



San Mateo County Harbor District

Board of Harbor Commissioners

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Glenn Lazof, Interim General Manager

August 19, 2015
John Ullom
Via email
redbonelogic@gmail.com

Re: Letter of Appreciation

John,

This June you had raised questions, rather persistently, over the district paying \$40,000 for IT equipment it had could not locate. While I lacked specific details beyond that in your e-mails, I was concerned enough to begin an internal investigation. The wheels of government turn slowly, but we finally have enough information for me to share what has been learned and hopefully to address some of the obvious questions that flow from that discovery.

Harbor District staff has identified \$34,689.31 that was paid to The Well Connected Office (TWCO) in 2012 as a deposit on equipment that was not delivered. By the end of last week, we were in receipt of the full refund of this amount from the vendor. The twisted trail of documentation regarding this payment is, to say the least, not a path in which the district can take pride. The meandering trail contributed both to my confusion and to the length of time our investigation and resolution took. It also reduced the chances of discovery in the IT Audit, as well as previous internal and external reviews.

Below are some of the salient points in the accounting and documentation process:

- 1) Apparently, this deposit was paid using a purchase invoice rather than a deposit invoice as documentation.
- 2) Initially the deposit was recorded as six separate purchases of hardware and software, all under the \$10,000 threshold for fixed assets; it should have been recorded as one deposit for described Capital equipment and booked in the deposit account along with other deposits such as prepaid rents, etc.
- 3) A subsequent journal, processed by staff that is no longer with the District, recombined the six purchases as a Capital Asset. While that would have been the right way to correct the record had it been a purchase, it had the effect of further obfuscating that the transaction was a deposit, not a purchase.
- 4) As the IT Audit referenced, past practice was that there was not a one to one relationship between invoices and equipment purchased. There would be a general description of what issue was being addressed, information provided regarding software and hardware, but not information (such as serial numbers) specific enough to track through inventory.
- 5) If inventory was done for 2012, there was obviously a failure to link the new Capital Asset purchases to what was to be inventoried. Had this been done in accordance with standard procedures, the inventory would have at least identified that the system recorded a purchase for equipment that could not be located, and that finding would have led to further investigation.

What has been done so that this could not happen today? When the IGM started on May 13, it was required that prior to approval of purchases, district staff that receive goods or services, must document in writing that goods or services being paid for were received. My purpose of requiring the GM's signature is to validate, among other things, that such acknowledgement is recorded. If there were a payment of a deposit, it would be obvious that no goods were received, and the Finance Director and General Manager would both need to miss that no acknowledgement of receipt was provided. Such control procedures above are pretty much standard operating procedures for public agencies. These provide checks and balances so that even if one of these controls failed there is still the opportunity for discovery.

The District plans to thoroughly revisit purchase policies and procedures, and more importantly to adhere to them. Some of the routine practices to be enforced, which would prevent such occurrences include:

Properly recording deposit payments.

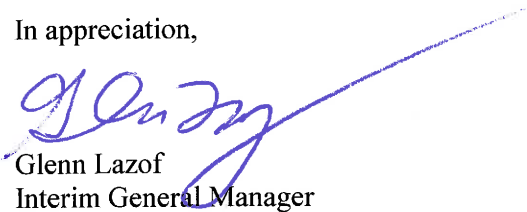
Requiring that Capital Equipment invoices provide detailed specific information regarding exactly what equipment was purchased, including serial numbers as well as correctly identifying deposit payments.

Procedures for inventory control that transfer the specific equipment information (model, serial numbers, etc.) to the list of inventory to be verified.

A complete inventory of fixed assets should be conducted annually, and inventory controls would be in place to ensure that newer purchases are added to the list.

The bottom line here is that if not for your persistence, we very well may not have recovered this overpayment. Please accept my sincere thanks.

In appreciation,



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