

CITY OF MAYWOOD
Maywood, California

Single Audit Report on Expenditures of Federal Awards

Year Ended June 30, 2008

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Single Audit Report on Expenditures of Federal Awards
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City Council
City of Maywood, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Maywood, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2009. We conducted our audit in accordance with 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Maywood's financial statements are free of 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Maywood's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Maywood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Maywood's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiencies described above conform to this definition.

The City's written responses to the significant deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, City's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Manager Hoffman III Council

Irvine, California
March 30, 2009



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City Council
City of Maywood, California

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Maywood, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to its major federal program for the year ended June 30, 2008. The City of Maywood's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Maywood's management. Our responsibility is to express an opinion on the City of Maywood's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Maywood's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Maywood's compliance with those requirements.

In our opinion, the City of Maywood complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Maywood is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Maywood's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Maywood's internal control over compliance.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Maywood, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 30, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Maywood's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, City's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McLaren R.L.

Irvine, California
March 30, 2009

CITY OF MAYWOOD
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Award Expenditures	Amounts Provided to Subrecipients
U.S. Department of Housing and Urban Development:				
Passed through the County of Los Angeles:				
Community Development Block Grant:	14.218	D96409-05	\$ 10,000	\$ 10,000
		D96411-05	22,207	-
		600952-07	375,450	-
		600868-07	93,274	93,274
		600963-07	10,000	10,000
		600949-07	46,371	46,371
		600791-05	97,328	-
		600906-05	9,536	-
Total expenditures of federal awards			<u>\$ 664,166</u>	<u>* \$ 159,645</u>

* Major program

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MAYWOOD

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Maywood (City) that are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal organizations. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

(c) Subrecipient Expenditures

During the fiscal year ended June 30, 2008, the City of Maywood disbursed \$159,645 of its Community Development Block Grant funds to subrecipients to be used for the allowable expenditures as provided in the grant agreement.

CITY OF MAYWOOD

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were significant deficiencies in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was the Community Development Block Grant program funded by U.S. Department of Housing and Urban Development, CFDA #14.218, which was passed through the County of Los Angeles Community Development Commission.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee was considered to be a high risk auditee for the year ended June 30, 2008 for purposes of major program determination, as defined by OMB Circular A-133 paragraph .530.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(08-1) Segregation of Duties over Payroll Functions

The Accounting Technician Aid II makes all changes to employee payroll information, adds new employees, removes terminated employees and processes payroll. Since there is currently no final review of the payroll register or of payroll record changes by someone other than the Technician Aid II, the Technician Aid II could process an unauthorized payroll check or make an unauthorized pay rate change and have the transaction go undetected. Sound internal controls dictate that the duties of recordkeeping and authorization be segregated.

CITY OF MAYWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(08-1) Segregation of Duties over Payroll Functions, (Continued)

Recommendation

We recommend that the Technician Aid II be denied access to establish or remove employees from the system. This duty is best performed by the Human Resource Department. If this is not practical, we recommend that someone, other than the Technician Aid II (such as the Accountant), review the payroll register before and after payroll is processed. The Accountant should also balance the final register to the general ledger, as well as, the direct deposit receipt from the bank. The Accountant could also select a sample of employees on a periodic basis and balance their pay rate information to their respective personnel action form.

Management's Corrective Action Planned or Taken

The Accountant began in FY 2009, to review the payroll register to the general ledger, trace direct deposit to the bank statements, and will be selecting a sample of employees and trace the pay rate on the payroll register to the personnel action form.

(08-2) Deficits and Surpluses in Funds

The City has numerous grant funds with deficit fund balances (i.e. Traffic Safety, Bikeway Grant, HCDA Grant, Air Quality Improvement, C.O.P.S. AB 3229). Deficit fund balances in grant funds typically indicate that some aspect of activity recorded in that fund in the past was incomplete or improperly recorded. The City may want to consider transferring unrestricted general fund monies to such funds where deficits are not expected to be recovered. The City should also investigate grant funds where there is excess fund balance (Section 108 Loan Fund, Proposition C Fund and OTS Grant Fund) to determine if eligible administrative costs can still be charged to such grants.

Recommendation

We recommend that the City identify the cause for surpluses and deficits in its various funds. Where deficits represent the recording of unallowable costs or costs in excess of grant maximums, transfers from other funds should be recorded to eliminate the deficit and to properly charge other funds of the City for subsidization of this activity.

