



# CITY OF SACRAMENTO

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DEPARTMENT OF FINANCE  
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SACRAMENTO, CALIFORNIA 95814  
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CITY MANAGER'S OFFICE  
**RECEIVED**  
MAR 6 1980

JACK R. CRIST  
DIRECTOR OF FINANCE  
FRANK MUGARTEGUI  
ASSISTANT DIRECTOR

March 4, 1980

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: Finance Department Response to Touche Ross & Co.'s Annual Letter of Recommendations

### SUMMARY

Annually the City's external certified public accounting firm, Touche Ross & Co., as a part of the annual City audit, provides staff with a detailed letter of recommendations. This letter provides recommendations to management for improvements in the City financial and administrative internal controls. The purpose of this report will be to provide the Council with responses from City staff on the Touche Ross & Co. letter for fiscal year 1978-79. A copy of the Touche Ross report in its entirety is attached.

### INTRODUCTION

The following audit comments have been discussed with the City staff affected by the comments and action is being taken to remedy the weaknesses noted.

### STAFF RESPONSE TO COMMENTS

#### 1. COMMUNITY CENTER BOX OFFICE

##### Auditor's Comment

"During our review of the City of Sacramento Community Center Box Office, we noted the following areas where improvements could be made.

One box office statement was not signed to indicate approval of ticket sales, and eight tickets were not accounted for on the statement. If a dispute <sup>by the City Council</sup> ~~by the City Council~~, the Community Center may be unable to support

Office of the City Clerk

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proceeds for the event. A checklist could be implemented which lists all required supporting documents that have been completed and approved. This could be indicated on the event file, and closeout of the event would not be made until the event file is complete.

One employee of the box office determines event settlement payments and disburses cash. We understand the City's accounting personnel are presently conducting a study of box office procedures and intend to verify amounts on all settlement statements. We recommend that the City continue to perform internal audits of the box office in order to assure that revenues and disbursements of the Center are being properly accounted for."

#### Staff Response

We concur with the auditors' findings and recommendation. Currently the Accounting Division is in the process of implementing procedures to reduce the amount of cash on hand, verify the propriety of all receipts and disbursements of show settlements and establish administrative control reviews. These procedures will be implemented prior to the end of the 1979-80 fiscal year.

## 2. OFF-STREET PARKING LOTS

#### Auditor's Comment

"We performed a review of the operations of off-street parking lots maintained by the City of Sacramento. The following comments pertain to conditions found.

Monthly parking permit fees are not entered in the cash registers located in Lots E, R, and G. These permits are prenumbered; however, the numerical sequence is not accounted for on a regular basis. This weakens internal control over receipts since reconciliation of receipts to deposits is virtually impossible. We understand that management personnel of the parking lots are concerned with the present cash collection system in effect but do not have the funds to fully implement strong internal controls. We recommend that the computer be reprogrammed, or alternative procedures be implemented, so that monthly parking sales are entered into the system. The daily print-outs from the computerized cash registers do not print daily transaction totals. Consequently, the internal control procedures in effect at the other lots cannot be utilized in Lots E, R, and G except by manually counting the number of tickets. We suggest that the computer be reprogrammed to print daily totals such as number of tickets sold and number and total of adjustments made.

An internal control feature of the parking system is investigating cars entering or exiting when an attendant is not on duty. This is a key control over receipts. However, we noted that this investigation process is not consistently followed. Due to the magnitude of the dollar amounts passing through the lots, we suggest this procedure be performed on a day-to-day basis.

Internal audits of the parking lots are performed only when there is a reason to suspect that irregularities have occurred. More effective procedures would be to perform regular and/or surprise audits."

#### Staff Response

Arrangements are being made by the Parking Facilities' Management to provide the necessary equipment to ring up all monthly permit fees at all parking lots on cash registers with the capability of designating the total receipts for monthly permits.

Each day the number of cars entering a facility are accounted for by the number of tickets issued; the number of cars exiting a facility are accounted for by the cash register transactions and the number of tickets collected. An inventory is performed each night and a "request for payment" envelope is placed on the windshield of each car remaining on the lot at closing; the request for payment envelopes are accounted for each morning; and the differences between their activities give us a reasonable accounting for the vehicular activity when an attendant is not on duty. This procedure is performed on a day-to-day basis.

Internal audits are indeed performed when there is a reason to suspect that irregularities have occurred. They are also performed at any time upon request by the Parking Director or his assistant or at random as the opportunity presents itself.

