



HOSLETT
Forensics

Forensic Accounting and
Fraud Prevention Specialists

March 31, 2026

Mr. Aaron Busch
City of Lodi
221 W. Pine Street
Lodi, CA 95240

RE: Consulting Services Report

Dear Mr. Busch:

We have been engaged by the City of Lodi (“the City”) to review the Utility Customer Deposit Account (“Utility Account”), Procurement Cards (“Cal Cards”) and the Amazon Charges as agreed to in our proposal of services. The procedures performed and the results of our testing procedures are discussed in the following sections of this report for each area.

Executive Summary

The following highlights our findings related to the testing procedures performed which are discussed in detail in the following sections of this report.

- Utility Customer Deposit Account – A presentation to the City Council on April 1, 2025 (See Exhibit 1) and a report issued by BakerTilly Report dated April 28, 2025 (See Exhibit 2) calculated discrepancies between the Utility Account balance and the General Ledger account balance of \$701,322 and \$1,200,000, respectively. Both calculations are significantly flawed and overstate the difference between the accounts. The actual accounting adjustment needed to reconcile the accounts is approximately \$67,000. This difference is primarily related to data input clerical errors (dates input into the system incorrectly) and/or manual adjustments in the Utility Account.
- Overall Conclusion – The automated system to refund customer deposits is operating appropriately (50-60 customers are automatically refunded each month) and any discrepancies between the Utility Account and the General Ledger are related to manual data entries/adjustments made to the system by employees. These manual entries have not been reconciled in years. We are working with the City to implement monthly control and reconciliation procedures to rectify these discrepancies.

- Cal Card Testing – The City performed detailed testing of the Cal Cards for a five year period noting potential violations of City policies totaling approximately \$8,625 which included unapproved meals and meals exceeding the daily approved limits (~50%), unapproved travel or flight/seat upgrades (~25%) and other personal or unapproved purchases (~25%). The City spends approximately \$2,250,000 per year on the Cal Cards. The City has obtained reimbursement for a significant portion of the above charges and the City has implemented changes in procedures to prevent or limit future issues. Our office performed additional testing noting no additional non-city related unauthorized charges.
- Amazon Charges Testing – The Amazon charges were tested by the City in conjunction with the Cal Cards (the Amazon purchases were made on the Cal Cards). The City noted minor issues with the charges as noted above. Our office performed additional testing noting no additional non-city related unauthorized charges.

Utility Customer Deposit Account Testing

The following highlights the key issues, testing procedures and results of our testing procedures related to the Utility Account (Fund 500, Account 20101 – Utility Deposits & Holding).

Issue #1 - Utility Customer Deposit Account & General Ledger Difference (Prior Reports)

We have been presented with two separate calculations showing the actual customer utility deposits from the Utility Account and the customer utility deposits per the General Ledger account being significantly off by either \$1,200,000 (Finance Division Update to the City Council on April 1, 2025 – See Exhibit 1) or \$701,322 (BakerTilly Report Dated April 28, 2025 – See Exhibit 2). Both calculations are significantly flawed and unreliable as discussed below:

- Finance Divisions Update (April 1, 2025) – The City Council was presented a Finance Divisions Update dated April 1, 2025 (See Exhibit 1) which showed a difference between the current “Deposit Holding Account Fund Balance¹” of \$1.68 Million and the “Total Deposits” held by the City of \$482,000 for a difference of \$1.2 Million as calculated below. The methodology calculating the “Total Deposits” is based on the number of new customers for a one-year period times the average deposit amount as calculated in the following table.

¹ This is also referred to as the Utility Deposit General Ledger Account.

Mr. Aaron Busch
 City of Lodi
 March 31, 2026

	Calculated Deposit Amount	Total Amounts (Difference)
Deposit Holding Account Fund Balance		\$ 1,680,000
New Deposit Accounts (Past 12 Month	\$ 1,960	
Average Deposit Amount	246	
Total Deposits	\$ 482,160	482,000
	Difference	\$ 1,198,000

Important Finding - This methodology is significantly flawed because it ignores the fact that a significant number of customer deposits are held for more than one year (such as No ID deposits, customers with late payments, etc.).

- BakerTilly Report (April 28, 2025) – The BakerTilly report (See Exhibit 2) raises two areas of concern. The first is that the Utility Account does not agree to the General Ledger by \$701,322. The second is that a significant amount of the deposits held by the City should be returned to the customers (essentially stating the automated system of applying customer deposits is not operating correctly). The calculation for both issues are significantly flawed. The following is the BakerTilly deposit summary (See Exhibit 2):

	# of Accounts	Deposit Amount
Negative Deposits	6	\$ (1,419)
Closed Accounts	23	5,425
Current Customer (Over 1 Year & No Late Pmts)	274	230,940
Current Customer (Over 1 Year With Late Pmts)	1,090	269,422
Current Customer (Under 1 Year of Service)	1,367	337,953
Total	2,760	\$ 842,321

- General Ledger Difference - The methodology used by the BakerTilly report to calculate a difference between the Utility Deposit Account (\$842,321) and the General Ledger (\$1,543,644) for an unidentified difference of \$701,323 is materially flawed for the following two reasons.