CITY OF MAYWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(08-2) Deficits and Surpluses in Funds, (Continued)

Recommendation, (Continued)

In some cases, fund surplus's may represent costs legitimately billed to that fund's grant, but that were recorded in another fund of the City. Where this can be identified, interfund transfers should be recorded to properly match funding sources with recorded allowable expenditures.

The City should also research those funds for which additional administrative costs can be legitimately re-assigned in the accounting records to those grants with surpluses (without overcharging the grant if there are limitations on administrative costs). Administrative costs should be charged to grants only when the costs so charged are proportionate to the administrative time associated with that grant.

In cases where fund surpluses can not be resolved as a result of the aforementioned analyses, the agency that provided the funding should be contacted in order to ascertain the stipulated disposition of any unspent funds.

Management's Corrective Action Planned or Taken

Finance Department has analyzed funds in FY 2008 and will avoid deficits for future fiscal periods.

(08-3) Accurate Reporting of Interfund Balances

During our testwork of due to/from other funds we noted that the accounts contained old balances carried forward from previous years. In addition, we noted instances where certain funds have both receivables and payables recorded and where certain restricted special revenues funds have loaned funds to other funds of the City. Due to/from other funds are intended to be a short term loans between funds for various purposes. Long term loans should receive City Council approval and be reclassified as advances to/from other funds. Permanent transfers of funds should be reclassified as transfers in/out.

Recommendation

We recommend that the City review the balances of due to/from other funds and take appropriate actions to ensure balances remaining represent short term borrowing between funds.

CITY OF MAYWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(08-3) Accurate Reporting of Interfund Balances, (Continued)

Management's Corrective Action Planned or Taken

The Finance Department did not correct due to/from other funds because the City's numerous bank accounts in FY 2008. The City's bank accounts were consolidated in October 2008. This finding has been corrected in FY 2009.

(08-4) Timely Reconciliations of General Ledger Accounts

During the course of the audit, we noted multiple instances where reconciliations of various general ledger accounts were not reconciled in a timely manner. Monthly reconciliations of receivables and payables are important components of an organization's internal control structure and help management identify potential errors and misstatements and allow for timely and accurate financial information to be presented to management.

Recommendation

We recommend that general ledger accounts are reconciled on a regular and timely basis upon the closing of the period.

Management's Corrective Action Planned or Taken

In FY 2008, accounts receivable and payables were not reconciled timely. The finance Department has implemented procedures to reconcile all general ledger accounts timely.

(08-5) Consider Reducing number of City Bank Accounts

We noted that the City has multiple bank accounts opened to account for activities of certain funds as well as the City's general operating activities. Having multiple bank accounts decrease the lack of control over cash and increase the susceptibility of errors occurring when accounting for City funds.

Recommendation

The City should limit the number of bank accounts to one general bank account for all of the City's operating activities. Additional accounts should be closed with the respective banks.

CITY OF MAYWOOD

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(08-5) Consider Reducing number of City Bank Accounts, (Continued)

Management's Corrective Action Planned or Taken

The City consolidated bank accounts in October 2008. Currently, the City has one checking account. This finding is corrected in FY 2009.

(08-6) Financial Condition of City

As of June 30, 2008, the general fund of the City had expenditures in excess of revenues of \$1,213,205 and a decrease in fund balance of \$1,949,233. The general fund has an unreserved fund balance of \$1,346,620 available for future operations of the City.

Recommendation

City Council should look into new ways of securing revenue sources for the future years as well as look into methods decreasing costs.

Management's Corrective Action Planned or Taken

The City's management team is working on a goal-oriented plan to achieve financial stability. Management's plan includes decreasing expenditures and monitoring budget to actual variances, seeking new revenue sources, creating a new internal service fund to effectively account for purchases of vehicles and equipment, and analyzing all departments operations for efficiency and effectiveness. The City's management is optimistic that with the implementation and monitoring of these goals, the financial status of the City's general fund will improve.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

CITY OF MAYWOOD
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Status of Prior Year Audit Findings:

(07-1) Segregation of Duties over Payroll Functions

The Accounting Technician Aid II makes all changes to employee payroll information, adds new employees, removes terminated employees and processes payroll. Since there is currently no final review of the payroll register or of payroll record changes by someone other than the Technician Aid II, the Technician Aid II could process an unauthorized payroll check or make an unauthorized pay rate change and have the transaction go undetected. Sound internal controls dictate that the duties of recordkeeping and authorization be segregated.

Status

This comment has not been resolved; see finding (08-1).

(07-2) Improvements to Bank Reconciliations

During our first field visit in July 2007, we noted that the City's reconciliation of their bank accounts were not up to date and the bank reconciliations were not being reviewed. During that visit we also noted the person who was in charge of preparing the bank reconciliations had access to the City's vault where the prior day's cash receipts were kept.

