

CC-2/a

7y 300

CITY COUNCIL MEETING

November 17, 1982

AUDIT AND
MANAGEMENT LETTER
FOR YEAR ENDED
JUNE 30, 1982
ACCEPTED FOR FILING

Following introduction of the matter and discussion,
Council, on motion of Councilman Pinkerton, Murphy second,
accepted for filing the Audited Financial Statements of the
City of Lodi for the year ended June 30, 1982 and Manage-
ment Letter from the auditing firm of Ernst and Whinney.

Rec'd
NOV - 9 1982

78

Ernst & Whinney

555 Capitol Mall, Suite 650
Sacramento, California 95814

K3

November 8, 1982

916/447-3237

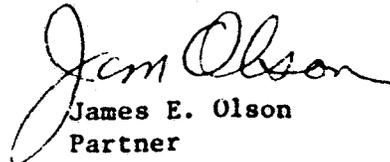
Ms. Alice M. Reimche
City Clerk
City of Lodi
P. O. Box 320
Lodi, CA 95241

Dear Alice:

Enclosed are 23 copies of the audited financial statements of the City for the year ended June 30, 1982. I am also enclosing 13 copies of our management letter for the City.

We enjoyed working with the City personnel this year and look forward to discussing our report at the City Council meeting on November 17th.

Very truly yours,


James E. Olson
Partner

JEO:alh

Enclosures

MEMORANDUM

TO: Henry A. Glaves, Jr., City Manager
FROM: Robert H. Holm, Finance Director
DATE: November 16, 1982
SUBJECT: Ernst & Whinney Management Letter - June 30, 1982

I have discussed the Management Letter with E&W and the Finance Department staff and wish to offer the following comments.

PAYROLL - SEGREGATION OF DUTIES

We have taken the necessary steps to segregate the duties of the payroll clerk and are now having the signed payroll checks distributed by another person in the Finance Department.

PAYROLL USER RECONCILIATION

We have assigned this task to our EDP Programmer Analyst and expect completion in the next few weeks.

DISASTER RECOVERY PLAN

The basic elements of a disaster recovery plan and where we now stand on them are as follows:

1. Second Site Back-up Facility - We have at least 5 IBM System-34s in the area and are now working on some type of written reciprocal agreement with two or three of them.
2. Identification of Critical Applications - We have identified the critical applications as: utility billing, cash collection & payroll. Our short-term survival plans call for us to restore these areas as soon as possible if a disaster should occur.
3. Back-up and Storage of Data Files, Software & Operating Menus - We presently copy files and software changes on a daily basis and place this data in the basement vault, which has a 2-hour fire door. The only problem with this location would be a flood. We are looking into an off-site storage area.

Henry A. Graves, Jr.
City Manager
November 16, 1982
Page 2

BUDGETING - UNPREDICTABLE REVENUES & EXPENDITURES

In the City's reserve for cost of labor and materials, or what is commonly referred to as "Work for Others", we have not established appropriations for:

- . Foreign cities bail
- . Plan check fees (outside firms)
- . Labor distribution over and short
- . Recreation miscellaneous

However, we can set these appropriations up and plan to do so this fiscal year. We did estimate revenues for these functions this year.

ACCESS TO EDP TERMINALS

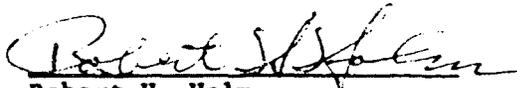
We plan to contact other cities and see what their consensus is and also plan to look into software packages that provide this security. I'm sure that this will be a cost item of several thousand dollars and will make a report of the results as soon as possible.

RECORDING OF TRANSACTIONS

The Turner/Cluff Assessment District was established under California's 1915 Special Assessment Act and, therefore, these bonds, unlike the 1911 Act, are an obligation of the City. We did not receive sufficient information on these bonds in December 1981 to set up an accounting entry to record the obligation.

MARKETABLE SECURITIES

Mr. Lachendro has already delivered these securities to this office. We have issued him a receipt and turned the bonds over to the City Clerk for safekeeping in the City's safe deposit box.



Robert H. Holm
Finance Director

CITY COUNCIL

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

CITY OF LODI

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

F 11-82
HENRY A. GLAVES, Jr.
City Manager

ALICE M. REIMCHE
City Clerk

RONALD M. STEIN
City Attorney

November 19, 1982

Mr. James E. Olson
Partner
Ernst and Whinney
555 Capital Mall
Suite 650
Sacramento, CA 95814

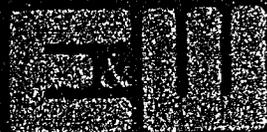
Dear Mr. Olson:

This letter will confirm that the Lodi City Council at its regular meeting of November 17, 1982 received the Audited Financial Statements of the City of Lodi for the year ended June 30, 1982 and Management Letter as prepared by the auditing firm of Ernst and Whinney. The subject documents were reviewed and received for filing by motion action of the Council.

Very truly yours,

Alice M. Reimche
City Clerk

AMR:jj



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, 1982, and have issued our report thereon dated September 24, 1982. 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, 1982. The following suggestions are submitted to assist in improving procedures and controls.

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

Ernst & Whinney

Sacramento, California
September 24, 1982

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, except as discussed below.

Payroll

Segregation of duties in the payroll area is limited. One employee prepares the payroll data and receives the signed payroll warrants from EDP prior to their distribution by independent employees. To strengthen internal control, we recommend that the signed payroll warrants not be returned to the employee responsible for preparation of the payroll data.

In last year's management letter, we mentioned that the City could obtain more effective control over payroll data if a user reconciliation of output to input and user verification of output was performed. During our examination, we noted that total hours paid are still not reconciled to the total hours worked. It is our understanding that the current payroll computer program will be modified in 1982-83 so that the appropriate information will be made available to the users.

Disaster Recovery Plan

Last year, we recommended that the City develop a written EDP disaster recovery plan which would set forth procedures to be utilized in the event of a disaster. The City is currently developing such a plan.

Budgeting

It has been the City's policy not to budget for unpredictable revenues and expenditures. We understand that the City could not implement our recommendations in 1982-83, but plans to use the budgeting guidelines published by the League of California Cities and the International City Manager Association in establishing the 1983-84 budget. We believe this will strengthen controls and commend the City on its decision to implement these new procedures.

ACCESS TO EDP TERMINALS

EDP terminals placed in user departments should be adequately safeguarded against unauthorized access. This prevents a user, who possesses the adequate knowledge, from making unauthorized changes to computer programs or data files. Therefore, we recommend that the City implement a password system in order to restrict access to computerized information. The City may wish to purchase a computer access control software package. Such a package can be linked to the City's existing software.

RECORDING OF TRANSACTIONS

The recording of transactions on a timely basis is essential to any accounting system. During our field work, we noted that the City incompletely recorded transactions related to the issuance of the Cluff Avenue/Turner Road special assessment bonds. We understand that this occurred because of employee turnover and the concurrent shifting of responsibilities.

In order to protect itself against such an occurrence in the future, we recommend that the City adopt a standard checklist or route sheet so that all significant matters which affect the City's financial records are brought to the attention of the accounting department on a timely basis.

MARKETABLE SECURITIES

Due to the liquidity of certain assets like cash and marketable securities, it is essential that the custodianship and the accountability for these assets be segregated. During our examination, we noted that the City Librarian has both custodial responsibility and accountability for the marketable securities recorded in the Library Trust Fund. We recommend that the City place these instruments in the safe deposit box which is under the control of the City Clerk. This will protect the City against physical loss of the assets, such as from fire or theft, as well as enhance segregation of duties.