

City of Coldwater, Michigan

Report to the City Council

June 30, 2003

November 19, 2003

Honorable Mayor and Members
 of the City Council
 City of Coldwater, Michigan

We have recently completed our examination of the City's financial statements and underlying records for the year ended June 30, 2003. In addition to our report on the financial statements, we would like to present the matters outlined in this report as potential opportunities for improvements to the internal controls and efficiency of your Organization. These recommendations and informational comments are presented as outlined below:

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In recognition of our recent completion of the examination of the City's financial statements and underlying records for the year ended June 30, 2003, we would like to acknowledge our appreciation of the effort put forth by your staff in preparing for the audit and responding to our requests.

PLANTE & MORAN, PLLC



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City of Coldwater, Michigan
Recommendations
June 30, 2003

Purchase Order System

During our audit, we noted the City is not fully utilizing the purchase order system currently in place. An approval process for purchase orders could ensure that only authorized expenditures are incurred and the matching of approved purchase orders enables the finance department to verify expenditures. It is our understanding that the City is in the process of implementing a new software package that will allow better tracking of purchase orders. It is our recommendation that the City departments try to utilize the purchase order systems to better streamline the accounts payable processing and safeguard the assets of the City.

City of Coldwater, Michigan

Informational Comments

June 30, 2003

New Homestead Audit Program

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming more than one primary residence. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one primary residence for property tax purposes. A residence which is not an individual's primary residence pays property tax at the non-homestead rate. Local units that participate with the State in sharing homestead information will receive a percentage of the interest charged to property owners on taxes due, as a result of the claiming more than one primary residence. The Michigan Department of Treasury will publish additional guidance related to this new law.

Internal Accounting Controls

Over a relatively short period of time, there have been several large documented fraud related cases in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the board members of these not-for-profit organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations (small and large) have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with our clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure that includes sound accounting and internal control policies and procedures (in the eyes of the employees). One of the key aspects of strong controls, and thus a deterrent, is senior management support and involvement with accounting and internal control monitoring and related decisions. Many clients have implemented or are considering implementing an independent review of key accounting and internal control policies on a regular basis, perhaps annually or through a special arrangement where the review is completed on a random basis as determined by designated senior officials. The implementation of such a program will clearly communicate the importance of sound accounting and internal controls throughout the organization and will assist in providing an additional internal control which may further reduce the risks in this area.

Some of the key areas to focus on, but are not limited to, include the following:

- Cash receipts handling and posting to customer accounts receivable including the initial creation of customer accounts receivable
- Cash disbursements, including the establishment of vendor master files in the information technology system and maintenance and controls surrounding the electronic signature of cash disbursement checks
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the information technology system

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Municipality IP Security Scan (MISS)

Many communities are expanding their use of the internet to communicate and improve productivity. With this expanded use, come considerations regarding system security. Plante & Moran has assisted the MMFOA and MML in responding to the need for improved security. Available through the MML is the Municipality IP Security Scan, which is designed to allow local units of government to test their system security at a high level for a very low cost. Although most units have "fire walls" or other security measures, many have never had those systems tested. This service is intended to make this type of testing very accessible to any local unit.

Revenue Enhancing and Cost Cutting

In light of costs continuing to increase and the uncertainty of the State economy, we would like to review a list of potential revenue generating and expense saving opportunities. Our purpose in providing this list is to give you various ideas rather than advocate one technique over the other.

New Revenue Sources

- Have property tax revenues been increased by levying separately over and above the charter limits for Economic Development and Promotion (not to exceed \$50,000)?
- Are there charges for all parks and recreation program activities?
- Has consideration been given to establishing an inspection fee (depending on legality) for residential housing sales of rental property?

Have all municipal services been reviewed and consideration given to charge fees (particularly if only a few citizens are benefiting)?

- Is there an additional charge for recycling and/or compost pick-ups?
- Has space on governmental properties (such as benches, areas and vehicles) been sold for advertising?
- Have all unusable fixed assets, including vacant land, been sold (governmental garage sale)?
- Have major governmental assets been considered for sale/leaseback arrangements?
- Have building permit, inspection and other user fees been revised (increased)? Do fees equal or exceed related costs?
- Has property been aggressively assessed?
- Have improved investment earnings been achieved with better cash management and projecting, zero balance checking, interest bearing checking accounts, pooling of funds and utilizing all legal forms of investments?

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Eliminating Costs

- Have early retirement incentives been offered to produce salary and fringe benefit savings by keeping the position vacant or filling it at a lower salary level?
- Can bank "lock box" services be utilized for the collection of property taxes and water and sewer bills?

Other

- Has an energy audit that may result in permanent energy cost savings been performed?
- Have part-time and temporary personnel been utilized?
- Have high school co-op students been utilized?
- Have outside contractors been considered for services such as garbage pick-up, meter reading, engineering, planning, custodial, security, street sweeping, snowplowing, residential streets, etc?
- Have health care costs and other fringe benefits been reviewed and alternatives evaluated?
- Has pooling of costs in cooperation with other communities been considered such as for infrequently used equipment, for data processing equipment with excess capacity and combining service (e.g., ambulance, animal control and inspection)?
- Has an operational audit/review (possibly only selected departments) been considered?
- Has a formal preventive maintenance program for facilities, equipment and vehicles been developed?
- Has presorted mail been considered?
- Has an exemption certificate been requested to eliminate the federal excise tax on telephone service?
- Have rental charges to other funds for space and equipment usage been considered?