Administrator.
- Monthly Cash Flow
- Monthly Trial Balance
- In January of each year a review of the Budget Vs Actual will be performed to determine necessary amendments.
- The City's Biennial Budget format will be revised and updated to incorporate all required components.

As mentioned earlier in this response, these details will be formalized in a city accounting policy document. The timeline for completion of this policy will be presented to the state auditors at the six month review.