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Staff Report

Item # 5D

To: Lemoore City Council
From: Cheryl Silva, Finance Director *CS*
Date: May 2, 2013
Subject: Audited Financial Statements and Additional Information for the Lemoore Golf Course and a Single Audit Report

Discussion:

The City of Lemoore has an independent auditor perform the annual audit of the City's Golf Course and a Compliance Review in Accordance with OMB Circular A-133 of financial records and internal controls. They prepare the Annual Financial Statement for the Golf Course and a Single Audit Report. The City's independent auditor, Sampson, Sampson & Patterson, LLP, has completed the fiscal year 2011/2012 report of the Lemoore Golf Course Audited Financial Statement and a Single Audit Report.

The independent auditor has issued an unqualified opinion for each of these audits. The unqualified opinion is the best opinion that can be given by an auditor to financial statements. The unqualified opinion is issued by an auditor when the financial statements presented are free of material misstatements and represent fairly the financial position in accordance with generally accepted accounting principles.

Sampson, Sampson and Patterson have some management findings included in the Single Audit Report. I will be prepared to answer any questions you may have on our ability to implement any of the recommendations of the findings made by the auditors. Prepared are the 2011/2012 Lemoore Golf Course audited financials and the Single Audit for review.

The fiscal year 2011/2012 audit contains four findings. They are as follows:

1. Credit Cards - During our testing of controls over credit cards, the following was noted:

We selected two months out of the fiscal year and tested all credit card payments for those billing cycles. Out of the thirty credit card bills tested, five did not have all of the supporting documentation attached. We also noted the credit card policy should be reviewed and updated to ensure proper controls over credit cards have been put in place and are being properly monitored by the Finance Department.

Response: We are reviewing and updating all policies and procedures in the Finance Department. The Accountant in the Finance Department is reviewing

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every credit card statement against every receipt from the departments and making the departments accountable of missing items. The updated policy and procedures will have consequences for the departments if receipts are missing from the credit card statement.

2. General Ledger- As a result of the audit process over 40 journal entries were required to adjust the general ledger for it to reflect proper account balances for the year. The following is a list of problems that were encountered while working with the general ledger:

1. Several adjusting entries for fund balance to make them agree with the prior years audited year-end balances.
2. Journal entries were not kept organized and there was a lot of confusion regarding which entries had been recorded by the City and which journal entries had been given to the auditors. Journal entries are not being properly reviewed prior to posting causing additional reclassifying entries to correct prior mispostings.
3. New funds were added by the City after field work was completed and the auditors were writing the report. Several reclassifying entries were then prepared and redone several times to move balances between funds causing confusion.

Response: The Finance Department has provided training for the accounting system to eliminate some of the issues with fund balances. Journal entries will be reviewed by the Finance Director prior to posting. The accounting staff now has a shared drive on the computer so that accounting records, including the journal entries are available for use by all. Procedures are being implemented that will list all activities that should be completed on a daily, monthly, quarterly and annual basis. This should help with the communication between the internal accounting staff so that all activities can be completed in a timely manner. These changes will be included in the review and update of the policies and procedures manual that is being created by Finance.

3. Recordkeeping of Capital Assets – The City did not adequately maintain the fixed asset records during the 2011/2012 year. The schedules provided at the beginning of the audit were partially incomplete, mathematically incorrect or did not agree to the supporting detail. In addition records for the CIP projects are not being contemporaneously maintained, resulting in hastily prepared schedules during the audit that often require revisions.

Response: Finance is verifying that the fixed asset records as of June 30, 2012 tie out to the balances that are reflected in the audit report. We will improve our reconciliations of fixed assets and depreciation schedules during the fiscal year. We will continue to improve communication with the departments as to the status of CIP projects to know when to convert them to fixed assets or to expense out the projects that are not going to continue. These changes should ensure that Finance will be able to produce accurate, timely fixed asset records for the 2012/2013 audit.

4. Payroll Policies and Procedures Documentation- During our testing of payroll the following was noted:

The internal control documentation for payroll was date June 30, 2006. There have been personnel changes in the Finance Department and technological changes in the payroll area since 2006. Payroll is a sensitive area and controls over how the payroll process is performed and who has access to payroll information is important. An updated written policy explaining how payroll is performed and by who will decrease the risk that payroll could be done incorrectly, or by a person who does not have proper access to the sensitive information.

Response: As stated in previous responses, the Department is reviewing and updating all policies and procedures, including Payroll. The outdated internal control documentation from 2006 will be reviewed and updated. The Finance Department is working toward the goal of cross training staff on all activities, and the updated policies and procedures are instrumental in that goal.

Budget Impact:

None.

Recommendation:

That the City Council, by motion, accept the City Golf Course and the Single Audit Report.