



December 15, 2022
2022-807

City of Maywood—Local High Risk

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

In October 2016, we issued Report 2015-803, *City of Maywood: Its Flawed Governance and Financial Mismanagement Could Compromise the Basic Services It Provides to Residents* (2016 audit), in which we concluded that the city of Maywood (Maywood) was a high-risk city because of substantial risk factors regarding its financial and operational management. In December 2019, we issued a follow-up report (2019 report) concluding that Maywood remained at high risk.

However, in the three years since we issued our follow-up report, Maywood has satisfactorily implemented its corrective action plan and made substantial and sustained progress in addressing the risk factors we identified. Therefore, as state regulations require, we are issuing this report to notify the city and the Legislature that we have updated our assessment of Maywood's status and no longer consider Maywood to be high risk.

Table 1 shows the three main areas of risk that our 2016 audit identified: Maywood's weak governance, its ineffective financial management, and its weak internal controls. During the six years since our initial audit, Maywood has taken steps to satisfactorily address these three areas. To address its weak governance, Maywood has improved its process for hiring and overseeing its key management positions, including establishing a comprehensive hiring policy and evaluating the performance of its city manager. Maywood has also strengthened its financial management. For example, it has ceased incurring ongoing deficits and has improved its budget policies. In addition, it has made progress in establishing critical internal controls that were lacking. Maywood is in a more favorable financial and operational position than it was in October 2016. According to our local high-risk dashboard, Maywood has significantly improved its financial health indicators, and we now classify the city as being at only moderate fiscal risk.

Although the city still has some room for improvement, it has satisfactorily implemented key elements of its corrective action plan and addressed the core deficiencies we identified in our prior reports. We will continue to monitor Maywood's financial condition—as we do with all California cities—through our local high-risk dashboard. We may subsequently reevaluate whether Maywood should be designated as high-risk if its situation changes and it appears to be at risk of not being able to meet its financial obligations or provide efficient and effective services to the public.

Table 1
Maywood Has Resolved, Addressed, or Partially Addressed All Areas of Risk We Identified

AREA OF RISK	DECEMBER 2019	DECEMBER 2022
<i>Maywood's Weak Governance Inhibits Recovery From Its Precarious Financial and Operational Condition</i>		
<i>City council's inadequate oversight of city operations</i>	PARTIALLY ADDRESSED	PARTIALLY ADDRESSED
<i>City council's lack of transparency</i>	ADDRESSED	ADDRESSED
<i>Ineffective Financial Management Hinders Maywood's Economic Recovery</i>		
<i>Ongoing deficits</i>	PARTIALLY ADDRESSED	RESOLVED
<i>Deficient budgeting process</i>	PARTIALLY ADDRESSED	ADDRESSED
<i>Failure to maximize revenue</i>	PARTIALLY ADDRESSED	RESOLVED
<i>Weak Internal Controls and Noncompliance With Its Municipal Code Compromise Maywood's Provision of Basic Services to Residents</i>		
<i>Poor contract administration</i>	PARTIALLY ADDRESSED	ADDRESSED
<i>Inadequate accounting controls</i>	PARTIALLY ADDRESSED	PARTIALLY ADDRESSED

Note: December 2019 is our previous most recent assessment of Maywood's progress in addressing its risk areas.

HIGH-RISK AREA #1—Maywood's Weak Governance

***Status:** Based on the city's improved hiring practices, the city council's additional oversight of its city manager, and the city's increased guidance for newly elected council members, we conclude that Maywood has satisfactorily addressed this risk area.*

City Council's Inadequate Oversight and Lack of Transparency

Our 2016 audit highlighted multiple ways in which the city council failed to adequately oversee the city's financial and administrative functions. Such instances included poor handling of a former city manager's contract, which placed restrictions on the city's ability to dismiss that city manager and made her dismissal in December 2015 very costly. For example, the city council amended the previous city manager's contract in a way that restricted its own ability to dismiss her and increased her severance package from 12 to 18 months of pay. After the city manager's dismissal in December 2015, the city council replaced the former city manager and the former city attorney. However, during the following five months, the city experienced additional turnover in key leadership positions when the city council once again replaced the individuals in the positions of city manager and city attorney.

In contrast, the city hired a new city manager in May 2019, and she continues to hold the position as of November 2022. As we discussed in our 2019 report, Maywood improved the city manager's contract by including an annual performance evaluation requirement, a reasonable termination clause, and a modest severance package equal to three months of pay. The city council then evaluated the performance of the current city manager in 2020, 2021, and 2022, demonstrating improvement in its monitoring of that individual's performance, unlike its previous approach of not monitoring the performance of the former city manager over her five-year tenure. As a result, the city council's decision to extend the city manager's contract by three years in May 2021 demonstrated its confidence in the current city manager's performance. Although this new contract increased the city manager's severance package to nine months of pay, this amount is still consistent with guidance from government finance organizations.