- The calculation ignores the fact that the City has customers prior to January 1, 2019 that have deposits being held by the City (such as deposits being held because of late payments, No ID deposits, etc.). This discrepancy accounts for a difference of approximately \$488,000.
 - The City has approximately 6,600 customer accounts with deposits not 2,760 as noted above.
- The calculation also does not account for a timing difference between the date the report was printed out (March 2025) and the date the deposits are compared to the general ledger (June 2024)². Deposits refunded between June 2024 and March 2025 are excluded from the total deposit amount increasing the difference by approximately \$201,000.

	BakerTilly Amounts	Hoslett Amounts
Deposits Received & Held (1/1/19 to 6/30/24)	\$ 842,321	\$ 851,498
Deposits Received & Held (2018 & Prior)	-	488,149
Deposits Refunded (July 2024 to March 2025)	-	201,403
Total	842,321	1,541,051
Total Per GL as of 6/30/24 (BT)	(1,543,644)	(1,543,644)
Unreconciled Difference	<u>\$ (701,323)</u>	<u>\$ (2,593)</u>

Important Note – The above reconciliation was performed simply to show the elements left out of the BakerTilly analysis as of the fiscal year ending June 30, 2024. A detailed reconciliation is discussed in the following sections of this report.

- Deposits Due to Customers – The report categorizes customer deposits based on the number of customer late payments. The City’s policy states that once a customer has 12 billing cycles without a late payment, they are eligible for a refund of their deposit. The BakerTilly report states that at a minimum, customer deposits over 12 months with zero late payments totaling \$230,940 should be refunded. This analysis is based on the “*Times Late*” field in the report used by BakerTilly. However, during our testing it was determined that this field does

² The BakerTilly report uses a Utility Deposit Report that includes deposits through March of 2025. The “Current Deposit Held” amounts represent deposits held at the time the report was produced in March 2025 (not as of General Ledger date of June 30, 2024). The BakerTilly analysis does not capture deposits that were received prior to June 30, 2024 but “Applied or Refunded” to the customer between July 2024 to March 2025.

not accurately reflect the number of late payments by customers and is not used by the automated system when determining when customers should be refunded³.

- Finding - Based on our testing, the City’s software system is accurately applying customer deposits automatically each month (approximately 50-60 per month).

Issue #2 - Utility Billing Account is not Reconciled to the General Ledger

The City’s Auditors⁴ (See Exhibit 3) and various consultants have included an internal control recommendation stating the City does not reconcile the Utility Account to the General Ledger (See Exhibit 3) and manual adjustments to the Utility Deposits are not reviewed and approved (See Exhibit 4).

- Finding – During our review this is determined to be true that the utility account has not been reconciled to the general ledger for years and manual adjustments were not always approved.
- Corrective Measures Taken – The following corrective measures have been implemented:
 - We have reconciled the Utility Account to the General Ledger which requires an adjustment as noted below. This adjustment most likely accumulated over the years as a result of inconsistent manual adjustments made to either the General Ledger or the Utility Account.

	Amounts (As of 3/26/26)
Current Deposits per Utility Module	\$ 1,699,344
General Ledger Total	1,766,887
Adjustment Needed	\$ (67,543)

- Monthly Reconciliation Procedures - We are in the process of working with the City’s accounting department to develop and document the ongoing reconciliation process and procedures to ensure this account is reconciled in a timely fashion. This should eliminate the internal control findings from the year end auditors in the future.

³ We incurred with the City’s IT department and as of the date of this report we have not identified what this field is actually used for. We did test the system and know it does not accurately track late payments and is not used for applying customer deposits.

⁴ These recommendations have been included in the City’s audit reports for at least the fiscal years 2022/23 to 2024/25.

Issue #3 – Utility Deposits are Held Beyond the City’s Policy

The City’s policy is to hold deposits until a customer either has 12 months of payments without a late payment or the customer’s account is closed⁵. The following highlights our findings and recommendations related to this issue:

- *Findings* – During our review it was determined that the Utility Account is properly applying deposits (on an automated basis) as documented in the City’s policy (See Exhibit 5) and the City of Lodi Utility Service Application contract (See Exhibit 6). The general policy is that customer deposits will be held until the customer has 12 consecutive billing periods without a late charge being assessed or the account is closed. The following highlights the status of the customer deposits as of March 26, 2026:

Account Status	Recommended Procedures	# of Accounts	Amounts (As of 3/26/26)
Current (Open) Accounts	To Be Held for Future	6624	\$ 1,668,786
Closed Accounts	To Be Resolved	142	32,090.34
Negative Balance Accounts	To Be Resolved	6	(1,532.22)
			<u>\$ 1,699,344</u>

- Corrective Measures To Be Taken – We recommend the following corrective measures:
 - Current (Open) Accounts – No corrective measure is required.
 - Closed Accounts – We recommend that the City research the closed account deposits held and refund the amounts to customers if appropriate. During our review, we noted that some the reasons the deposits have not been applied are as follows:
 - Approximately 25% of the accounts represent accounts that are in the process of closing⁶ and will automatically apply the deposit to the last bill automatically.
 - Deposits for “NOID” and accounts with a “Held Deposit Through” date both require a manual entry in the system to release the deposit. These dates prevent the system from automatically applying the deposit when the account is closed.