### 3. PAYROLL AND GENERAL DISBURSEMENT CHECKS

#### Auditor's Comment

"The dollar amount is not spelled out on printed checks, creating the possibility that the numerical dollar amount can be altered. To strengthen internal control over cash, we recommend that the computer be reprogrammed to spell out the dollar amount as well as print the dollar amount numerically."

#### Staff Response

We concur with the auditors finding and recommendation. The Accounting Division has submitted a request to the Data Processing Department to modify existing computer payroll programs to print the dollar amount in words on employee payroll checks. Commercial checks are prepared on the Accounting Division's L-5000 accounting machines. Presently the Data Processing Department is in the process of developing an automated check writing process to have the commercial checks produced by the computer. As a part of the application design, we will request that commercial checks indicate the dollar amount in words.

#### 4. GRANT ADMINISTRATION

##### Auditor's Comment

"In prior years, we have indicated that the City should monitor the sub-grantee's compliance with certain grant programs. Noncompliance could result in eventual disallowance of certain program costs previously reimbursed under the grants. The City should develop a centralized grant reporting system to ensure that the City is in compliance with the requirements of the grant. This could include periodic internal audits of subgrantees, internal grant compliance checklists, and hiring of a federal and state aid program coordinator.

Some grants have restrictive measures regarding revenues. For instance, interest from Community Development Block Grant funds invested must be returned to the Department of Housing and Urban Development. At present, these monies are deposited in the same bank accounts as other revenues received by the City and are included in the pooled investments of the City. This procedure is proper. We recommend that the City maintain adequate supporting documentation so that there is a clear indication that these funds are not being improperly invested."

##### Staff Response

The accounting for grant programs is presently centralized in the Accounting Division. Quarterly grant reports are prepared indicating the status of all grant funded programs, i.e., proceeds received, funds expended, balance of grant funds on hand and total estimated program costs. Actual on-site internal financial audits of subgrantees are performed to a limited extent by the personnel of the Accounting Division. Program reporting and compliance reviews are performed by individuals of organizations receiving and using grant program funds. Therefore, it is a fact that program compliance and reviews are not centralized or standardized. We believe that due to the present financial restraints it is not feasible to hire a federal and state aid program coordinator. However, we concur with the recommendation by the auditors of the development of grant compliance checklists to be used by organizations receiving grant funding. A standardized checklist will be developed and implemented prior to the end of the 1979-80 fiscal year.

The City Treasurer's money-max system which has recently been implemented provides us with the capability to segregate investment restrictive funds from other funds and to provide supporting documentation for the investment of federal funds.

#### 5. FLEET MANAGEMENT

##### Auditor's Comment

"During our review of the Fleet Management Fund, we noted that accessories were being expensed as purchased. As the accessories are added to the

vehicle, the cost of the accessory is then included in the total vehicle cost and is a portion of the depreciation expense each year. The effect of this situation is that the vehicle accessory is expensed twice, once at time of purchase, and again when depreciated. We recommend the City either include the accessory cost when determining depreciation or expense the accessory when purchased."

#### Staff Response

We concur with the auditor's finding and recommendation. The Accounting Division is taking action to avoid the duplication of costing accessories by requesting the Fleet Management Vehicle Maintenance System programs be modified to expense all accessory cost at the time of purchase and therefore, excluding them from capitalization and depreciation.

### 6. GENERAL FIXED ASSET ACCOUNT GROUPS AND ENTERPRISE FUNDS FIXED ASSETS

#### Auditor's Comment

"The City utilizes an outside service bureau to update the detail property records and to calculate depreciation for the Enterprise Funds fixed assets. We noted in our review that accounting personnel perform rather lengthy reconciliations between the outside service report balance and general ledger balance. This reconciliation results in many adjustments at year-end. Since this report is used to complete the depreciation expense for the Enterprise Funds, such amounts need to be reliable. The entry function has been transferred recently from the Purchasing Department to the Accounting Department. Due to the recent transfer of responsibilities, we recommend accounting personnel more closely supervise the entry of data and coordinate the general ledger with the outside service bureau's requirements."

#### Staff Response

We concur with the auditor's finding and recommendation. As mentioned in the auditor's finding, the Accounting Division has assumed the responsibility for input to the fixed asset system. In addition the City has recently acquiring the fixed asset system's computer programs from the outside service bureau, and will convert the programs to the City's computer. This action will permit interfacing the fixed asset system to the general ledger system and more timely production of fixed asset reports which will facilitate timely reconciliations during the year, therefore limiting necessary year-end adjustments.

### 7. INTERNAL AUDIT FUNCTION

#### Auditor's Comment

"As mentioned last year, the need for an internal audit function continues

with the added growth and complexity of the City's accounting system and the need for monitoring Authorities of the City and subgrantees under federally-funded programs. Citizens have also let it be known that they desire closer review of governmental units by the passage of Proposition 13 last year and Proposition 4 this year.

