

In planning and performing our audit of the financial statements of the Reclamation District 2035 (the District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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 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 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 these 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:

Internal Controls

Due to the small number of Accounting Department staff, we understand it is difficult to have ideal segregation of duties. However, we recommend compensating controls be put in place to reduce the risk of misstatement or fraud. The following areas were identified where internal controls can be improved:

1. The Board currently does not review a listing of checks or warrants. It is customary for special districts to include a list of checks or warrants written in the board packet. We recommend the District consider providing a listing of checks or warrants to the Board of Trustees for review. Response: The Board is presented with the Budget vs. Actual on a quarterly basis which shows all expenses. If they question any of the expenses, the detail can be provided.
2. We noted the Accounting Manager prepares the reconciliations of cash to the County reports, but these reconciliations are not reviewed. We recommend either the General Manager or Conaway Preservation Group (CPG) Accounting Manager review the monthly bank reconciliations. Response: The Accounting Manager will have the CPG Accounting Manager review and approve the monthly cash reconciliations from Feb 2018 forward.
3. The Accounting Manager receives the check log and deposit permit prepared by the Administrative Assistant for review, but this review is not documented by a signature or initial. We recommend the Accounting Manager sign the deposit permit, indicating review and approval. Response: The Accounting Manager will begin to sign the Deposit Permits as of February 2018.
4. For District employees, we recommend the General Manager review payroll information or registers prior to payroll being processed. Response: There are 2 District employees both on salary, the payroll is consistently the same each pay period. Unless there is an unusual increase/decrease, there is really no reason for review as the General Manager must approve the payroll invoices to the outside processing firm each pay period.

Billing Module

Although the District processes tenant water sale transactions through the billing module in the accounting system, the year-end receivables and refunds payable listings are maintained on separate spreadsheets. We recommend that the receivable system be reviewed and adjusted to the correct balances so that they system can be used to generate reports. Response: The AP and AR modules of the accounting system need to be cleaned up due to prior year errors before it can be used to generate accurate reports. The current Accounting Manager is beginning this process.

Review of Investment Policy

To comply with the Government Code and the District’s policy manual, we recommend that the Board of Trustees review and approve the District’s Investment Policy annually. Response: The Investments are in the hands of Yolo County, the District does not govern the policy.

Water Sale Transactions

The following items were identified related to water sale transactions:

1. We noted an instance whereby a tenant paid directly from the lease agreement and no invoice was created. We recommend that an invoice be created for every tenant to support the amounts paid. Response: The was an isolated instance. The invoices are generated after the farm plan is put in place, the farmers pay from the Exhibit A of the water portion of the lease. The invoice is created accordingly.
2. During our comparison of the original lease agreement, first invoice, water roll and final report generated, we noted variances in quantity and crop type planted among these various documents. The General Manager and tenants make verbal changes to the original lease agreement and these changes appear in the subsequent reports, but the lease agreements are not revised. We recommend that all verbal changes be physically documented and filed with the tenants’ original lease agreement. Response: For the current farm year, all changes to the leases will be documented and back up will be forwarded to the RD Accounting Manager should changes need to be made.
3. We noted inconsistencies in the identification of the proper crop category for watermelon. In one instance it was documented as a melon, and in another as a vine seed. Since the two crops have a different water rate, we recommend consistency in the identification of which crop type watermelons fall into. Response: Again, this was an isolated instance and difference of a small amount of $’s (about $100 total). Improved communication will solve this issue.

Grant Revenues and Expenses

The District has grant agreements in place to reimburse for flood damage. For financial reporting purposes, these revenues and expenses need to be reported at their gross amounts. The District recorded the expenses reimbursable with grant proceeds as a receivable instead of recording them as expenses and accruing the grant revenue. We recommend that the District establish procedures whereby grant funded expenses be recorded as expenses, and the corresponding revenue related to these expenses be recorded, even if they have not yet been billed or claimed from the grantor.

In addition, we made corrections to the District’s general ledger related to the intake project as of June 30, 2017, so the District needs to ensure that these transactions are correctly reflected in the general ledger going forward.

Response: The District did not have the responsibility of the day to day accounting functions of the Grants. The District now has a software program integrated with the current accounting system for grant tracking which will make this a much smoother process.

Stale Payables

The District has payables outstanding to Conaway dating back to 2013 totaling $220,955. We recommend that the District work with Conaway to resolve these outstanding payables in conjunction with the outstanding receivables Conaway owes the District. Response: The District will be issuing CPG a true-up as soon as the Flood Fight $’s is received from FEMA and CalOES.

Recording of Expenses in the Proper Period

We noted expenses paid subsequent to the fiscal year end that related to fiscal year end 2016/17 expenses that were not accrued. The District needs to ensure that it evaluates expenses paid after year-end for items that need to be accrued back into the prior fiscal year. Response: There are many occasions where invoices are not received until 3 months or so after the YE close. This does create a problem, but seems to be unavoidable. The Accounting Manager will do everything possible to make sure all expenses are accounted for in the proper year.

We also noted insurance prepayments were recorded as expenses instead of prepaid expenses. The District needs to ensure that expenses paid in advance are recorded as prepaid expenses in the general ledger. Response: Agree with this finding, it was never accounted for as a prepaid expense and allocated but will be now.

Power Reimbursements

The District receives reimbursement from Woodland Davis Clean Water Authority for a portion of the power charges from Western Area Power Administration, and these revenues have been recorded as a reduction of expense. Since these are not direct pass-through transactions, we recommend that the power expenses be recorded at their gross amount, and that any reimbursements from other agencies for power charges be recorded as revenue. Response: Agree and adjustments have been made.

Also, the District needs to ensure that the revenue is recorded in the fiscal year to which the power was used. We made adjustments during the audit to accrue the revenue for June power usage, but the District needs to ensure that these accrual adjustments are made as part of the closing process. Same as above.

Capital Asset Disposals

We noted the District performed an inventory of its capital assets and determined certain items were no longer on hand, but the items had not been removed from the capital asset listing. We recommend that after the District completes its annual inventory of moveable capital assets that the capital asset list used to calculate depreciation expense be updated. Also, to comply with the District’s procedure manual, approval of asset disposals/write-offs should be approved by the Board of Trustees and documented in the minutes. Response: A physical inventory needs to be done and updated on an annual basis.

Equipment Leases

We determined during our audit that a capital lease for equipment entered into during 2014 had not been recorded as a liability on the District’s general ledger. We recommend that procedures be put in place to ensure that lease transactions are properly identified and reflected as a liability in the general ledger.

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We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



February 9, 2018