⁵ The exception to this policy is for customers that do not possess a “Valid U.S. Identification (SSN)” an extra deposit is collected and returned when the account is closed.

⁶ The system allows for the “End Date” to be entered in the future when the customer wants service shut off. The deposit is not applied until the final bill is generated.

- Deposits are often manually transferred from one account to another when a customer moves to a new residence. These manual transfers need to be reviewed as a credit could be applied to the new account without deleting it from the old account.
- Negative Balance Accounts – We recommend the City research and resolve these accounts.
- Testing Procedures Performed (At a Minimum) –
 - *Testing of Utility Account System Automatically Applying Deposits*
 - We arbitrarily selected approximately 50 customers and reviewed the accounts to ensure the City’s accounting system was automatically applying the deposits appropriately or not, depending on the customer’s payment history. No exceptions were noted.
 - We obtained a list of the customers who called the City stating that they were eligible for a refund of their deposit but had not received it for the three-month period from December 2025 to February 2026 (a total of 9 customers requested refunds). It was determined that the system was operating correctly and that the customer was not eligible for the refund or the refund request was generally one month early.
 - In addition, we interviewed the Revenue Manager in charge of the system and she confirmed that the automated system of applying deposits has been consistent without any noted exceptions for the prior few years. Approximately 50-60 deposits are automatically applied each month without exception.
 - *Manual Customer Date Field Input Testing* – The City’s accounting system requires manual data input into the Utility Account system when a customer deposit is established and when an account is closed. We reviewed the Utility Account database and noted some dates were input into the system incorrectly. The monthly reconciliation and testing procedures will be designed to identify and correct the data input errors.

Cal Card Testing

The following highlights the key issues, testing procedures and results of our testing related to the City’s Cal Card account purchases:

Mr. Aaron Busch
City of Lodi
March 31, 2026

Scope of Testing

We obtained directly from the City’s account downloads of all the Cal Card purchases for the two-year period September 2023 to August 2025⁷ for testing as follows:

Period Tested	# of Employee Cal Cards	# of Purchases	Total Purchases	Average Purchase Amount
9/1/23 to 8/31/25	103	15,917	\$ 4,518,989	\$ 283.91

Testing Procedures & Results

The following summarizes the testing procedures performed related to Cal Card purchases:

- City Internal Review of Cal Card Purchases – The City performed an internal review of Cal Card purchases for a five year period which identified a total of \$8,625 in unapproved or unauthorized Cal Card charges including unapproved meals and meals exceeding the daily approved limits (~50%), unapproved travel and flight/seat upgrades (~25%) and other personal/unapproved purchases (~25%).
 - Finding #1 – The City implemented a policy to pay employees the IRS approved standard meal daily rate rather than actual meal costs. This policy eliminates the error that meals over the City’s approval rate are approved and paid.
 - Finding #2 – For the unapproved or unauthorized charges identified, the City implemented procedures to recoup the overpayments.
- Analytical Testing & Analysis - We downloaded the Cal Card purchase data for two years directly from the City’s account to ensure the integrity of the documentation and performed the following testing procedures (at a minimum):
 - Sorted purchases by employee to see the value of the purchases by employee. We reviewed the purchases for employees making a large number of purchases noting the employee was generally in a department that warranted the purchases.
 - Sorted purchases by merchant category (Ex. Home Depot, Amazon, Hilton Hotel, Comcast, Etc.) to identify any categories that appear to be personal or unusual.
 - Sorted purchases by purchase category (Hotels, Rental Cards, Restaurants, Amazon, Etc.) to identify any unusual purchase categories.

⁷ The two year period provides a broad range of purchases and is based on the proposal for services provided to the City.

- Specific Cal Card Purchase Testing – Based on the analytical testing and analysis performed above, we obtained access to the City’s Cal Card purchase system which is used to review and approve purchases on the City’s Cal Cards (including Amazon purchases) and randomly tested in excess of 100 Cal Card purchases.
 - Findings – For the items tested, we noted that the purchases were appropriately approved and we reviewed the supporting documentation (such as invoices) to determine that the purchase appeared to be City related. No exceptions were noted.
- Internal Controls Review – We reviewed the City’s policies and controls related to the Cal Card purchases and the City auditor’s internal recommendations noting the following:
 - Finding #1 – During our testing of Cal Card purchases, it was noted that the City’s accounting system requires multiple approvals for purchases (often 3 to 4 levels of approval). No exceptions were noted.
 - Finding #2 – The City’s auditors recommend a “more timely review and approval” of the Cal Card purchases. While we agree a more timely review would limit the risk of continual theft, the risk to the City is minimal.

Amazon Purchases Testing

The following highlights the key issues, testing procedures and results of our testing related to the City’s Amazon account purchases:

Scope of Testing

We obtained directly from the City’s Amazon account downloads of all purchases for the two-year period September 2023 to August 2025⁸ for testing as follows:

Period Tested	Employees Making Purchases	# of Purchases	Amount
9/1/23 to 8/31/25	87	6,685	\$ 1,215,017

Testing Procedures & Results

The following summarizes the testing procedures performed related to Amazon purchases:

⁸ The two year period provides a broad range of purchases and is based on the proposal for services provided to the City.

