



**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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 4, 2022.

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.

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 deficiency described in the accompanying schedule of findings and responses as item 2021-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

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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.

A handwritten signature in black ink that reads "Van Lant + Fankhanel, LLP". The signature is written in a cursive, flowing style.

February 4, 2022

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

2021-001 Accuracy of Accounting Records

Condition:

While performing audit procedures, we identified and proposed several material adjusting entries to the City's accounting records. Furthermore, *Statements on Auditing Standards No. 115, "Communicating Internal Control Related Matters Identified in an 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."

Criteria:

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.

Cause of Condition:

Adjustments identified through the audit process.

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.

Views of Responsible Officials:

Management concurs with the auditor's recommendations. Finance will review balance sheet accounts on a monthly basis. At year end the Finance Director will also review the major balance sheet accounts. Finance will maintain an annual year-end close checklist that will be signed off as completed.

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

2021-002 Issuance of Building Permits

The following is a continuation from the prior year:

Condition:

The City's building permit system is an HdL permit software, separate from the City's general ledger accounting system. Payments for building permits are collected by the cashiers through the cash receipting system. The fees are calculated by the Building Official and the applicant must pay at the cashier. However, there is no reconciliation being done between the permits issued and the revenues collected and posted to the general ledger for building permits.

Criteria:

In a strong internal control environment, permits issued should be reconciled with the revenues collected and recorded in the general ledger on a periodic basis to verify all permits issued have a corresponding cash receipt.

Cause of Condition:

The City does not reconcile the building permits issued to the revenues collected and recorded in the general ledger.

Potential Effect of Condition:

Building permits could be issued without a corresponding cash receipt being recorded in the City's general ledger and deposit in the City's bank account.

Recommendation:

We recommend the City implement a procedure to generate reports from the building permit module, periodically (daily, weekly, monthly) and have someone independent of the permit issuance and collection functions review and reconcile the amounts from these reports to the revenues posted in the City's general ledger.

Views of Responsible Officials:

The City will begin to develop a plan to reconcile the building permits issue to the revenues collected and recorded to the general ledger.

CITY OF MAYWOOD
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

2021-003 Parking Citations and Permits Collections

Condition:

During the course of our audit we evaluated various revenue accounts in the City's general ledger and analyzed variances to the prior year and other expectations. While performing these procedures we noted that parking citations and parking permit revenues were below our expectations and, based on review of invoices from the contracted parking citation and permit collection administrator (third-party vendor) we noted that a significant number of permits and citations were issued by the City. Upon further inquiry with City staff, we found that the third-party vendor had not submitted more than \$330,000 in fees collected to the City.

Criteria:

In a strong internal control environment, City staff should periodically evaluate (monthly, quarterly, etc.) and monitor general ledger balances as well as year-to-date budget to actual reports to determine any discrepancies and unusual variances in expected activity.

Cause of Condition:

Third-party vendor did not remit payments collected on the City's behalf in a timely manner and budget-to-actual comparisons were not sufficient to identify the decrease in parking citation and parking permit revenues.

Potential Effect of Condition:

The ability to identify and detect material misstatements to the City's accounting records in a timely manner is reduced.

Recommendation:

We recommend the City implement a procedure to perform detailed review and analysis of budget-to-actual reports on a period basis throughout the year and at year-end to ensure timely identification of any unusual variances in the City's general ledger.

Views of Responsible Officials:

The City will develop a procedure to reconcile the parking citations and permits issued to the revenues collected and recorded to the general ledger. Finance will also review budget-to-actuals throughout the year on a monthly basis and at year end to identify any potential variances in the general ledger.