

**PLUMAS EUREKA
COMMUNITY SERVICES DISTRICT**

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

June 30, 2018

ROBERT W. JOHNSON
Certified Public Accountant



Robert W. Johnson
an accountancy corporation

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November 2, 2018

To the Board of Directors
Plumas Eureka Community Services District
Blairsden, California

We have audited the financial statements of Plumas Eureka Community Services District as of and for the year ended June 30, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts.

In planning and performing our audit of the financial statements of Plumas Eureka Community Services District as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Plumas Eureka Community Services District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we have enclosed other recommendations for your consideration.

This communication is intended solely for the information and use of management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Robert W. Johnson, An Accountancy Corporation

Robert W. Johnson, An Accountancy Corporation

1. Financial Analysis:

Operating Results – Enterprise:

	<u>Water</u>		<u>Wastewater</u>	
	June 30,		June 30,	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Operating revenues	\$ 346,062	\$ 352,910	\$ 409,020	\$ 411,462
Operating expenses	<u>307,237</u>	<u>329,522</u>	<u>331,426</u>	<u>362,395</u>
Operating income (loss)	38,825	23,388	77,594	49,067
Other income (expense)	<u>32,575</u>	<u>2,587</u>	(5,051)	(49,364)
Income (loss) before contributions	71,400	25,975	72,543	(297)
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	\$ <u>71,400</u>	\$ <u>25,975</u>	\$ <u>72,543</u>	\$ <u>(297)</u>

Observations:

- District invested \$349,496 in capital assets in 17-18. The major capital expenditure was for preliminary work done on the water treatment plant.
- The net pension liability is \$212,821 at June 30, 2018, a \$9,140 increase.

2. Prior Year Recommendations:

A. Reserves:

Recommendation – establish a reserve policy. Annual review by Board at same time as budget preparation.

Follow up – the District had a rate study performed this past year – recommendations for determining reserve account goals and evaluating rate increases were made. Management is researching what can be legally reserved for future reserves.

B. Cost Allocations:

Recommendation – consult time records over a period (3 months) to verify that 15% charge is still accurate.

Follow up – this was done. The charge to fire for administrative salaries was changed to reflect actual time spent.

3. Credit Cards:

Observation – the District has no written credit card policy.

Recommendation – to ensure that District funds are properly accounted for, a written credit card policy should set:

- those to be issued cards
- procedures for reimbursement
- expenditure limits
- monthly reconciliation

4. Internal Controls:

Observation – internal controls principally consist of written policies and oversight of such policies and procedures.

Recommendation – District policies should be written. Organization such as CSDA provide a template for suggested policies.

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Board of Directors of the
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Blairden, California

In planning and performing our audit of the financial statements of the Plumas Eureka Community Services District for the year ended June 30, 2019, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We thank the District's staff for its cooperation on this audit.

Fechter & Company
Certified Public Accountants



February 10, 2020
Sacramento, CA

PLUMAS EUREKA COMMUNITY SERVICE DISTRICT
Management Report
For the Year Ended June 30, 2019

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 4, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Internal Control Related Matters

In any smaller entity, whether private enterprise or a governmental agency, the lack of segregation of duties can present potential issues in regards to the perpetuation and concealment of fraud. Even with a perfect segregation of duties frauds can be perpetuated and concealed. The District can perform some specific control procedures to help reduce the risk of fraud, however. Some of the controls would include:

- Having someone independent of the bank reconciliation function review the bank statements on a monthly basis. At this District it would mean someone independent of the accounting function reviewing the county reports and bank reconciliations.
- Examining a budget to actual report on a frequent basis.
- Comparing the financial statements on a detailed level to the prior year on a frequent basis.
- Requiring someone independent of the payroll process review payroll on a bi-weekly basis, checking for accuracy of pay rates, paid time off recorded, etc.

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- Verifying that a second person is approving all disbursement activity and that an individual independent of the accounting function is signing checks and asking questions about invoices presented for payment.
- Frequently displaying “professional skepticism” when considering staff responses on District finances.

