

April 9, 2018

The Honorable Al Muratsuchi, Chairman
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, California 95814

RE: Local Government High Risk Audit Program – City of Lynwood

Dear Chairman Muratsuchi:

Government Code section 8546.10 permits the California State Auditor (State Auditor) to develop a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local government agency, including a city, county, special district, or other publicly created entity, that the State Auditor identifies as being at high risk for the potential of waste, fraud, abuse, and mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. Pursuant to this provision, I plan to present for the committee's review and approval a proposal to audit the city of Lynwood.

Located in southeast Los Angeles County, Lynwood has a population of more than 70,000 and covers 4.9 square miles. The city is governed by a city council of five elected officials who appoint a city manager to carry out the council's initiatives and provide administrative direction to the city. City staff provide services including public works, recreational and cultural activities, public improvements, planning, zoning, and general administrative services. Lynwood contracts with Los Angeles County for law enforcement and fire protection services.

The city's audited financial statements report general fund revenue of \$25.7 million for fiscal year 2015–16. The city's general fund revenue has fluctuated but declined overall during the past 10 years and its general fund expenditures have exceeded revenue in most of those years, thereby contributing to an overall decline in Lynwood's general fund balance. Although Lynwood has yet to publish audited financial statements for fiscal year 2016–17, a March 2018 staff report indicated the city's year-end general fund balance fell to just \$953,400. This is in spite of the city's earlier estimate that it would end the year with a \$3.8 million balance. For its fiscal year 2017–18 budget, Lynwood has projected higher revenues because of a 1 percent sales tax increase its voters approved in 2016, which will be in place for the next 10 years. However, the city also faces rising costs associated with staffing, public safety contracts, and retirement benefits; these costs threaten to exceed Lynwood's revenue even after the increase in sales tax and add to operational challenges that the city is already facing.

In its fiscal year 2015–16 audit report, Lynwood’s external financial auditor identified several weaknesses in the city’s internal controls over its financial reporting that could lead to misstatements in its financial reporting. These internal control weaknesses, which included insufficient financial policies and significant staff turnover at key positions, expose the city to increased risk of fraud or financial mismanagement. An audit would help the city of Lynwood to address many of its internal control issues. The proposed audit will address the following:

1. What is the reason for the fiscal year 2016–17 decline in Lynwood’s general fund balance and the significant discrepancy between the estimated and actual fund balance?
2. Are Lynwood’s current staffing levels and departmental structure sufficient to effectively provide city services? How do changes in staffing levels and compensation affect future personnel costs?
3. What are Lynwood’s processes for projecting revenues and expenditures? Do those processes follow best practices?
4. What is Lynwood’s ability to meet future costs and obligations, including any increases in salary and pension costs?
5. What is the status of Lynwood’s implementation of its plans to address internal control deficiencies identified in its 2015–16 fiscal year financial audit? Are there any other operational areas not directly related to financial reporting—such as procurement and contracting practices—for which insufficient controls may create an opportunity for risk of waste or abuse?
6. What effort is Lynwood making to fill key management positions and maintain organizational and leadership continuity within city operations?

If you have any questions regarding this audit proposal, please contact me or Paul Navarro, Chief Deputy Director of Operations, at (916) 445-0255.

Sincerely,



ELAINE M. HOWLE, CPA
California State Auditor