



## **SLDMWA Response to the FY18/FY19 Financial Statement Audit Management Letter**

Auditing Firm: Richardson & Company LLP (see attached original management letter)

FAC 2.3.20

**(Updated for 12.7.20 FAC and 12.10.20 BOD)**

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

### Accounting Procedures

We recommend as a best practice that accounting procedures used to account for major transaction classes and complicated agreements with other agencies be documented for use in case of employee turnover. We understand many of these procedures have been documented and others are in progress. Transaction classes that the Authority should consider documenting how to process include the rate setting process, capital assets, unearned revenues, project use energy, joint facility use, DHCCP debt and member payment transactions and any other complicated transactions.

***Response: As stated, the Authority is in the process of drafting accounting procedures as this is a part of the Strategic Plan implementation. This is an ongoing process as there are many procedures that need to be documented and will incorporate the suggested areas above before finalizing.***

***12/2020 Update: Please refer to FY2020 management letter response.***

### Accounting Changes

We worked with management to evaluate how to account for a variety of transactions that resulted in a number of adjustments and closing entries being posted during the audit. We recommend management review the adjustments to ensure the accounting methods applied in the 2019 audit are used and closing entries posted prior to the start of the 2020 audit.

***Response: Staff worked with the auditors in preparing these entries, many of which were created as a result of the modified accrual to full accrual transition. This same method will be applied when preparing the FY20 audit package for the auditors.***

***12/2020 Update: Accounting staff was able to apply the accounting changes from FY19 to FY20 audit.***

### Fraud Reporting Procedures

We recommend the Authority develop and adopt a Fraud Prevention/Whistle Blower Policy. The policy or procedures should include a discussion of what types of activities constitute fraud or contracting improprieties, how an employee should report such suspected fraud or contracting improprieties and to whom or where an employee should report such activities, including reporting procedures if an employees' supervisor or a member of senior management is suspected of these activities.

***Response: Legal is in the process of creating a Fraud Prevention/Whistle Blower Policy as a part of the Strategic Plan. The final draft will be brought to Board for discussion and approval.***

*12/2020 Update: A Fraud Prevention/Whistleblower policy has been completed and approved.*

### Capital Assets

We noted the Authority's Fixed Asset Policy does not indicate the lives that should be used for depreciation or salvage value of the different types of assets held. We recommend depreciable lives and salvage value be added to the Fixed Asset Policy during the next update of the Policy.

We recommend the Authority keep a binder/electronic folder of all supporting documentation for capital asset additions and retirements recorded throughout the year for use during the audit so the documentation does not have to be located during the closing process.

We recommend the Authority combine the purchased and donated asset lists into one combined list with subtotals for each type of assets and a combined total that matches the general ledger to simplify the reconciliation of the detail list to the general ledger.

Consider breaking out accumulated depreciation by asset type in the general ledger similarly to Note 4 of the financial statements.

***Response: The accounting staff has gone back to incorporate the asset life as stated in the audit to the fixed asset policy. A binder has been put together to track all capitalized assets, their P.O. numbers, and the invoices. The asset listing and general leger accounts will be updated at the end of FY20 to incorporate auditor suggestions to allow for easier tracking.***

*12/2020 Update: Accounting staff has continued to update their fixed asset binder throughout the year to include all PO, Invoices for assets over \$5000, and Cash Receipts for sale of assets, as well as combining information as described above. However, with current processes, Authority staff cannot fully complete all asset processes until year-end. With implementation of NetSuite, the Authority will be able to track assets in real time and will have the ability to break out accumulated depreciation by asset type.*

### Website

We recommend the Authority disclose its financial statements, budgets and major agreements on its website.

***Response: It is recommended the Authority not post the audited financial statements and annual budgets on their website as this is not a requirement, however, this information will be available upon request***

*12/2020 Update: Please refer to FY2020 management letter response.*

## Board Package

We recommend exploring whether the Authority's accounting system has the capability of preparing system generated financial statements in a useful format to provide to the board as part of the board package and whether manually generated reports are necessary to minimize staff time spent on the financial information in the board package.

***Response: The Authority is in the process of reviewing new accounting software which will automate a majority of the reports that are prepared on a monthly basis. The purchase of this system was budgeted and approved for fiscal year 2021 and the implementation process will begin within the year.***

*12/2020 Update: The Authority has purchased the new accounting software, NetSuite, that will be able to generate reports as needed.*

## Possible Other Postemployment Benefits

We believe the provision requiring employees to convert vacation and sick leave to contributions to the Authority's Retiree Health Savings Plan at retirement constitutes postemployment health benefits. We believe the amount of any potential liability would be immaterial for reporting purposes. However, we recommend management consult with an actuary to be sure any potential liability is immaterial prior to the next audit.

***Response: The Authority will engage an actuarial consultant to provide the recommended review of the employee contribution into the Retiree Health Savings Plan.***

*12/2020 Update: After working with Auditor Brian Nash and Deanna Van Valer of Bartel Associates LLC, it was determined that there was no need for actuarial services given that the Authority's Retiree Health Savings Plan does not fall under GASB 75.*

## State Controller's Report for 401(a) Plans

We understand the Authority has not filed a Public Retirement System Financial Transactions Report for IRC Section 401a plans. The report is required to be filed annually by Sections 7501 to 7504 of the California Government Code.

