

January 23, 2018

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, 2017, 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 January 23, 2018 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:

While the implementation of the new permitting software eliminated the use of hand written receipts, the software does allow for building permits to be issued without payment. The City agrees with the Auditor's recommendation. The City will implement monthly audit procedures, as recommended.

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 agrees with the Auditor's recommendation. A draft policy has been developed, and is in the process of being reviewed.

Finding No. 3 – 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 the Auditor's recommendation. A business license may be issued without payment. The City will implement monthly audit procedures, as recommended.

Finding No. 4 – Community Service Facility Rentals Fees

During our review of the City's process for reserving and collecting rental fees to rent various facilities managed by the Community Services Center, we found that the same individual responsible for collecting payments also maintains the facility rental calendar.

Potential Effect:

Because there does not appear to be an independent reconciliation of the revenues collected to the facilities rented, facilities could be rented without a corresponding cash receipt recorded in the City's accounting records.

Recommendation:

Therefore, we recommend the City determine what controls could be implemented to ensure that all facilities rented have a corresponding cash receipt.

Management's Response:

The City agrees with the Auditor's recommendation. A facility may be rented without payment. The City will implement monthly audit procedures, as recommended.

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