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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, 2023, 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:

Timeliness of Closing Entries

The Authority has delayed closing the books for the audit until information is received from the US Bureau of Reclamation. We recommend that the Authority use estimated amounts for its closing entries so that audits can be completed on a more timely basis. Estimates can then be trued-up in a subsequent fiscal year.

The Authority also needs to ensure that all closing and fund balancing entries are made prior to the start of the audit. A number of adjustments were made during the course of the audit, which delayed completion of the audit.

Compensated Absence Calculation

The Authority needs to ensure that the calculation of the compensated absence liability includes all payroll taxes.

The following items noted in a prior audit warrant additional 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. This practice makes it difficult to trace a transaction through the general ledger detail to the source document. 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. We understand the Authority has made progress in posting transactions in the appropriate fund at the date of initial receipt or payment subsequent to year-end. However, it appears true fund accounting is not being done during the year, as entries are needed as part of the closing process to bring the funds into balance. The Authority needs to ensure that the funds are in balance prior to the start of the audit.

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.

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 a delay in the audit procedures. We recommend that all closing entries be posted prior to the start of the audit in the future.

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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.

_____, 2025