As we indicated in our 2019 report, the city has made improvements in the area of transparency, including adopting a comprehensive hiring policy. Several of our original recommendations focused on ensuring that council members have sufficient knowledge of the city's municipal code, open meeting requirements, and other subjects related to their responsibilities. The city has also improved in this area. For example, since 2020, newly elected city council members are provided a handbook that contains information on council procedures, responsibilities, and open meeting requirements. Although Maywood has not yet developed a formal training plan for council members that covers other topics such as financial management, we believe it is important that it does so. In addition, we recognize that this shortcoming may be common among cities, and, to that effect, we made a legislative recommendation in our October 2022 report about the city of Compton that would require certain training for council members statewide.¹

HIGH-RISK AREA #2—Ineffective Financial Management Hinders Maywood's Economic Recovery

Status: Based on its strengthened financial position, upgraded budgeting process, and improvements to its parking enforcement and business licensing functions, we conclude that Maywood has satisfactorily addressed this risk area.

Ongoing Deficits

While the city should take more active steps in addressing some of its outstanding debts, it no longer reports a general fund deficit and is in a much stronger financial position. It also made some progress in addressing our recommendations in this area after we issued our 2016 audit. As of June 2021, the city still remains in debt to the successor agency to its former redevelopment agency for an inappropriate transfer of \$2.6 million, according to its most recent audited financial statements. However, as we noted in our 2019 report, Maywood repaid \$3.1 million in overdue pension obligations to the California Public Employees' Retirement System, which our 2016 audit explained had exposed the city to potential termination of its pension plan. Further, in November 2021, Maywood formalized a plan to repay its \$9.3 million liability to the California Joint Powers Insurance Authority over a 30-year period, which is an improvement from its previous payment plan that would have taken the city 68 years to pay off this liability.

¹ Report 2021-802, *City of Compton: Financial Mismanagement and a Lack of Leadership Have Threatened Compton's Ability to Serve the Public.*

Deficient Budgeting Process

Maywood has made significant progress in improving its budgeting process since our 2019 report, in which we noted that the city began providing council members with monthly reports that compare budgeted to actual revenues but not expenditures. As a further improvement, beginning in 2020, the city started producing monthly reports comparing budgeted to actual expenditures that it indicates it provides to departments to review. Additionally, whereas we previously reported concerns about the timeliness of the city's budgets, the city has improved in this area too. For example, during the budget cycles for fiscal years 2020–21 and 2021–22, Maywood presented the budget for approval to the city council in a timely manner—before the beginning of the fiscal year covered by the budget. In 2021 and 2022, city management provided budget review workshops for members of the city council to help them better understand the contents of the budget document.

Moreover, in 2021 the city adopted a budget policy that is largely consistent with best practices. For example, the policy requires continuous monitoring of the operating budget throughout the year and requires city council approval for revisions to the budget that increase the total expenditures of any department or fund. Although the city still has not developed a comprehensive framework for multiyear fiscal planning to better inform its decision-making process, the overall quality of the city's budget documents has substantially improved. In relation to the concerns we raised in our 2019 report about its most recent budget document covering fiscal years 2019–20 and 2020–21, the city's fiscal year 2021–22 budget includes more key information, such as an overview of outstanding obligations and a discussion of significant revenue trends as best practices recommend.

Failure to Maximize Revenue

Compared to the stagnant general fund revenues of roughly \$7 million we discussed in our 2016 audit, Maywood has experienced consistently increasing general fund revenues since fiscal year 2018–19. Overall, the city's fiscal year 2020–21 audited financial statements show that Maywood received general fund revenues of \$15 million, compared to \$12.5 million in fiscal year 2019–20. This increase was likely driven by increased sales tax revenues from the cannabis industry, which we also discussed in our 2019 report. According to Maywood's fiscal year 2022–23 adopted budget, the cannabis industry accounted for more than \$4.1 million in sales tax revenue for the city in fiscal year 2020–21—an increase of \$1.6 million from fiscal year 2019–20.

Additionally, the city strengthened its parking enforcement and business licensing functions. Our 2016 audit found that Maywood did not have sufficient staff to enforce its parking laws, which resulted in significant lost revenue from parking citations that the city never issued or payments that it did not collect. In our audit, we found that the city employed only one parking enforcement officer. However, the city's fiscal year 2022–23 budget includes three full-time parking enforcement positions. Further, the city council approved a professional services agreement with a specialist in July 2021 to process business licenses, identify unlicensed businesses, and audit business licensing, as we recommended in 2016 to ensure that the city maximizes business license revenue. We also identified in 2016 that Maywood's previous waste management contractor substantially underpaid the city from the revenue it collected from customers. Even though Maywood has not yet demonstrated evidence of a documented process for monitoring future payments from its current waste management vendor, it has closed litigation against its previous waste management contractor.

HIGH-RISK AREA #3—Weak Internal Controls

Status: Based on its improved contract administration, adoption of key financial policies, and reduction in internal control deficiencies, we conclude that Maywood has satisfactorily addressed this risk area.