California Government Code Section 12422.5 requires the State Controller’s office to develop internal control guidelines applicable to each local agency by January 1, 2015. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. To this end, the State Controller’s Office has produced a draft of control guidelines for local Agencies. As the District contemplates changes to its system of internal control, we advise in utilizing these guidelines when developing internal procedures to assist with your internal control processes.

The State Controller’s office has defined internal controls into five components that work together in an integrated framework. Their guidelines were adopted from the definitions and descriptions contained in *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The components are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

The objective of *control environment* is the set of standards, processes, and structures that provided the basis for carrying out internal control across the entity. The governing board and management establish the “tone at the top” regarding the importance of internal control, including expected standards of conduct which then cascade down through the various levels of the organization and have a strong effect on the overall system of internal control.

A District’s *Risk Assessment* process includes how management identifies risks (including fraud risk) relevant to the preparation and fair presentation of the financial statements in accordance with the District’s applicable financial reporting framework. In addition, this would also involve areas of business and operational risk which could potentially affect the District’s finances on a go-forward basis.

The District’s risk assessment process is an extremely important activity the board and management should undertake. Every organization, public or private, faces business risks on a day to day basis. Identifying those risks and then acting on them in a timely manner may prevent future problems from becoming completely unmanageable.

Management should consistently attempt to identify risks that exist and then present those risks to the board for action. It is impossible for us to identify every potential risk that exists but either way, management and the board should proactively attempt to identify risks that could adversely affect the District’s operations.

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Control Activities are in reference to establishing policies and procedures that achieve management directives and respond to identified risks in the internal control system. These are specific procedures designed to perform a secondary review of internal processes that will allow for segregation of duties and a management level review of processed transactions.

Information and Communication are the District's methods of identifying what information is relevant to present to management and the board to assist the District in making the correct decisions. It also is in reference to the District's internal processes of gathering and summarizing that information.

Monitoring involves evaluating the effectiveness of controls on an on-going basis and taking remedial actions when necessary when identified by the other control procedures in place. On-going monitoring activities often are built into the normal recurring activities of a local government and include regular management and supervisory activities.

There is no catch-all for finding all instances of fraud within any entity, whether public or private. One of the key factors in helping prevent fraud is to encourage ethical behavior at all levels of the organization, i.e., "tone at the top". Another key would be to note instances of abnormal behavior of finance or accounting staff when questioned about District financial matters.

The District should remember that they have outside resources available in the case of fraud – they are able to contact the District auditor, their attorney, or county auditor-controller should anyone feel there is a chance of fraud or abuse.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences
- Capital asset lives and depreciation expense

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Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the District's financial reporting process:

- Restating disposition of assets and recording depreciation expense.
- Accruing expenses recorded subsequent to fiscal year-end.
- Restating long-term debt balances to correct for banking institution's error, and reclassifying interest component of long-term debt.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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FOR THE YEAR ENDED
JUNE 30, 2020

PLUMAS EUREKA COMMUNITY SERVICES DISTRICT

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We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We thank the District's staff for its cooperation on this audit.

Fechter & Company
Certified Public Accountants



September 7, 2021
Sacramento, California

PLUMAS EUREKA COMMUNITY SERVICE DISTRICT
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The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

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- Restating disposition of assets, recording additions, reclassifying completed Construction in Progress, and recording depreciation expense.
- Accruing expenses recorded subsequent to fiscal year-end.
- Adjusting year-end compensated absences and accrued wages balances.
- Adjusting interfund balances so they properly net to zero.
- Recording interest receivable from LAIF account.
- Updating net pension liability and deferred inflows/outflows.
- Recording prior period adjustments to reconcile beginning balance of equity with ending balance from June 30, 2019 report.
- Reclassifying interest expense from bond debt installments.