During our second field visit in January 2008, the City had changed their bank reconciliation process and was up to date on their monthly bank reconciliations and the bank reconciliations were being reviewed by someone other than the preparer; however, the review was not documented. The person who prepares the bank reconciliation no longer has access to City's assets

Status

This comment has been partially resolved; see finding (08-5).

(07-3) Use of a Third Party Custodian

During the fiscal year the City invested a portion of their asset forfeiture funds in federal agency securities with Wells Fargo. Wells Fargo acted as both the custodian and broker of this investment. Sound internal controls dictates that the broker and custodian of investment transaction should be separate and investment purchases should be executed on a deliver versus payment method if such investments are material. It should be noted that the City no longer has federal agency securities in its portfolio as of July 31, 2007.

CITY OF MAYWOOD

Summary Schedule of Prior Audit Findings

(Continued)

Status of Prior Year Audit Findings, (Continued):

(07-3) Use of a Third Party Custodian, (Continued)

Status

This comment has been resolved.

(07-4) Enhancing Controls over Cash Disbursements

During our review of internal controls over cash disbursements, we noted the following:

- The City's purchasing policy only requires one approval of an invoice as long as it is the respective department head's approval. Controls over disbursements would be strengthened if a knowledgeable person in finance also review and initial invoices that are okay to pay to ensure that adequate supporting documentation is attached and that the purchase is appropriate and benefits the operations of the City.
- Positive pay is a control that ensures all checks presented to a bank for payment that bears the City's name is a valid amount and check number. Basically, the check register is electronically submitted to the bank. When checks are presented for payment, the bank will compare the amount and check number to the electronically submitted check register. The City is not currently using positive pay.

Status

This comment has been resolved.

(07-5) Enhancing Controls over Cash Receipts

During our review of cash receipts, we noted the following opportunities for improvements in internal controls:

- When the City receives checks at the counter in City Hall or through the mail the checks are not restrictively endorsed until the following morning. Proper internal controls states that checks received should be restrictively endorsed immediately upon receipt.
- Proper segregation of duties does not exist for cash receipts over customer receivables such as business license and parking citations. Cash receipt clerks receive cash from customers and update customer account. However, a reconciliation is not always performed between the amount of cash received and the amount of payments posted to customer accounts by someone other than the

CITY OF MAYWOOD

Summary Schedule of Prior Audit Findings

(Continued)

Status of Prior Year Audit Findings, (Continued):

(07-5) Enhancing Controls over Cash Receipts, (Continued)

cash receipt clerks. Sound internal controls suggest that on a daily basis someone, other than those in charge of recordkeeping, ensure that cash receipts agree to cash register tapes and the deposit receipt from the bank. This person should also ensure that all voids\adjustments to register tapes are valid.

- An additional control over cash receipts is to numerically control manual receipts. During our review of cash receipts of the City, we noted the manual receipts are not numerically controlled.

Status

This comment has been resolved.

(07-6) Adjustment Detected by Audit Process

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in his or her report of significant control deficiencies material adjustments detected by the audit process. For the year ended June 30, 2007, material adjustments provided to us after audit fieldwork began were:

Adjustments to transfers in/out
Adjustments to cash with fiscal agent
Adjustments to cash and investments
Adjustments to accounts payable
Adjustments to record deferred revenue
Adjustments to due to/from other funds
Adjustment to accounts receivable
Adjustment to revenues and expenditures

Status

This comment has been resolved.

(07-7) Deficits and Surpluses in Funds

The City has numerous grant funds with deficit fund balances (i.e. Police Asset and Seizure Grant Fund, Bikeway Grant Fund, and County Aid to Cities Fund). Deficit fund balances in grant funds typically indicate that some aspect of activity recorded in that fund in the past was incomplete or improperly recorded. The City may want to consider

CITY OF MAYWOOD

Summary Schedule of Prior Audit Findings

(Continued)

Status of Prior Year Audit Findings, (Continued):

(07-7) Deficits and Surpluses in Funds, (Continued)

transferring unrestricted general fund monies to such funds where deficits are not expected to be recovered. The City should also consider not charging costs to grant funds where there are not significant revenues to subsidize such costs (i.e. UDAG Fund and HCDA Fund). Finally, the City should also investigate grant funds where there is excess fund balance (Section 108 Loan Fund, Air Quality Improvement Fund and OTS Grant Fund) to determine if eligible administrative costs can still be charged to such grants.

Status

This comment has not been resolved; see finding (08-3).