- Cal Card Testing - We reviewed the City's Cal Card testing results which identified a total of \$8,625 in unapproved or unauthorized Cal Card charges.
 - Findings - A very small percentage of the unapproved or unauthorized charges were related to Amazon purchases.

- Analytical Testing & Analysis - We downloaded the Amazon purchase data for two years directly from the City's Amazon account to ensure the integrity of the documentation and performed the following testing procedures (at a minimum):
 - Sorted purchases by employee to see the value of the purchases by employee to identify any unusual trends or excessive purchases.
 - Sorted purchases by Amazon category (Ex. Art, Beauty⁹, Gift Cards, Books, Office Products, etc.) to identify any categories that appear to be personal.
 - Sorted purchases by City's Cal Card number vs. non-City card numbers.
 - Finding – Purchases that appeared personal in nature were often purchased using an employee's personal credit card not the City's Cal Card.

- Specific Amazon Purchase Testing - We obtained access to the City's Cal Card purchase system which is used to review and approve purchases on the City's Cal Card (including Amazon purchases) and randomly tested in excess of 50 Amazon purchases based on the analytical testing and analysis procedures performed.
 - Findings – For the items tested, we noted that the purchases were appropriately approved and the purchase appeared to be City related. No exceptions were noted.

- Internal Controls Review – We reviewed the City's policies and controls related to the Amazon purchases noting the following:
 - Finding #1 – The City updated its policy on allowing employees to purchase personal items through the City's Amazon account to only allow City purchases with the City's Cal Cards. Use of personal credit cards is no longer permitted.
 - Finding #2 – During our testing of Amazon purchases (on Cal Cards), it was noted that the City's accounting system requires multiple approvals for purchases (often 3 to 4 levels of approval). No exceptions were noted.

⁹ It is important to note that a charge categorized as "Beauty" could be for bathroom soap.

Mr. Aaron Busch
City of Lodi
March 31, 2026

Exhibits

The following exhibits are attached to this report:

Exhibit 1 – Utility Billing Presentation to City Council (April 1, 2025)

Exhibit 2 – BakerTilly Utility Deposit Memo (April 28, 2025)

Exhibit 3 – LSL Internal Controls Schedule of Findings & Responses

Exhibit 4 – Moss Adams Internal Controls Review Findings (June 6, 2025)

Exhibit 5 – City of Lodi – Utility Billing Deposits Policy

Exhibit 6 – City of Lodi Utility Service Application

Should you have any questions, please do not hesitate to ask.

Sincerely,



Steven M. Hoslett, CPA, CFE, MBA

Exhibit 1



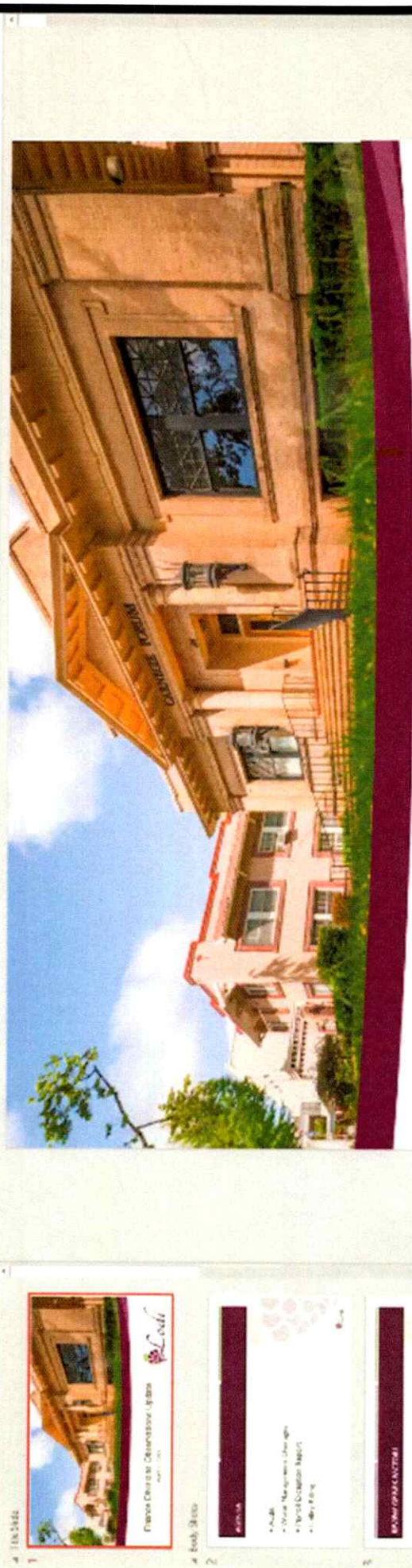
UTILITY BILLING

- Significant Reconciliation Issues Dating Back to 2016
- Unexplained Fund Balance
- Unexplained Transactions
- Accounts Do Not Reconcile
- Current Deposit Holding Account Fund Balance: \$1.68 Million
- New Accounts in the Past 12 Months Requiring Deposit: 1,960
- Average Deposit Amount: \$246
- Total Deposits: \$482,000 (Delta of \$1.2 Million)



