

## MEMORANDUM

Date: May 7, 2019  
To: Finance Committee  
From: Tom Hennig, Director of Administration  
Subject: Review District Financial Report Improvements Consulting Work

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Since the April 17, 2019 Board meeting, Finance staff has continuously worked with The Pun Group (Contractor) to conduct a thorough analysis of how the District has managed its fiscal records and performed financial accounting services. Upon award of the bid, The Contractor scheduled on-site meetings beginning Wednesday, April 3, 2019. The total cost of the project was initially estimated to not exceed \$15,000. However, extraordinary circumstances warranted an expansion of accounting services and a contract addendum was agreed to by the General Manager to allow the Contractor to complete enough work to close the books through the end of February 2019. The addendum brought the total amount of the contract to \$25,000, which is the limit of the General Manager's spending authority.

During the past 30 days, the Contractor has encountered the following issues with the District's fiscal records while trying to reconcile the monthly amounts through February 28, 2019. This has created significant delays in accomplishing the reconciliation process to date:

- Overall for a District of this size, there are too many allocations and journal entries used to post District accounting activity. This creates an environment that is highly complicated and requires an overdone monthly closing process that lacks sufficient segregation of duties. The same person that records the entries, also authorizes the entries and reconciles the bank accounts. This exposes the District to risk of error or fraud.
- Payroll records were not reconciled to the District's General Ledger and benefits and allocations were unposted. Almost all payroll amounts are allocated as opposed to being directly costed out to their Department and an appropriate indirect rate being applied.
- The District's time tracking system, SAGE is the source system for posting allocations of payroll and it does not reconcile with payroll registers and/or GL with no reconciliation process in place.
- Year-end closing activities for FY 2017-18 were not completed.
- Computations of Other Payroll Costs revealed these costs included professional actuarial services, bank fees not payroll related, fuel costs, and other costs that are not appropriately classified as payroll and related costs.
- The Chart of Accounts does not conform to the *Minimum Audit Requirements and Reporting Guidelines for California Special Districts*.
- Property Taxes were not posted appropriately in accordance with generally accepted accounting principles. An accrual / deferral process was used monthly as opposed to following generally accepted accounting principles.
- Controller has been using the bank reconciliation module in order to post District transactions when the bank statement is received as opposed to posting transaction when they occur in the subsidiary ledger. This poses a significant lack of segregation of duties.
- The District is lacking sufficient detailed standardized accounting policies that govern the day to day activity of the finance functions for the District making it very complicated to understand the closing process. Besides the Controller, no other individual possesses sufficient knowledge of the processes behind the complex entries.

- The Districts utility billing system, Utility Star, system entries do not match up with the internally developed, Microsoft Access reporting tools used to record then manually transmit activity in the general ledger. There is no policy or procedure in place to reconcile the Utility Star Platinum transactions to the District's MS Access green bar report. The Contractor has identified at least 19 codes which do not flow through correctly to the Microsoft Access database. This entire process lacks technical support and internal control for entering data manually into the financial systems.

As of today, these findings represent some of the most significant items. The Contractor anticipates more control weaknesses will be identified during the closing process. This will continue to be reported to staff and eventually to the Board. Despite the above difficulties, the Contractor with assistance from District staff has been able to make progress on the monthly closing through February 28, 2019. The District will soon be able to run financial statements and make projections using adequate information for its budgeting process.

At this point there still exists a significant level of effort that is beyond the scope of the current contract which will be required to rectify many of the above findings. Additionally, several improvements are being identified to improve the overall financial health and stability for the District. This includes:

- District procedures for the CFD 2014-01 need to be evaluated and updated to meet proper bond management.
- The District needs to adopt a formal budget process/policies and procedures.
- The District's budget book needs to be converted to user friendly format.
- Cost allocations and methods and associated policies and procedures need to be updated.
- A fund needs to be established within the financial/fund accounting system to keep funds in balance and reporting appropriate cash balances by fund for pooled cash.
- Development of a policy for preparation, review and approval of journal entries by type and fund. In the past, the Controller has had the ability to perform all three functions.

Because of the difficult circumstances encountered and described above, the General Manager is directing staff to evaluate and recommend an action to proceed with a request to the Board of Directors. This request will be included with the May 15, 2019 Board agenda packet.