

June 30, 2008

Ms. Julie Jenuwine  
Fiscal Officer  
1000 Rochester Hills Drive  
Rochester Hills, MI 48309-3033

Dear Julie:

The purpose of this letter is to summarize our conversation regarding the separation of budgeting and accounting duties at the City of Rochester Hills. The City is currently evaluating its organizational structure, and President Hooper has asked you to gather information as to the reasons for combining or separating these functions.

Your current city-wide organizational chart includes the following financial management functions:

- Clerk:
  - Accounting
- Finance:
  - Financial policy
  - Financial Analysis
  - Budget preparation and monitoring
  - Risk management
  - Purchasing
- Treasurer:
  - Billing and tax collection
  - Cash management
  - Special assessments

This structure is quite similar to what one would find in the township form of government in Michigan – the accounting duties would be assigned to the Clerk (along with many nonfinancial duties, such as elections, meeting minutes, etc), the budgeting and financial policy duties assigned to the Supervisor (along with other nonfinancial duties), and the billing, cash receipting, and investing duties assigned to the Treasurer (one exception may be that purchasing is often part of the Clerk's department). Based on this, I suspect that the formers of Rochester Hills' city charter intended to retain the Township structure as much as possible.

It should be noted that this structure is different than I see in the majority of cities in Michigan. In those cases, I generally see a combined financial management function that includes all of the above listed duties or functions in a single department.

Now to the crux of the question - You have asked me whether one or the other structure is preferable for the City of Rochester Hills, in my opinion.

To be concise, I have a preference for a combined financial management function, but at the same time do not consider the current segregated functions to be deficient from an auditor's viewpoint (considering internal control, etc). I reach this conclusion by evaluating two perspectives – the effectiveness and efficiency of a single versus separated departments.

From the perspective of effectiveness, I consider (a) providing adequate internal control; and (b) providing a group of employees with a path to develop individual skill levels. Efficiency includes the ability to cross-train the various aspects of financial management in order to shift appropriate work among a wider group of individuals.

The current, separated structure has the sole advantage of creating a natural segregation of duties. Particularly in a very small organization (say less than five to ten office employees), this structure can help to separate incompatible duties among different employees, and thus improve internal control. Given the size of Rochester Hills staffing, however, maintaining adequate segregation of duties (separating custody of assets, authorization, and recordkeeping) should be relatively simple, regardless of the organizational structure.

A combined financial management function would result in a larger group that is involved with a similar set of skills that can be cross-trained, and can help to facilitate a developmental path. This can lead to both better skilled employees, as well as the ability to shift work among different individuals, as workloads change from area to area.

Further, there are many decisions that impact either the strategies or day to day procedures of all three areas (accounting, finance and treasury). Combining these functions under a single department may allow these decisions to be made with all related impacts considered, and may circumvent any competing interests that naturally occur between these three aspects of your financial management structure.

I hope this letter adequately summarizes our discussion. I would be happy to discuss this further with you or the City Council, if you would find that helpful.

Very Truly Yours,  
Plante & Moran, PLLC



Joseph C. Heffernan