ACCOUNTING DISCLOSURES TO AUDITORS

- Bank Reconciliations Not Completed Timely
- Write-offs of Uncollectable Debt Not Completed Since 2016 (Revenue Overstated)
- Utility Billing Not Reconciled with the General Ledger (Previous Audit Finding)
- Grant Activities Not Properly Reconciled (Previous Audit Finding)
- Payroll Reporting to CalPERS Inaccurate
- No Closing / Reconciliation Activities Completed for Monthly Financial Reports
- City Unable to Meet Required State Deadlines for Reporting of Audited Financial Data
- P-Cards Not Reviewed / Approved / Reconciled on a Timely Basis
- Multiple Lapses in Appropriate Internal Controls



Finance Divisions Observations Update

April 1, 2025

Click to add notes

1

Finance Divisions Observations Update

City of Lodi

2

AGENDA

- Finance Divisions Observations Update
- Finance Divisions Observations Update
- Finance Divisions Observations Update

3

FINANCE DIVISIONS

- Finance Divisions Observations Update
- Finance Divisions Observations Update
- Finance Divisions Observations Update

4

FINANCE DIVISIONS

- Finance Divisions Observations Update
- Finance Divisions Observations Update
- Finance Divisions Observations Update

Exhibit 2



To: Bobby Magee, Interim Assistant City Manager, City of Lodi, California
CC: Carol Jacobs, Managing Director
From: Carlie Myers, Special Advisor
Subject: Utility Deposits and Holding
Date: April 28, 2025

Baker Tilly was engaged by the City of Lodi to provide interim accounting services on several key financial operations to assist the Finance Department staff. Work began in December 2024. The request for work specific to Lodi Utilities' financial data, systems, and processes was requested in February 2025. This memorandum is specific to Baker Tilly's work for Lodi Utilities to reconcile the Utility Deposits & Holding account.

Background

Baker Tilly was requested to review the FY 2023/24 Utilities reconciliation files that were prepared as part of the year end close. The files included a summary of the monthly utilities fiscal transactions using various Munis reports. We recognized that the Utility and Deposits Holding Account, object 20101 in Munis, had a high balance compared to the number of new utility accounts and deposits collected in FY 2023/24 so we researched the history of this account further.

The Utilities and Deposits Holding Account is typically used for new customer accounts that pay a refundable deposit that is held by the organization to insure the utility against losses from unpaid utility bills. In the City of Lodi, the customer deposit amount is based on a calculation performed by the Director of Finance. These funds are then refunded if the new customer is on time with payments for 12 consecutive months. Utility customer account deposits are governed by Lodi Municipal Code, Title 13 Public Services: Chapter 13.04 Service Generally; 13.04.025 Deposits, directing that customer deposits are expected to be returned within a year of on time payments.

When the balance was discussed with the City, there was a request that Baker Tilly account for the funds in the Utility Deposits and Holding account for each utility billing account and review if the utility deposits were handled per Lodi Municipal Code.

Analysis

Two reports were used to review the Utility Deposits and Holding account to determine the amount of deposit on hold for each customer account and if the deposits were refunded to customers after 12 months of current payments.

First, we used the general ledger transactions under the Munis "Account Inquiry" reports. Six years of data were sorted by the transaction codes to provide context. The general ledger account inquiry reports did not include customer account numbers for the transactions. The table includes the annual subtotals for the internal source codes (API, CRP, etc.) that identify the location of the transaction to the general ledger account number. The report is shown below.

City of Lodi
 Account Detail: Fund 500, Object 20101: Utilities Deposits & Holding
 FY 2019 - 2024 Summary by Source Transaction

Fiscal Year	SOY - Balance From Previous Fiscal Year	API - Accounts Payable Invoices	CRP - Cash Receipts	GNI - General Journal Import	UBB - Utility Bill Accounts Receivable	UBD - Utility Bill Apply Deposits	UBM - Utility Bill Maintenance	UBR - Utility Bill Generate Accounts Receivable	UBT - Utility Bill Transfer to Tax/Lien	UDR - Utility Bill Apply Deposits Reversal	Ending Balance
2019	\$ (1,632,270)	\$ 200	\$ (217,617)		\$ (297,839)	\$ 601,517	\$ 11,972		\$ 1,724	\$ (650)	\$ (1,532,964)
2020	\$ (1,532,964)		\$ (156,720)		\$ (344,129)	\$ 468,814	\$ 20,150	\$ 2,525	\$ 150	\$ (300)	\$ (1,542,474)
2021	\$ (1,542,474)		\$ 4,441		\$ (465,501)	\$ 483,367	\$ 24,553		\$ 1,313		\$ (1,494,300)
2022	\$ (1,494,300)		\$ 356,792		\$ (357,975)		\$ 35,075				\$ (1,460,409)
2023	\$ (1,460,409)		\$ 353,291		\$ (398,250)		\$ 31,746		\$ 2,500		\$ (1,471,121)
2024	\$ (1,471,121)		\$ 319,380	\$ 350	\$ (424,750)		\$ 32,498				\$ (1,543,644)

