SWEETWATER SPRINGS WATER DISTRICT

MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2013

SWEETWATER SPRINGS WATER DISTRICT
June 30, 2013

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February 19, 2014

To the Honorable Board of Directors
Sweetwater Springs Water District
Guerneville, California

We have audited the financial statements of the Sweetwater Springs Water District (District) for the fiscal year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sweetwater Springs Water District are described in Note 1 to the financial statements. Four new accounting policies were adopted during the fiscal year, with one having an impact on the financial statements (Governmental Accounting Standards Board Statement No. 63). We noted no transactions entered into by the District during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 affecting the District's financial statements was:

> Management's estimate of the other postemployment benefits payable is based on industry guidelines and actuarial tables. We evaluated the key factors and assumptions used to develop the other postemployment benefits payable in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 19, 2014.

Management Consultations with Other Independent Accountants

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 Sweetwater Springs Water District'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.

Other Audit Findings or Issues

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Sweetwater Springs Water District
Guerneville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sweetwater Springs Water District (District), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of current year recommendations that we consider to be significant deficiencies (Findings #2013-01 through #2013-04).

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The District's Responses to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of current year recommendations. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the California State Controller's *Guide to Audits of California Special Districts.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim, LLP
Culver City, California
February 19, 2014

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2013-01 Finding – Lack of supporting documentation:

During our test of credit card statements and employee reimbursements, we noted the following:

a) Two out of eight statements reviewed did not have receipts retained/obtained to support two tested transactions.
b) There is no approval noted on the statements of the General Manager.

Effect:

Without proper supporting documentation and a review of statements by appropriate individuals, it is impossible for the District to verify the validity or appropriateness of the purchases made. This results in an increased risk that a misappropriation of funds could occur.

Recommendation:

We recommend that the District require that all credit card purchases be supported with receipts and be approved by a responsible individual, prior to processing the transactions for payment.

Management's Response:

The District makes a genuine effort to have every single payment backed up with valid documentation. In addition, the Administrative Manager currently reviews all credit card purchases for entry into Quickbooks. Initialing the General Manager's credit card statement can be incorporated into this process in the fiscal year 2013-14.

2013-02 Finding – Adjustments made cannot be easily traced:

During our test of cash receipts and review of internal controls, we noted that adjustments to customer accounts cannot be easily traced to determine if an adjustment was made.

Effect:

Unapproved or incorrect adjustments could be made, which could facilitate a misappropriation of funds.

Recommendation:

We recommend that all cash receipt control procedures be designed to be practicable and provide reasonable assurance that unapproved and incorrect adjustments cannot be made.

Management's Response:

The current billing system does not provide this information. The District will be purchasing an upgraded version of the billing system program in the fiscal year 2013-14. It is possible the newer version will offer the capability of tracing billing system entries.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Significant Deficiencies (Continued)

2013-03 Finding – Lack of purchase order policy enforcement:

During our test of cash disbursements, we noted that purchase orders were not issued for purchases over $300, or for tools, equipment, and capital assets, which is not in accordance with the District's purchasing policy.

Effect:

Without adhering to an established purchase order policy, it is difficult for the District's management to uniformly apply responsible purchasing standards in regards to the use of public funds.

Recommendation:

We recommend that the District require all employees follow the current purchasing policy.

Management's Response:

The old purchase order policy was not particularly useful to the District. In October, 2013, it was discontinued (Ordinance 48).

2013-04 Finding – Lack of segregation of duties:

During our review of internal control, we noted the following:

a. Journal entries were not reviewed and approved by anyone other than the preparer.
b. Online vendor payments through QuickBooks were all done by a single employee.
c. Only one employee has access to and operates QuickBooks.

Effect:

When there is a lack of segregation of duties, there is a greater chance for a misappropriation of funds to occur and to go undetected.

Recommendation:

We recommend that the District implement procedures that will allow for the proper segregation of duties.

Management's Response:

This finding has come up in prior audits. The District's small staff does not provide for multiple levels of accounting review for all transactions. Staff does not recommend that more staff will be added for this purpose.

STATUS OF PRIOR YEAR RECOMMENDATIONS

2012-01 Finding – Lack of supporting documentation:

During our test of credit card statements and employee reimbursements, we noted the following:

c) One out of eight statements reviewed did not have receipts retained/obtained to support tested transactions.
d) One out of eight statements reviewed had approval initials cut off.

Effect:

Without proper supporting documentation, it is impossible for the District to verify the validity or appropriateness of the purchases made and therefore we were unable to determine whether the statement was properly approved. There is an increased risk that a misappropriation of funds could occur.

Recommendation:

We recommend that the District require that all credit card purchases and employee reimbursements be supported with receipts and be approved by a responsible individual, prior to processing the transactions for payment.

Status:

Not implemented – see Finding 2013-01.

2012-02 Finding – Adjustments made cannot be easily traced:

During our test of cash receipts and review of internal controls, we noted the following:

a) Adjustments to customer accounts cannot be easily traced to determine if an adjustment was made.
b) Receipt books were not utilized in sequential order and books with duplicate receipt numbers were used.

Effect:

Unapproved or incorrect adjustments could be made, which could facilitate a misappropriation of funds and it is difficult to track receipts that are issued out of sequence.

Recommendation:

We recommend that the District implement better and more traceable cash receipts handling controls in order to maintain the integrity of the system and that funds and assets be properly safeguarded. Additionally, all the cash receipts control procedures should be designed to be practicable and provide reasonable assurance that unapproved and incorrect adjustments cannot be made. These controls include accounting for the sequential ordering of receipts as they are released for use. We recommend that strict numerical control be kept over all receipts issued and that receipts be issued in sequence as much as possible.

Status:

Partially implemented – see Finding 2013-02.

STATUS OF PRIOR YEAR RECOMMENDATIONS (CONTINUED)

2012-03 Finding – Lack of purchase order policy enforcement:

During our test of cash disbursements, we noted that purchase orders were not issued for purchases over $300, or for tools, equipment, and capital assets, which is not in accordance with the District's purchasing policy.

Effect:

Without adhering to an established purchase order policy, it is difficult for the District's management to uniformly apply responsible purchasing standards in regards to the use of public funds.

Recommendation:

We recommend that the District require all employees follow the current purchasing policy.

Status:

Not implemented – see Finding 2013-03.

2012-04 Finding – Lack of segregation of duties:

During our review of internal control, we noted the following:

d. Journal entries were not reviewed and approved by anyone other than the preparer.
e. Online vendor payments through QuickBooks were all done by a single employee.
f. Only one employee has access to and operates QuickBooks.

Effect:

When there is a lack of segregation of duties, there is a greater chance for a misappropriation of funds to occur and to go undetected.

Recommendation:

We recommend that the District implement procedures that will allow for the proper segregation of duties.

Status:

Not implemented – see Finding 2013-04.