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ADMINISTRATIVE SERVICES

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March 9, 2015

Kim Koch, Senior Manager Moss Adams LLP  
601 W Riverside, Suite 1800  
Spokane, WA 99201

RE: **INTERNAL AUDIT OF MONTHLY CLOSE PROCESS - MANAGEMENT RESPONSE**

Moss Adams, as the contracted internal auditors for the City of Stockton ("City") performed a review of the design and implementation of internal controls related to the monthly close process for the period between August 2014 and November 2014. The review focused on assessing the timely and accurate completion of the monthly close process. The City is in agreement with Moss Adam's overall assessment that progress in designing and implementing controls have been made but that the City still has gaps in controls that need to be addressed. These gaps have been a work in progress to incorporate the various recommendations made in the audits conducted over the past three years. Recommendations that impact policies and procedures are being completed in conjunction with the policy and procedure project being performed by the internal auditor over an 18-24 month period.

Below is City management's response to the findings in the internal auditor's report dated March 16, 2015.

**Finding 1 - The Financial and Accounting Operations is operating with limited resources that affect its ability to efficiently perform the monthly close process.**

Management agrees with this finding.

**Recommendation 1 – The ASD should continue to prioritize filling its Supervising Accountant and Accountant position vacancies.**

The City of Stockton's Management Response:

ASD leadership recently reorganized the Finance and Accounting Operations Divisions into various units or groups. Two new groups are the Transactions Reporting Group (TRG) and the Financial Reporting and Analysis Group (FRAG). Each group has their own defined roles and responsibilities that will improve the efficiency and overall performance of the Financial and Accounting Operations Division to ensure a timely and accurate close.

ASD management has also implemented a risk-based approach to its accounting fund management that is consistent with the best practices recommended by the Government Finance Officers Association. The risk-based approach is applied to work assignments, review and financial reporting. Each fund is assigned a low, moderate or high risk which is based on various factors (i.e. volume of transactions, complex grant regulations, prior findings and errors, risk of material error occurring, and the degree of financial impact to the fund and the City). This approach will allow management and staff to triage the high volume of work, transactions, and reporting and to balance that workload among existing resources and capacity.

The Financial and Accounting Operations Division is in the final stages of recruiting two Senior Accountant positions and has submitted revisions to the Supervising Accountant Classification for approval by the Civil Service Commission in February 2015. It is anticipated that the recruitment for this position will be completed by mid-2015. Once these key positions are filled, the workload gap that exists in review and preparation should be alleviated.

Though the high volume of transactions continues to be a hindrance and staff vacancies exist, the monthly close process is still being accomplished though staff are still working towards our expectations of best practice for timing.

**Finding 2 – The Accounting Division is not performing the monthly close process within 30 days of month end.**

Management agrees with this finding.

**Recommendation 2 – The Accounting Division should continue to seek efficiencies in the journal entry process through the use of technology resources, to employ training and /or working groups to reduce certain transaction types through more effective education and communication, and continue to evaluate which transactions are more effectively entered on an alternative, non-monthly, schedule, so that monthly close can be completed within 30 days after month end.**

The City of Stockton's Management Response:

Consistent with responses to Finding 1, the delay in the monthly close is caused by existing vacancies coupled with the high volume of processing journal entries and transactions. Despite these factors, the Financial and Operations Division has been able to improve the monthly close timing, however, not to the level desired.

As identified in the Moss Adams report, ASD has evaluated and changed the timing of data entry of certain type of transactions from monthly to quarterly without sacrificing the quality of the financial data. Staff will continue to further evaluate timing and impact of other transactions to establish efficiencies, aide in alleviating volume, improve timing, and establish workflow measures. As an example, the high volume but low individual dollar impact of Financial Action Order Forms ("FAOF") result in numerous journal entries but in total rise to a material level and should be evaluated during the budget process. Staff will continue to work towards reducing the number of FAOF's through training and collaboration with the Departments and Budget to improve financial accuracy before the transaction is posted to the general ledger.

In addition, the City's Finance and Accounting Operations Division is developing standard operating procedures along with a monthly checklist and calendar as recommended by the internal auditors for the monthly close. ASD is also working with Information Technology (IT) to evaluate processes that could be improved with automation and/or additional system training. We believe this will help in streamlining the monthly close process.

**Finding 3 – There is no monthly close procedure, checklist, or calendar for ASD, Accounting Division, or departmental staff to use.**

Management agrees with this finding.

**Recommendation 3 – The Accounting Division should develop monthly close procedures, checklist, and a calendar for ASD and departmental financial staff.**

The City of Stockton's Management Response:

The sample checklist provided by the internal auditor in the appendices of their report is being reviewed by the Finance and Accounting Operations Division for incorporation into our standard operating procedures. Every effort will be made to develop a monthly close procedure tailored specific to the City but using these examples.

Departments that are affected by the monthly close will be provided early communication of the calendar of deadlines for the submission of various required documents. The accounting monthly close calendar and the checklist

will also be made available electronically on the City's intranet site to ensure city-wide access and to improve communication. Ongoing monitoring and communication of upcoming deadlines will be established. Closing tasks that are not completed timely will be elevated following a standard escalation procedure to the attention of ASD Senior Management for resolution as recommended by the internal auditor.

**Finding 4 – ASD's Accounting Manual is not complete or current.**

Management agrees with this finding.

**Recommendation 4 – Update the Accounting Manual to include a current and comprehensive set of policies, develop a plan for reviewing and updating the manual periodically, and make the Accounting Manual easily accessible to City Staff on the Intranet.**

The Accounting Manual and forms are in the early stages of development for review and approval by ASD Senior Management. The Accounting Manual will be a collaborative effort within ASD and with Department staff.

The primary objective of the Accounting Manual will be to provide standardized policies and accounting processes for all departments city-wide. It will be the Accounting Manager's responsibility to ensure changes are reviewed and approved by ASD Senior Management and to update the Accounting Manual regularly as may be appropriate.

We are appreciative of the efforts of Moss Adams to review of our monthly close process and value the recommendations made for future improvement. Should you have any questions, you may contact Vanessa Burke at (209) 937-8908 or via email at [vanessa.burke@stocktongov.com](mailto:vanessa.burke@stocktongov.com).



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