Based on the above information, we noted the following:

1. The supporting documentation for the FY 2019 \$1,632,270 credit balance brought forward from the previous software system in FY 2019 has not been reviewed. We asked staff for this data file, but the information has not been located.
2. There was a change to the business process for utility receipt processes in FY 2022. The source code for UBD – Utility Bill Apply Deposits was not used after FY 2021. It appears that in FY 2022, the source code for CRP – Cash Receipts was used in lieu of the UBD – Utility Bill Deposits to facilitate the return of customer deposits. We asked about the process change but staff were uncertain why the number of transactions increased, as shown in the chart below:

Fiscal Year	Number of Transactions
FY 2019	1,059
FY 2020	973
FY 2021	1,134
FY 2022	13,858
FY 2023	13,872
FY 2024	12,124

We also used the Munis Utility Payment Reports to identify the deposit amounts currently on hold for each customer number. Using the Lodi Municipal Code regulating utility deposits and the Munis Deposits reports, data from 01/01/2019 to 06/30/2024 was generated and summarized in the following table:

City of Lodi
Customer Deposit Report
For the Period of January 1, 2019 through June 30, 2024

Customer Account Status	Number of Accounts	Current Deposit
Deposit not paid and due	6	\$ (1,419.46)
Closed accounts with a reported deposit amount due to the customer	23	\$ 5,425.00
Current customer with over one year of service (as of 6/30/2024) and no late payments that should have the deposit returned	274	\$ 230,940.35
Current customers with at least one late payment that may be eligible for a deposit return	1,090	\$ 269,421.93
Customer deposits of less than a year (as of 6/30/2024) that should remain on hold	1,367	\$ 337,953.33
Total Amount of Current Deposits by account number		\$ 842,321.15

The FY 2024 General Ledger balance for the Utility Deposit account is \$1,543,643.59. Of this amount, \$842,321.15 can be attributed to utility customer accounts. The remaining \$701,322.44 in the account has not been identified in the analysis.

Recommendation:

We recommend the City take the following steps to reconcile the 'Deposits and Holding' account:

- Research the credit of \$1,632,270.37 balance carried forward in FY 2019 in the utility deposits and holdings account.
- Review the FY 2022 change to the business process that resulted in the large number of increased transactions to determine if the change was warranted.
- Request a Munis process map with staff subject matter experts to determine if the software processes need realignment with accounting standards.
- Review the current and closed utility accounts for eligible customer deposit returns. Implement a standard operating process to ensure continued compliance with LMC if one is not already in place.
- Review of the remaining account balance to consider if corrective entries are needed.

Conclusion

Thank you for the opportunity to provide Utilities financial consulting services to the City of Lodi. Please contact either of us if you have any questions about this summary.

Exhibit 3



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

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Reference Number

2024-002 – Utility Revenue, Receivables and Deposits Payable Reconciliation

Evaluation of Finding

Material Weakness

Condition

The City has failed to perform the necessary reconciliations of utility revenue, receivables and deposits payables between its general ledger and the billing software.

Criteria

According to Government Auditing Standards, entities are required to maintain accurate financial records and perform regular reconciliations to ensure the integrity of financial reporting. Specifically, the standards mandate that transactions be properly authorized, recorded, and reported in accordance with established policies and procedures. The criteria for this finding include:

- Government Auditing Standards (Yellow Book), Section 6.36 - Reconciliation of Accounts
- Generally Accepted Accounting Principles (GAAP)

Cause

The primary cause of this condition is the lack of adequate internal controls and oversight within the City's financial management processes. Additionally, there may be insufficient training and awareness among staff regarding the importance of these reconciliations.

Effect or Potential Effect

The failure to perform reconciliations over utility revenue, receivables, and deposits payable, and the related sub-ledgers, has several adverse effects:

- Inaccurate financial statements that do not reflect the true financial position of the City, and each respective enterprise fund that records utility charges for services.
- Increased risk of undetected errors or fraud within utility revenue, receivables and deposits payable.
- Transactions that are recorded in error may be individually insignificant, however, can accumulate to a material amount.
- Potential non-compliance with regulatory requirements.

These effects could significantly impair the City's ability to make informed financial decisions and could result in financial and reputational damage.

Recommendation

To address this material weakness, it is recommended that the City implement the following actions:

- Establish formal procedures for performing regular reconciliations between utility revenue, receivables and deposits payable recorded in the general ledger and the billing software.
- Provide training to financial management staff on the importance and techniques of performing accurate reconciliations.
- Implement a review process to ensure reconciliations are completed in a timely and accurate manner.
- Regularly monitor and audit the reconciliation process to ensure compliance with established policies and procedures.

By taking these steps, the City can enhance its internal controls, improve the accuracy of its financial reporting, and ensure compliance with Government Auditing Standards and other regulatory requirements.

