



# MEMORANDUM

March 18, 2015

TO: Board of Harbor Commissioners

FROM: Debra Galarza

CC: Scott Grindy, Acting General Manager

**SUBJECT: ADDITIONAL INFORMATION TO ITEM #5 FOR MARCH 18, 2015 BOARD MEETING**

## **Clarification of Agenda Item #5**

When the Board voted to assign the Treasurer duties to the Acting General Manager it effectively took an external review of the District's finances to an internal review. In addition the Treasurer suggested that he could, in turn, appoint a Deputy Treasurer to act in his place. That person was suggested to be the Director of Finance. This would make the internal review become "no review" because the Treasurer function reviews and approves the Director of Finance's reports. (See table below).

It may be best explained by an example. Previously the Accounts Payable function was performed as follows: an approved invoice would be submitted to staff; staff would enter that information into the accounting module to set up payment; staff would have check stock in locked drawer and process checks; and finally, staff would reconcile the bank statements monthly (The same staff member performed all the Accounts Payable duties). When the auditors reviewed this task they suggested that there be a segregation of duties to mitigate any potential fraud. Staff could potentially create an invoice, enter it for payment, process a check, and mark that it cleared the bank during the reconciliation. The District adhered to the Auditors suggestions and now staff receives the invoices and enters it into the system-the Director of Finance reviews the invoice and approves prior to posting to pay, the list of checks needed to cut are submitted to the Accountant who has check stock in a locked drawer and "signs out" the number of checks to the Accounts Payable staff; the bank reconciliation is performed by the Accountant and reviewed by the Director of Finance. Evaluating segregation of duties and transparency is critical in an agency, and in particular, a public sector finance department.

Herein poses the problem. Basically by not having an external Treasurer and internalizing it the function then works similar to the previous Accounts Payable function concern described above.

Nobody else is reviewing staff's work. If the Deputy Treasurer is the Finance Director the list of duties currently are as follows:

**Finance Prepares:**

Bills & Claims report

Quarterly Investment Report

Bank / Investment Reconciliations

Bad Debt Write Offs

Wire Transfers

General Manager Expenditures

**Treasurer Approves:**

Bills & Claims report

Quarterly Investment Report

Bank / Investment Reconciliations

Bad Debt Write Offs

Wire Transfers

General Manager Expenditures

As stated in the original memo, the request is to have our Auditors evaluate these tasks and identify any potential problems, offer their professional suggestions in order to be proactive in addressing any segregation of duties, transparency, or risk. They have stated in their memo to mostly evaluate the GM performing the Treasurer function and it will be discussed to also evaluate the Deputy Treasurer function as well. The request to approve the JJACAP engagement is needed because a task that was performed by an independent external person (Commissioner) has now been assigned to an internal (employee) process. In the spirit of transparency and fiscal responsibility this task should be approved.