Poor Contract Administration

Maywood has appropriately addressed our concerns related to its contract administration, including its past failure to comply with competitive bidding requirements and the State's prevailing wage laws. As the city code requires, Maywood has adopted a purchasing policy for the purposes of ensuring that the city secures goods and services at the best value, exercising financial control over purchases, and defining purchasing authority. The city also provided evidence of its efforts to train all members of the city council and certain city staff on administering and approving contracts. Moreover, Maywood created a schedule of all contracts with start and end dates that it indicates city staff monitor on a quarterly basis to ensure the continuity of services being provided. The city also provided an example of a contract that includes clauses for compensation at prevailing wages.

Inadequate Accounting Controls

In response to our 2016 audit, Maywood adopted new budget, lease, reserve, and investment policies. In February 2022, the city published its audited financial statements for the year ended June 30, 2021, just as it did in February 2021 for the year ended June 30, 2020. This timing is an improvement from past years when the city would provide its audited financial statements to the city council as late as 15 months after the end of the fiscal year. Although the city's recent statements still lacked certain required narratives, they received clean opinions from the city's external auditor.

Additionally, the city has made progress resolving concerns raised by its external auditor. As of February 2022, the city's external auditor identified only three reportable deficiencies in its report on internal controls over financial reporting for fiscal year 2020–21. The only deficiency that was deemed to be a material weakness concerned the city's insufficient collection of parking citation and permit revenue. In response to the auditor, the city indicated that it would develop a procedure to reconcile the parking citations and permits issued to the revenues collected and recorded in the general ledger and review budget-to-actual parking revenues on a monthly basis. According to the city's current finance director, it has since implemented procedures to address this weakness. Nevertheless, the city's efforts to address its internal control issues appears to have contributed to a significant reduction in deficiencies compared to the eight deficiencies the auditor reported for fiscal year 2018–19, three of which were material weaknesses. Similarly, the external auditor reported three material weaknesses in fiscal year 2015–16 and five in fiscal year 2014–15, some of which we described in our 2016 audit. The city's past material weaknesses that are no longer concerns of the external auditor included insufficient staffing in its Finance Department, issues with internal controls over cash receipts, and concerns with the monitoring of vendor contracts. Maywood should continue to address any remaining deficiencies in its internal controls.

Local High-Risk Dashboard

Maywood has also shown sustained financial improvement on our Local High Risk Dashboard, as Table 2 shows. Maywood’s overall risk ranking improved from 9th highest risk among all cities in the State in fiscal year 2016–17 to 155th highest risk in fiscal year 2020–21. Financial data from Maywood’s audited financial statements for fiscal year 2020–21 show that the city’s ability to cover unexpected costs or shortfalls in revenue (reserves), its ability to pay its bills (liquidity), and its revenue trends have improved when compared to the amounts reported in fiscal year 2019–20. Moreover, Maywood’s ability to pay its pension obligations and its future pension costs improved in fiscal year 2020–21. As a result, Maywood’s overall score on our dashboard, based on financial data from fiscal year 2020–21, is 70.27 points, which places the city within one point of the range we assign to cities designated as low risk.

Table 2
Maywood Has Shown Sustained Improvement in Many Local High-Risk Dashboard Indicators

CATEGORY (MAXIMUM POSSIBLE POINTS)	2016–17	2017–18	2018–19	2019–20	2020–21	IMPROVEMENT (FISCAL YEARS 2016–17 TO 2020–21)
General Fund Reserves (30)	6.32	4.48	6.58	12.24	18.55	12.23
Debt Burden (15)	5.00	7.58	8.58	9.16	11.66	6.66
Liquidity (10)	6.20	6.35	6.10	7.25	9.80	3.60
Revenue Trends (5)	2.75	5.00	4.75	3.50	4.75	2.00
Pension Obligations (10)	0.00	2.16	3.20	3.20	4.88	4.88
Pension Funding (5)	3.05	3.05	3.00	2.95	3.40	0.35
Pension Costs (5)	2.50	2.78	2.78	2.50	3.06	0.56
Future Pension Costs (5)	0.56	1.39	1.39	1.67	4.17	3.61
OPEB Obligations (10)	10.00	10.00	10.00	10.00	10.00	0.00
OPEB Funding (5)	0.00	0.00	0.00	0.00	0.00	0.00
Total Score	36.38	42.79	46.38	52.47	70.27	33.89

Note: The highlighting above matches the dashboard’s methodology for high risk (red), moderate risk (yellow), and low risk (green) for each category. For further information on the methodology used for this year’s calculation, see our website at https://auditor.ca.gov/local_high_risk/process_methodology.

This assessment was conducted in accordance with California Code of Regulations, title 2, section 61140. In compliance with that section, we hereby inform the Joint Legislative Audit Committee and the city of Maywood of our conclusion that we no longer consider Maywood to be high risk.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael Tilden". The signature is fluid and cursive, with the first name "Michael" and the last name "Tilden" clearly distinguishable.

MICHAEL S. TILDEN, CPA
Acting California State Auditor

For questions regarding the contents of this report, please contact our Public Affairs Office at 916.445.0255.