Management Response

Management agrees with the finding and recommendations. The City will begin to implement policies and procedures to assist with monthly reconciliations and review processes to mitigate these errors in the future.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lodi, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 2, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001, 2024-002, 2024-003, 2024-004, 2024-005, 2024-006, and 2024-007 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2024-005 and 2024-007.



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

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LSL, LLP

Sacramento, California
July 2, 2025

Exhibit 4



FINAL REPORT

City of Lodi
CITY-WIDE INTERNAL CONTROLS REVIEW

June 6, 2025

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500





NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
2	Adjustments to Utility Billing account balances are supported with a business purpose and are reviewed and approved prior to being posted.	Completing these reconciliations, the risk increases for financial reporting discrepancies, cash flow uncertainties, inefficient collections, and potential fraudulent activity. Additionally, the absence of documentation indicating when the reconciliation was prepared and who reviewed it can lead to a lack of accountability among employees, making it difficult to trace responsibility for errors or discrepancies.	The preparer should also note the date that they completed the AR aging reconciliation to demonstrate that they completed the AR aging reconciliation timely (within one week of month-end). The employee who reviews and approves the AR aging reconciliation should document their approval via system signoff, email, or physical signature. This approval signifies that the supervisor agrees that the AR aging reconciliation is appropriate and that any items warranting follow-up discussion have been addressed and documented within the reconciliation.	High	High



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
			<p>Regardless of the dollar amount of the adjustment, CSRs should include the business purpose of the adjustment as a note on the customer account adjustment. Including the business purpose will help to clarify why the adjustment was needed and will help reviewers make the best decision when approving or denying these adjustments.</p> <p>Additionally, Utility Billing should perform a higher-level review of adjustments quarterly to assess the volume of adjustments, adjustments made by each CSR, and adjustments by customer to evaluate for reasonableness and to ensure that all adjustments over the defined threshold have appropriate approval.</p> <p>To help capture all adjustments, Utility Billing must routinely reconcile its accounts monthly (see General Control #6).</p> <p>After deciding which changes to make to better strengthen the controls around Utility Billing adjustments, Utility Billing should create a policy and procedure to document its standard practices. Formalizing the policies and procedures will help CSRs standardize their roles and responsibilities while also helping new hires understand current processes when they are onboarded.</p>		

Exhibit 5

CITY OF LODI

REVENUE DEPARTMENT POLICY

SUBJECT: DEPOSITS
DATE ISSUED: AUGUST 1, 2024
REVISED DATE(S):

SECTION 1: PURPOSE

The purpose of this policy is to establish standard guidelines for Utility Billing deposits. Deposits are to be collected in accordance with the City of Lodi Municipal Code.

SECTION 2: POLICY

The Customer Service Representative (CSR) will determine whether to collect a deposit from a customer based on the circumstances of the account, the customer's history, and the best interest of the City of Lodi. Per the City of Lodi Municipal Code.

Municipal Code 13.04.025:

- A. Services. A deposit for the furnishing or continuance of service may be required by the director of finance. Such deposit shall not exceed the estimated amount of charges for two months' service.
- B. No United States Issued Identification. In addition to a deposit for services, the director of finance may require a deposit not to exceed the estimated amount of charges for two months' services of a customer who is unable to provide a United States issued identification.
- C. Length of Deposit.
 1. Deposits for services shall remain on the account until twelve consecutive billing periods have passed without late charges being assessed, unless the account is discontinued prior to such event. Return of deposit amounts shall be in the form of credit to the account, unless the account is discontinued, in which case the deposit shall be applied to the final billing and any excess shall be returned to the customer by check.
 2. Deposits for no United States issued identification shall remain on the account until the account is discontinued, or until valid United States issued identification is provided. Return of deposit amounts shall be in the form of a credit to the account, unless the account is discontinued, in which case the deposit shall be applied to the final billing and any excess shall be returned to the customer by check. A non-U.S. identification deposit will not be required where at least one U.S. Identification exists on the account.

CITY OF LODI
REVENUE DEPARTMENT POLICY

SECTION 3: CSR RESPONSIBILITY

1. Determine if the customer needs a deposit

a. Customer does not need a deposit if they have:

i. Good payment history with the City of Lodi for a consecutive 12-month period.

1. No more than two delinquent notices within 12 months
2. No SNPs
3. No more than two late fees

ii. A letter of credit from another utility company is provided within two weeks of the start date.

b. Customer is **required** a deposit if they:

i. Have no payment history with the City of Lodi
ii. Have an inadequate payment history with the City of Lodi within 12 months. Inadequate payment history would be:

1. Three or more delinquent notices
2. Any SNPs
3. Three or more late fees

c. The customer is **required** a no ID deposit equal to the account deposit when the customer has no:

i. Social Security Number (SSN)

1. ITIN numbers are not SSNs and cannot be used for identification purposes.

- a. ITIN numbers typically start with a 9
- b. Copy of ITIN number will say "For Tax Purposes Only"
- c. When running credit report will not report as a SSN

CITY OF LODI
REVENUE DEPARTMENT POLICY

2. Deposit Amounts

Utility Deposit Schedule			
House/Duplex/Triplex/Fourplex		Apartment Size	
1 Bedroom	\$200	1 Bedroom	\$150
2 Bedroom	\$300	2 Bedroom	\$200
3 Bedroom	\$325	3 Bedroom	\$300
4+Bedroom	\$500	4+Bedroom	\$350

3. Collect Deposit

a. Deposits are to be collected at the start of service

i. Deposits are paid by cash, credit card, or debit card in the office or online.