***Response: The Authority is working with the auditor to incorporate the filing of this annual report.***

*12/2020 Update: Please refer to FY2020 management letter response*

## Lease Agreements

We recommend the Authority gather all of its lease agreements and retain them in a binder for use when the Authority has to implement GASB Statement No. 87, Leases, during the year ended February 28, 2021 where a lease liability and asset is required to be reported for most leases with terms of over a year.

***Response: There are currently no lease agreements that meet this requirement. When the Authority enters into any leases that meet the criteria, the Authority will retain them all in a file for easy reference.***

*12/2020 Update: The Authority signed an updated lease agreement for LBAO and that has been filed with the lease agreements.*



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## MANAGEMENT LETTER

To the Board of Directors and Management  
San Luis & Delta-Mendota Water Authority  
Los Banos, California

In planning and performing our audit of the financial statements of the San Luis & Delta-Mendota Water Authority (the Authority) as of and for the year ended February 28, 2019 and 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

### Accounting Procedures

We recommend as a best practice that accounting procedures used to account for major transaction classes and complicated agreements with other agencies be documented for use in case of employee turnover. We understand many of these procedures have been documented and others are in progress. Transaction classes that the Authority should consider documenting how to process include the rate setting process, capital assets, unearned revenues, project use energy, joint facility use, DHCCP debt and member payment transactions and any other complicated transactions.

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Fraud Reporting Procedures

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Capital Assets

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We recommend the Authority keep a binder/electronic folder of all supporting documentation for capital asset additions and retirements recorded throughout the year for use during the audit so the documentation does not have to be located during the closing process.

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Possible Other Postemployment Benefits

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To the Board of Directors and Management  
San Luis & Delta-Mendota Water Authority  
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\* \* \* \* \*

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

*Richardson & Company, LLP*

January 9, 2019



## **SLDMWA Response to the FY20 Financial Statement Audit Management Letter**

Auditing Firm: Richardson & Company LLP (see attached original management letter)

FAC 12.7.20 / BOD 12.10.20

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

### Recording of Transactions by Fund

We noted a number of adjustments and closing entries were due to the practice of "realigning" balances between funds. We recommend implementing procedures to record direct revenues and expenses in the fund generating those transactions at the date of the initial receipt or payment to avoid having to realign balances in preparation for the audit.

***Response: In the NetSuite ERP system, we are implementing advanced fund accounting which is "an application that divides resources in to categories to identify both the source and use of funds".***

### Accounting Procedures

We recommend as a best practice that accounting procedures used to account for major transaction classes and complicated agreements with other agencies be documented for use in case of employee turnover. We understand many of these procedures have been documented and others are in progress. Transaction classes that the Authority should consider documenting how to process include the rate setting process, capital assets, unearned revenues, project use energy, joint facility use, DHCCP debt and member payment

***Response: This is an ongoing process as there are many procedures that need to be documented, especially during the process of converting to NetSuite, and we will incorporate the suggested areas above before finalizing.***

### Closing Process

We noted that the closing entries to balance the individual funds and to record the final revenue transactions was not completed before the beginning of the audit. This caused delay in the audit procedures. We recommend that all closing entries posted prior to the start of the 2021 audit.

***Response: All revenues had been posted but cash needed to be realigned accordingly. This is a year-end entry because the Authority does not currently have a fund accounting program. The process is extensive and therefore can only be completed at year-end once all revenues and expenses have been posted. As noted above, we are transitioning to the new ERP program and fund accounting will automatically allocate cash throughout the year.***

## Capital Assets

When recording asset purchases that have a discount due to trade in, the discount should be applied to gain/loss on the disposal, and the new asset recorded at its full cost. Additionally, when recording gain/loss, any other proceeds should be reclassified from the miscellaneous revenue account to gain/loss on disposal so the net book value of the assets disposed of less cash received on sale agrees exactly to the gain or loss on disposal. Depreciation expense should be recorded to the sum of the additions to accumulated depreciation, not the sum of the change in accumulated depreciation. When recording the change in the investment in capital assets, it should be a reclassification from unrestricted net position to the investment in capital assets account, otherwise equity will not roll forward.

Consider breaking out accumulated depreciation by asset type in the general ledger similarly to Note 4 of the financial statements.

***Response: Accumulated depreciation will be split out by asset type when switching into NetSuite.***

## Website

We recommend the Authority disclose its financial statements, budgets and major agreements on its website.

***Response: The Authority will take this recommendation under advisement. It should be noted that disclosing financial statements and budgets on the website is not a requirement, however, this information will be available upon request.***

## State Controller's Report for 401(a) Plans

We understand the Authority has not filed a Public Retirement System Financial Transactions Report for IRC Section 401a plans. The report is required to be filed annually by Sections 7501 to 7504 of the California Government Code.

The 401(a)/457 plan assets and liabilities are not reported in the financial statements and other governments do not record them in the general ledger.

***Response: The Accounting and HR Departments will work together to begin filing this annual report.***



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## MANAGEMENT LETTER

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San Luis & Delta-Mendota Water Authority  
Los Banos, California

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*Richardson & Company, LLP*

November 2, 2020