

February 1, 2017

Ms. Heather Ippoliti, Assistant City Manager  
City of Healdsburg  
401 Grove Street  
Healdsburg, CA 95448

Dear Ms. Ippoliti:

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2016, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

In accordance with *Government Auditing Standards*, we have issued our report dated February 1, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. As stated in that report, we did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration below. We will review the status of these comments during our next audit engagement.

This letter by its very nature is critical and does not highlight the many positive features of the City's internal control. These comments and recommendations are intended to improve the internal control or result in other operating efficiencies and are summarized as follows:

**Finding No. 1 - Community Development Center Permits**

The following is a continuation from the prior year:

As part of our audit procedures we reviewed the process of issuing permits by the Community Development Center in order to gain an understanding of the internal controls in this area. During our review we noted the same individual responsible for issuing the permits also collects the payments from the customers. In addition, there is no indication

that an individual independent of the cash collection and permit issuance is reconciling the permits issued with the receipts collected to verify that all permits issued have a corresponding cash receipt.

Potential Effect:

When there is no reconciliation of permits issued and corresponding cash receipts, there is a potential for permits to be issued without the cash being deposited and ultimately recorded in the City's accounting records.

Recommendation:

We recommend the City review the internal controls over the issuance of permits by the Community Development Center and determine what changes, if any, should be implemented in order to strengthen the internal controls over this process. For example, on a periodic basis (weekly/monthly), an independent party should review the activity to verify that the number of permits issued agrees with the number of cash receipts related to the applicable permits.

Management's Response:

The City will implement the suggested review process on a monthly basis. The City is in the process of installing an enterprise resource planning (ERP) system. The new system will integrate the permitting process with the financial system, thereby eliminating the use of hand written receipts.

**Finding No. 2 – Purchasing Authorization Limits**

The following is a continuation from the prior year:

While obtaining an understanding of the internal controls over the purchasing and invoice approval process, we found that the City could benefit from a more formal listing of individual employees authorized to make purchases, approve invoices, and their maximum limits of approval. The listing should be provided to all employees authorized to make purchases and the accounts payable clerk to ensure the purchases and invoice approvals are made in accordance with the approved limits for each employee authorized to make purchases.

Potential Effect:

In a strong internal control environment, the policies and controls over the purchasing function should be clear and communicated to all employees involved to ensure purchases are properly authorized and valid in accordance with the City's policies. Without proper communication of various approval limits and a formal listing of the City staff authorized to make purchases, the threat of unauthorized purchases is increased.

Recommendation:

We recommend the City create a formal listing of all City staff authorized to initiate purchases, approve invoices, and the limits for each purchase. The listing should be used by the accounts payable clerk to ensure purchases are in accordance with the City's policies.

Management's Response:

The City is developing a purchasing policy, which will include purchasing authorization limits and we will implement this procedure prior to March 31, 2017.

**Finding No. 3 - Travel Policy**

The following is a continuation from the prior year:

During our review of credit card activity, we found that various City employees travel for conferences, training, etc. Employees use the City's credit card to purchase hotel rooms and meals while traveling on City business. However, we could not find any detailed guidance regarding travel requirements other than the "City Paid Meals and Per Diem" policy dated March 2001. This indicates that the maximum amount for any given day to be paid for meals is the IRS per diem rate. It does not appear that there has been any reconciliation of these per diem rates as compared to the actual costs incurred. As a result, it appears there is no independent verification to determine if the traveling employees are complying with the City's travel policies.

Potential Effect:

If there is no reconciliation of amounts charged on City credit cards by employees while traveling on City business to adopted City policies, there is a potential for charges to exceed City policies and go unnoticed.

Recommendation:

Therefore, we recommend the City implement procedures to reconcile the per diem rate with the actual charges for employee meals while traveling on City business. The City should also consider whether more detailed and updated policies should be implemented.

Management's Response:

The City is in the process of reviewing and updating the travel policy and we will implement this procedure prior to June 30, 2017.

#### **Finding No. 4 – Business Licenses**

During our review of business license receipts, we found no indication that a reconciliation of business licenses issued to payments collected in a given time period (daily, weekly, monthly – or other periodic basis) is being done by someone independent of the business license issuance process.

##### Potential Effect:

Business licenses could be issued without a corresponding collection and receipt into the City's general ledger and bank account.

##### Recommendation:

Therefore, we recommend the City implement procedures to reconcile business licenses issued with corresponding cash receipts. This reconciliation should be done by someone independent of the business license issuance process.

##### Management's Response:

The City agrees with Auditor's recommendation. Staff is developing a procedure to audit the business licenses issued with the related receipts using staff independent from the business license issuing process. Estimated implementation date is June 30, 2017.

#### **Finding No. 5 – Supporting Documentation for Credit Cards**

During our review of credit card activity, we reviewed the credit card payment and the supporting documentation for the transactions listed on the credit card statement for the month of February 2016. As a result of our review, we found that all transactions were properly approved; however, four of the individual statements were missing the "Cal-Card Log" sheet which describes each purchase. In addition, there were also several transactions for which an itemized receipt was missing, only the total transaction receipt was attached.

##### Potential Effect:

The City is not complying with the Credit Card Policy that requires the Cal Card Log to be attached to the statement. In addition, without itemized receipts, it could be difficult for the City to properly document compliance with the City's credit card policy.

##### Recommendation:

Therefore, we recommend the City implement procedures to ensure all credit card statements have the Cal Card Log attached and to inform all credit card users that itemized receipts are required for documenting the transaction.

Management's Response:

The recommended procedures have been implemented and all credit card users have been informed.

**Finding No. 6 – Distribution of Utility Rebate Checks**

During our review of the City's solar and water rebate program, we found that after the rebate checks are printed by the Finance office, the checks are sent back to the City employee responsible for administering the program. This individual then mails the check to the consumer receiving the rebate. In a strong internal control environment, the physical checks should not be returned to the individual requesting the checks, but rather mailed immediately to the address on record.

Potential Effect:

The checks could potentially be misappropriated.

Recommendation:

Therefore, we recommend the City implement procedures to have the City's Finance office mail out the checks to the consumers after the checks are printed.

Management's Response:

The recommended procedures have been implemented.

**Finding No. 7 – Payroll Timesheet Approvals**

During our review of the City's payroll processes, we found that payroll timesheets require supervisor approval before being turned into the Payroll Specialist for processing. However, we could not find a detailed approval chart that indicates which supervisors are to be reviewing and approving various City employee timesheets.

Potential Effect:

Timesheets may not be approved by the appropriate Supervisor.

Recommendation:

Therefore, we recommend the City develop an organizational chart that details the necessary supervisor approvals needed for the various timesheets.

Management's Response:

With the implementation of the Tyler software, specifically the electronic timesheet capture, a timesheets approval hierarchy will be created eliminating this concern. Estimated implementation date is June 30, 2017.

## Summation

We would like to take this opportunity to express our appreciation for the assistance extended us during the course of our audit. If we can be of further assistance, or if you have any questions regarding our recommendations, please call our office. This letter is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Van Lant & Fankhanel, LLP*