1. Checks are not accepted for deposits

b. Billing a deposit may be offered if the customer states they cannot pay the total amount.

1. If a deposit is billed, it is payable on the next bill.

****Exceptions to this policy can be made by the Director of Finance, Revenue Manager, or Customer Service Supervisor if needed for a situation that does not fit the above categories and/or parameters****

APPROVED BY:

APPROVED BY:

Name: Andrew Keys
Job Title: Deputy City Manager/Finance
Director

Name: Tarra Sumner
Job Title: Revenue Manager

APPROVED BY:

Name: Michelle Cortez
Job Title: Customer Service Supervisor

CITY OF LODI
REVENUE DEPARTMENT POLICY

EMPLOYEE ACKNOWLEDGEMENT

By signing below, I acknowledge that I have read and understood the Revenue Department Policy, Deposits.

Employee Signature

Name (Please Print)

Date

Exhibit 6



City of Lodi Utility Service Application

Business Address: 310 W Elm St, Lodi CA 95240 Business Hours: 8:00-5:00 M-Th
Mailing Address: P O Box 3006 Lodi, CA 95240 8:30-4:30 Every Other Fri
Phone: (209)-333-6717 Website: www.lodi.gov Email: customerservice@lodi.gov

Address Information:

Service Start date _____

Service Address Purchasing Renting/Leasing

Mailing Address Home Phone Message Phone

City, State, Zip: E-mail

Past Service with City of Lodi: Yes No--If yes, where? Transfer service Stop Date: Initials:

DECLARATION:

By signing below, I certify under penalty of perjury that the information provided is true and correct under the laws of the State of California. I also agree to maintain the meter location at the above service address to be accessible to any authorized representative of the City of Lodi at all reasonable times for reading, testing and inspection per City Ordinance 13.20.130A. I also guarantee payment for all services included in this agreement and agree to pay the cost of collection of this account if it becomes delinquent.

Will this property be used as a vacation rental or short-term rental? ___ Yes ___ No

Refuse can size: 35G 64G 96G

Personal Information: (All tenants on rental contract are required to be on utility account and sign application)

First Name	M.I.	Last Name	Social Security #	State DL/ID or MID

signature _____ date _____

First Name	M.I.	Last Name	Social Security #	State DL/ID or MID

signature _____ date _____

First Name	M.I.	Last Name	Social Security #	State DL/ID or MID

signature _____ date _____

Pet Information:

Dog Name	Breed	Aggressive	
		yes	no
		yes	no

Authorized Person: (Person to act on your behalf other than those on the rental agreement or application)

First Name	M.I.	Last Name	Verifiable ID # or Last 4 of SSN

Deposits

Deposits are required for all customers starting utility service with the City of Lodi.

Deposits may be waived if a customer has a clean credit history with the City of Lodi or can provide letter of credit from another utility service.

Those unable to meet the requirement must provide a deposit to the Finance office in order to obtain service. A deposit (in the form of cash, cashier's check, money order, Visa or MasterCard) is required for any of the following:

1. The applicant(s) has/had a delinquent account sent for collection (the credit bureau and all collection fees must be paid in addition to the deposit)
2. The applicant(s) does not have a credit reference letter from a prior utility company.
3. For applicants that do not have a valid U.S. identification (SSN), an additional deposit may be required. The amount will be no more than the estimated two-month service cost. See schedule below. Additional deposit for no valid U.S. identification will be waived if there is one applicant on the account with a valid U.S. identification.

Utility Deposit Schedule:

House/Duplex/Triplex/Fourplex Size Deposit Amount

1 bedroom \$200
2 bedroom \$300
3 bedroom \$325
4+bedroom \$500

Apartment Size Deposit Amount

1 bedroom \$150
2 bedroom \$200
3 bedroom \$300
4+bedroom \$350

Retention of Deposit/Credit to Account

Deposits will be credited to the customer's account:

1. After 12 consecutive months of current payment history.
2. If the account is closed and a final billing has been generated.
3. No valid U.S. identification deposits will be credited to the customer's account when account is closed.
4. **Shut-Off for Non-Payment**

The City Council made changes to the City's utility billing process on February 1, 2012. Key elements of the new ordinance include:

- 26 Calendar days from billing date
- \$10 late fees assessed on Day 27 on unpaid amounts
- \$15 late fee assessed on Day 36 and 10-day shut-off notice sent
- 48-hour shut-off notice sent on Day 44
- Day 46 utilities shut-off for non-payment

Payment Arrangements

The City of Lodi ordinance allows customers to make a payment arrangement up to two (2) times a year per 12 month period. Maximum length of payment arrangements is three (3) months

Closing Accounts

It is the responsibility of the resident(s) to notify the City of Lodi when they move, want to stop services, or need changes made to the account.