



Handout

Agenda Item 5

Date May 16, 2019

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Board of Directors and Management
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In planning and performing our audit of the financial statements of the business-type activities of Las Gallinas Valley Sanitary District as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Las Gallinas Valley Sanitary District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Las Gallinas Valley Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Las Gallinas Valley Sanitary District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the following deficiencies in internal control to be material weaknesses:

1. In the past year, Las Gallinas Valley Sanitary District has had significant change in the management, including a new general manager and a new finance department. Due to the significant changes caused by staff turnover, the new people made a significant effort, but could not make the previous timeline for the year-end closing of the books and preparation for the audit. We expect that now they are fully staffed that they will be returning back to using a more formal year-end closing schedule. Such an approach would detail all the critical steps in the year-end close as well as the account analysis and schedule preparation required for the audit. With a full staff due dates will be easily monitored so that the process stays on target for the established time deadline.

Due to the staff turnover, the trial balance was delivered later than normal. In addition, multiple audit adjusting journal entries were made affecting the following accounts

- a. Cash and equivalents
- b. Accounts receivable
- c. Prepaid expenses
- d. Capital Assets
- e. Accounts payable and accrued expenses
- f. Long-term debt, including the Net Pension and Net OPEB Liabilities
- g. Deferred Inflows and Outflows
- h. User revenue
- i. Interest income
- j. Employee costs

This accounting function disorganization would ultimately cause significant errors in the financial records and financial statements as well as allow possible irregularities, including fraud, to exist and continue without notice if left as is. The District has formal closing procedures for month-end, quarter-end, and year-end that they will get back to, now that they are fully staffed. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

1. Our audit testing revealed numerous problems in the area of cash could be avoided if the following procedures were adopted:
 - a. All bank accounts, including LAIF, sweep accounts, and restricted accounts with immaterial balances should be reconciled monthly. With a full staff this can be put back on track.
 - b. A policy for the write-off of old outstanding checks should be initiated
2. Las Gallinas Valley Sanitary District uses third party legal counsel. This is currently done only under an oral agreement concerning all aspects of services to be provided by the attorney. To protect the District and to eliminate potential problems that can arise from oral agreements, we recommend that a written agreement for legal services be prepared and signed. The agreement should name the parties involved and list the terms of the agreement, the hourly rates, and the guarantees.

3. Our audit testing procedures noted various originals of supporting documents could not be located. Subsequent to our testing, management was able to provide us with copies of the originals (one in payroll and one in vendor payment). Missing accounting records such as these, while typically indicative of general disorganization, can be a flag of a much more severe issue such as potential fraud or other such abuse. A significant effort should be undertaken to ensure that all original records are located, properly filed, and retained.

This communication is intended solely for the information and use of management the Board of Directors, and others within Las Gallinas Valley Sanitary District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Cropper Accountancy Corporation

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Walnut Creek, California

December 31, 2019