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CITY COUNCIL MEETING

NOVEMBER 2, 1983

ERNST & WHINNEY Following introduction of the matter by City Manager Glaves,
MANAGEMENT LETTER Council, on motion of Council Member Pinkerton, Murphy
FOR JUNE 30, 1983 second, received for filing the Ernst and Whinney Management
RECEIVED FOR Letter - June 30, 1983.
FILING

MEMORANDUM

TO: Henry A. Graves, Jr.
City Manager

FROM: Robert H. Holm
Finance Director

DATE: October 13, 1983

SUBJECT: Ernst & Whinney Management Letter - June 30, 1983

I have discussed the management letter with E & W and Finance Dept. staff and wish to offer the following comments.

PRIOR YEAR ITEMS

E & W's management letter of last year recommended we strengthen controls in the areas of payroll, budgeting, data processing and the protection of marketable securities. I am pleased to report we have taken care of all of these items.

CASH RECEIPTS

E & W is recommending the use of cash registers to record all cash receipts. We are looking into electronic cash registers that interface with our System 34 computer and I will give you a full report as soon as I can gather all the data.

CASH DISBURSEMENTS

E & W is recommending the check signature plate be picked up by myself, the Assistant Finance Director or the Senior Accountant. I concur with their recommendation and staff has initiated this procedure.

AUTHORIZATION OF PAYROLL DEDUCTIONS

In the past, we allowed the current Presidents of the several employee associations to give us a list of their members and an amount to deduct for dues with the understanding each association maintain a card file with an employee's signature. We will now contact each Association and ask that these cards be turned over to our department.

GRANTS

E & W recommends our office be notified whenever grants are applied for and that quarterly reconciliations be made between the Grantors records and the City. I concur with their recommendation and ask that each department notify our office when applications for grants are submitted. Our office will examine the expenditure reports on a monthly basis for grant expenditures and follow up with the respective departments to see that claims for reimbursement are filed. Our office will send quarterly confirmation requests to the Grantors to enable us to reconcile the balances due the City.

INVESTMENTS

E & W recommends someone besides myself maintain the subsidiary records on each investment. I concur and when I return from a weekend treasury management seminar, sponsored by the California Municipal Treasurers Association in November, I will have a procedure established to take care of this.

Ernst & Whinney

555 Capitol Mall, Suite 650
Sacramento, California 95814

916/447-3237

The City Council
City of Lodi
Lodi, California

We have examined the financial statements of the City of Lodi for the year ended June 30, 1983 and have issued our report thereon dated September 14, 1983. As part of our examination, we made a study and evaluation of the system of internal accounting control only to the extent we considered necessary to determine the nature, timing, and extent of our auditing procedures.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Lodi taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness at June 30, 1983. The following suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the use of the City Council.

Ernst & Whinney

Sacramento, California
September 14, 1983

Prior Year Items

In previous management letters, we commented upon areas in which we believed internal accounting controls could be strengthened. Upon considering the City's response to our management letters, we believe that these items have been adequately addressed and would like to commend the City on their efforts to improve internal controls.

Cash Receipts

Of all assets held by the City, cash is the most liquid and susceptible to loss from employee error or misappropriation. Therefore, the City's system of internal controls must be particularly strong in this area. We believe controls over cash receipts could be strengthened by implementing the following procedures in the collection department.

We recommend that the City use cash registers to record all cash receipts, whether remitted through the mail or directly from customers. Each day, the cash register total should be agreed to the daily deposit by an employee who does not handle the cash receipts. This will establish segregation of duties, control and accountability over the receipts. We believe that with the City's growth, these procedures will result in improved operational efficiency and stronger internal controls over cash.

Cash Disbursements

During our examination, we noted that the payroll and accounts payable clerks have access to the check signing machine signature plate. We recommend that duties be segregated so that access to this plate be limited to the Director and Assistant Director of Finance and the senior accountant.

Authorization of Payroll Deductions

Authorization for some payroll deductions are not being retained by the City. We recommend that these authorizations be included in the personnel files. While we realize that this would require extra time by the City, we believe that the City should protect its interests by maintaining a record of payroll deductions as authorized by the employee.

Grants

The City has become eligible to receive money under an increasing number of grants. We recognize this as an important source of funds and support the City in its efforts to obtain all available grants. In order for the City to receive the maximum benefit from these funds, we recommend that the following procedures be implemented.

Request for reimbursement of expenditures under grants should be filed as soon as possible, and the Department of Finance should be notified of all such requests. In addition, we recommend that the Department be informed of new grant applications submitted to grantors. The City should prepare quarterly reconciliations between its records and those of the grantor. These procedures will improve cash flow and resolve on a timely basis differences which could arise between the City's and the grantor's records.

Investments

During the past few years, the City has more closely monitored its investment activities with the objective of maximizing interest revenue and therefore has entered into an increasing number of investment transactions. Currently, the City maintains a subsidiary ledger to record all investment transactions which is the basis for posting to the general ledger. We recommend that an employee independent of the investing activity maintain the investment subsidiary ledger.

CITY COUNCIL

EVELYN M. OLSON, Mayor
JOHN R. (Randy) SNIDER
Mayor Pro Tempore
ROBERT G. MURPHY
JAMES W. PINKERTON, Jr.
FRED M. REID

CITY OF LODI

CITY HALL, 221 WEST PINE STREET
POST OFFICE BOX 320
LODI, CALIFORNIA 95241
(209) 334-5634

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HENRY A. GLAVES, Jr.
City Manager
ALICE M. REIMCHE
City Clerk
RONALD M. STEIN
City Attorney

November 7, 1983

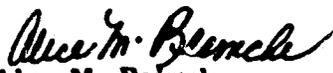
Ernst & Whinney
555 Capital Mall
Suite 650
Sacramento, CA 95814

Gentlemen:

This letter will confirm the action taken by the Lodi City Council at its regular meeting of November 2, 1983 whereby Council, by motion action, received for filing the Ernst and Whinney Management Letter - June 30, 1983.

Should you have any questions regarding this matter, please do not hesitate to call.

Very truly yours,


Alice M. Reimche
City Clerk

AMR:jj

Ernst & Whinney

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Sacramento, California 95814

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