At present, the accounting personnel are performing audits of other departments and authorities when requested. We commend the City for this effort. However, surprise reviews are not being conducted, no surprise counts of petty cash are performed, and the investments held by the Treasurer are not inventoried by the City.

We wish to reemphasize the importance of the internal audit function both as a check of the effectiveness of accounting controls and as a means to improve operating efficiencies, thereby decreasing the cost of providing government services. We recommend the City form an internal audit department. This department should be directly accountable to either the City Manager or City Council so that an effective separation of responsibilities is defined between the Finance Department and the Internal Audit Department."

#### Staff Response

We concur with the auditors finding regarding the necessity of having financial, compliance, and program reviews for efficiency and results. However, due to limited resources, we believe these functions should be assumed by existing City staff. The Management Analysts in the Manager's Office could perform program efficiency and result reviews with the accountants in the Accounting Division performing financial reviews. We realize that the amount of reviews performed would be limited due to limited man hours available.

Respectfully submitted,



Jack R. Crist  
Director of Finance

FOR COUNCIL INFORMATION:



Walter J. Slipe, City Manager

JRC/TW/vp  
FA:80106

March 11, 1980  
All Districts

Attachment

cc: Sam Burns, Community Center General Manager  
Ronald Parker, City Engineer  
Leslie M. Frink, Traffic Engineer  
Richard Brookins, Fleet Management

RECEIVED  
Department of Finance

*Touche Ross & Co.*

JAN 11 1980

AM 7 8 9 10 11 12 1 2 3 4 5 6 PM

November 19, 1979

Honorable City Council  
City of Sacramento  
Sacramento, California 95814

We have examined the financial statements of the funds and account groups of the City of Sacramento for the fiscal year ended June 30, 1979, and have issued our report thereon dated November 9, 1979. As part of our examination, we reviewed and tested the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance on the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing an examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the

preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 1979, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Our study and evaluation disclosed no conditions that we believe to be a material weakness. However, the following are our recommendations for strengthening existing internal control or providing increased efficiency.

#### COMMUNITY CENTER BOX OFFICE

During our review of the City of Sacramento Community Center box office, we noted the following areas where improvements could be made.

One box office statement was not signed to indicate approval of ticket sales, and eight tickets were not accounted for on the statement. If a dispute should arise, the Community Center may be unable to support proceeds for the event. A checklist could be implemented which lists all required supporting documents that have been completed and approved. This could be indicated on the event file, and closeout of the event would not be made until the event file is complete.

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#### INTERNAL AUDIT FUNCTION

As mentioned last year, the need for an internal audit function continues with the added growth and complexity of the City's accounting system and the need for monitoring Authorities of the City and subgrantees under federally funded programs. Citizens have also let it be known that they desire closer review of governmental units by the passage of Proposition 13 last year and Proposition 4 this year.

At present, the accounting personnel are performing audits of other departments and authorities when requested. We commend the City for this effort. However, surprise reviews are not being

conducted, no surprise counts of petty cash are performed, and the investments held by the Treasurer are not inventoried by the City.

We wish to reemphasize the importance of the internal audit function both as a check of the effectiveness of accounting controls and as a means to improve operating efficiencies thereby decreasing the cost of providing government services. We recommend the City form an internal audit department. This department should be directly accountable to either the City Manager or City Council so that an effective separation of responsibilities is defined between the Finance Department and the Internal Audit Department.

SUMMARY

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this report of such conditions does not modify our report dated November 9, 1979 on such financial statements.

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We greatly appreciated the assistance and cooperation extended to us by the Finance Department during our examination and will be pleased to further discuss our comments and recommendations with you at your convenience.

*Touche Ross & Co.*

Certified Public Accountants



# CITY OF SACRAMENTO

## OFFICE OF THE CITY CLERK

915 I STREET

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SACRAMENTO, CALIFORNIA 95814

TELEPHONE (916) 449-5425

LORRAINE MAGANA  
CITY CLERK

### MEMORANDUM

TO: BUDGET AND FINANCE COMMITTEE

FROM: JACI PAPPAS, ACTING CITY CLERK

SUBJECT: REFERRAL OF ITEM NO. 40, AGENDA OF MARCH 11, 1980

DATE: MARCH 12, 1980

Pursuant to Council action, the following subject matter is referred to your committee for hearing, report and recommendation: Finance Dept. response to Touche Ross & Co.'s Annual Letter of Recommendations.

cc: City Manager  
Finance Director