Other Audit Findings or Issues

During the course of performing audit procedures, we identified certain accounting and audit issues that indicate deficiencies in internal controls. The following is a summary of findings for management's review:

Year-end closing:

During our initial procedures we noted the following accounts with unusual balances and other issues:

- Accounts receivable and accounts payable balances were negative;
- Interfund balances were out of balance
- Bank reconciliations didn't agree to the general ledger.

We communicated these issues to management who then worked to correct them. Management worked to resolve the issues and provided us with a new trial balance following "completion" of their work. From the first trial balance to the final trial balance received we received seven different versions, each version was different and inconsistent with the previous version.

Not only did the changes result in serious delays in our completion, it required us to perform additional procedures as a result of our doubts concerning the quality of financial information being reported.

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Accurate and meaningful reports should be reviewed on a monthly basis, at minimum, to present data that aids management in making appropriate financial and operational decisions throughout the year. A process of documenting the reconciliation and secondary review of key account balances on a monthly basis will aid the District in identifying accounting issues early, and help in achieving appropriate account balances at fiscal year-end when it comes time to closing the books and submitting the final trial balance report. Staff charged with making entries to QuickBooks should be cognizant of activity at or near fiscal year-end to capture all transactions pertinent to that respective reporting period, and someone that does not post entries to QuickBooks should be documenting their review of prepared year-end balances.

Bank Reconciliations:

As of June 30, 2020, the final iteration of the CSD checking account bank reconciliation report reflected a register balance that was \$4,166 greater than what was reflected in the accounting software. This difference varied from month-to-month during the fiscal year. When this occurs, there is either activity that has not been accounted for, or there are inappropriate accounting entries in the system that need correction. On each month's bank reconciliation report, the "cleared balance" should match the bank statement, and the "register balance" should agree with the Trial Balance as of the same month-end date. Bank reconciliations should be performed monthly, soon after the close of the respective month, and someone separate from the accounting system should document their review and approval of the bank reconciliation report. This control contributes to the safeguarding of District assets and the timely identification of accounting errors to facilitate accurate reporting.

Prepaid Expenses:

The prepaid expense balance has not changed in three years. Any amounts recorded as a current asset should be tracked and amortized over the applicable service period so that it is expended in the appropriate reporting year. Stale prepaid expense balances indicate an understatement of expenses from a prior period, and potential overstatement of current year expenses that should be deferred to a future reporting period. The amount was not material to the June 30, 2020 financial statements, but this balance will need to be cleared out in the future.

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Accounts Receivable:

This year's audit opinion included a qualification over the accounts receivable balance. There is a significant unapplied credit from the separate billing system, and indicates the billing system has not been reconciled to the accounting system. It is difficult to determine which customer account balances are still open, and how their payments are being applied to their balance due. As there have been issues at the District in the past in applying customer payments, strong controls over customer account balances and processing cash receipts is necessary to prevent and detect fraud and material misstatements. A report of unpaid customer balances should be reconciled to the balance reported in the accounting system on a monthly basis. Any credit balances to this asset account should be reviewed for accuracy, and the District should retain receipts of payments received and processed, along with batched deposit slips, to generate a paper trail needed to validate customer payments and appropriate entry in QuickBooks.

Interfund balances:

Interfund balances, internal amounts owed from one fund to another, did not agree at June 30, 2020 and preceding reporting years. Any time an amount is entered in one fund, a matching entry must be made to the other, otherwise the funds will be out of balance or the related revenues or expenses may be misstated within that affected fund. The transactional detail and month-end balances should be reviewed and reconciled on a recurring basis to detect errors or potential concealment of fraud. There is a high volume of activity recorded to these interfund accounts, due to the nature of the District's billing and payroll processing practices. The District's significant sources of revenues and expenses, including user fees and payroll, both result in entries to these interfund balances. These balances must reconcile for these revenues and expenses to be reported appropriately in accordance with GAAP.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

While we encountered many difficulties during the audit pertaining to accounting matters, we encountered no significant difficulties in our dealings with management in performing our audit.