

City of Redwood City

Redwood City, California

Recommendations to Management

For the year ended June 30, 2004

C&L
Caporicci & Larson
Certified Public Accountants



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Certified Public Accountants

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California

In planning and performing our audit of the basic financial statements of the City of Redwood City (City) for the year ended June 30, 2004, we considered the City's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal controls.

However, during our audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated October 22, 2004, on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with management, are intended to improve the internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to express our appreciation to the City's staff for their cooperation, assistance, and support during this year's audit process.

This report is intended solely for the information and use of the City Council, management and others within the City.

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1. MAIL ROOM ACCESS

Observation

During our audit we observed that currently any City employee is able to enter the mail room to retrieve mail. This unlimited access presents a higher risk of unauthorized access to the City's mail.

Recommendation

We recommend that a designated employee from each department be responsible for mail pick up and distribution and the mail room be secured at all times so that only the authorized employees have access to the mail room.

City Response

The City received proposals for an electronic key system to control access to the mail room. Upon further review it was determined that it would be too cumbersome to limit access to the mailroom, and the benefits of enhanced security would outweigh the problems created by the added security. Therefore, the departments have elected not to pursue this.

2. CAPITAL ASSETS SYSTEM

A. Observation

The City is not able to generate reports from the capital assets system which lists all additions and retirements for the year.

Recommendation

We recommend that the City modify the capital assets system to generate reports that clearly identify all capital asset additions and deletions for each fiscal year.

City Response

Financial Services worked with IT to add this reporting capability to the enterprise fund assets (Sewer, Water & Parking). Reports for general assets (equipment and real property), and enterprise funds were printed out for the auditors subsequent to the end of the auditors' field work.

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2. CAPITAL ASSETS SYSTEM, Continued

B. Observation

The City's capital assets depreciation schedules for equipment had commingled the assets of governmental activities and business-type activities, which could result in misstatement of depreciation expense for both governmental and business-type activities.

Recommendation

We recommend that the City revise the capital asset depreciation schedules to clearly separate the governmental activities from the business-type activities to ensure that expenses for depreciation are correctly recorded.

City Response

The City will delete the two enterprise assets that were reflected on the schedule.

3. SINGLE AUDIT CENTRALIZED COORDINATION

Observation

While performing the audit of the City's Federal grant expenditures, we were directed several times to different departments to obtain documents and other information pertaining to grant expenditures. One of the requirements of OMB A-133 is the centralization of all Federal grant expenditure information.

Recommendation

We recommend that the City coordinate all information pertaining to Federal grants to comply with OMB A-133 and to facilitate the Single Audit procedures.

City Response

The observation listed above is a valid concern. The Finance Department is in charge of coordinating the financial audit. The sooner the auditors are able to retrieve information, the more smoothly the audit will run. The Finance Department employees should and will retain control over gathering information for these types of one-time occurrences (grants), thereby also controlling the information disseminated to the auditors. A breakdown in communication between the auditors and Finance employees can contribute to unnecessary audit adjustments.

This coordination of information gathering does not extend to the areas of the audit normally coordinated by the Housing staff on an annual basis.

City of Redwood City
Status of Prior Year Recommendations
For the year ended June 30, 2004

4. The following are the status of prior year recommendations:

<u>Recommendations</u>	<u>Status</u>
Loans Receivable - Parking District	Implemented
Capital Assets - Parking District	In Progress
Capital Assets System	Implemented
Capital Assets Policy	Not Implemented
Timely Remittance of Cash Receipts	In Progress
Receipts Remittance by outside Department	Not Implemented
Segregation of Duties in Payroll	Not Implemented