

Cabazon Water District

Management Report

June 30, 2013



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

Cabazon Water District

Management Report

Table of Contents

<u>Item</u>	<u>Page No.</u>
General Introduction	1
Summary of Current Year Comments and Prior Year Recommendations	2-4
Appendix:	
Audit/Finance Committee Letter	1-3
Schedule of Audit Adjusting Journal Entries	4-6



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Board of Directors
Cabazon Water District
Cabazon, California

Dear Members of the Board:

We have audited the basic financial statements of the Cabazon Water District (District) as of and for the year ended June 30, 2013, 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 for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of District 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 misstatements on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a deficiency or combination of deficiencies in internal control that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis.

Our consideration on internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current Year Comments and Recommendations

Customer Billing System – Rate Change Implementation

During our testing of billing and cash receipts, we noted that the District's billing system was not updated with a scheduled water consumption rate increase for the period of February 1, 2013 through June 30, 2013. As a result, the District under billed for customer consumption during the period. We recommend that the District review procedures with regard to billing system rate changes and consider performing system tests to ensure that customer billings are calculated at approved rates, and that rates changes are implemented in a timely manner.

Management's Response

The District's management concurs with the auditor's recommendation.

Inventory

During our audit, we noted that the District maintained obsolete inventory on the District's inventory listing and accounts at June 30, 2013. As a result of our inquiry, the District identified and adjusted the inventory listing and accounts to eliminate obsolete inventory items. We recommend that the District perform a comprehensive inventory count by staff with knowledge of the inventory items and adjust the records accordingly.

Management's Response

The District's management concurs with the auditor's recommendation.

Purchasing Policy

During our review of the District's Purchasing Policy for the General Manager, we noted that there was no formal Purchasing Policy for the District as a whole. We believe the District should review the current Purchasing Policy and consider expanding the policy to provide comprehensive guidance related to future District purchases.

Management's Response

The District will review the auditor's recommendation for consideration.

Compensation Reporting – Board of Directors

During our review of the District's payroll, we noted that Board members are provided IRS Form 1099 to report compensation related to service on behalf of the District. IRS guidance provides that Board members are generally considered to be employed by the District. As such, Board members are subject to withholding taxes, and should report income earned from the District on form W-2.

Management's Response

The District will review the auditor's recommendation for consideration.

Outsourced Labor – Internal Controls

During our audit, we noted that the District increasingly utilizes outside labor for customer service connections, and maintenance of District water transmission systems. Further review noted no formalized policy or controls to monitor outsourced labor. We recommend that the District design and implement controls to monitor outsourced labor costs. Such controls could include random audits of invoices for services provided. Controls should also consider invoice submission requirements (at a minimum) such as: purpose and nature of the project, source of supplies and/or inventory used, and unit costs for materials.

Management's Response

The District will review the auditor's recommendation for consideration.

Capital Asset System

During our review of the District's capital asset listing and depreciation schedules, we noted that certain capital assets were depreciated beyond their economic life. The District maintains capital asset records and calculates depreciation expense in Microsoft Excel spreadsheets. Our testing indicated formulaic errors within the spreadsheet tested. We recommend that the District convert to a computerized capital asset system designed to accumulate asset cost records and calculate depreciation expense on a comprehensive basis. These types of capital asset accounting systems have been refined over the years and now can be purchased at a very reasonable cost. This will eliminate a significant amount of manual record keeping duties, make operations more efficient and provide more accurate information with which to make business decisions regarding capital assets. This is the second year our recommendation.

Management's Response

The District's management concurs with the auditor's recommendation relative to the acquisition and implementation of a capital asset system. An automated system would allow the District to maintain, update and more effectively control its capital assets and annual depreciation expense calculations. Management plans to review available software applications in the current fiscal year and consider the relative merits of implementing such a system.

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the audit begins. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance.

Summary of Prior Year Comments and Recommendations

Capital Asset System

Currently, the District maintains capital asset records and calculates depreciation expense in Microsoft Excel spreadsheets. During our audit, we noted formulaic errors within the spreadsheet tested. Although the amount is considered immaterial, we recommend that the District convert to a computerized capital asset system designed to accumulate asset cost records and calculate depreciation expense on a comprehensive basis. These types of capital asset accounting systems have been refined over the years and now can be purchased at a very reasonable cost. This will eliminate a significant amount of manual record keeping duties, make operations more efficient and provide more accurate information with which to make business decisions regarding capital assets.

Management's Response

The District's management concurs with the auditor's recommendation relative to the acquisition and implementation of a capital asset system. An automated system would allow the District to maintain, update and more effectively control its capital assets and annual depreciation expense calculations. Management plans to review available software applications in the current fiscal year and consider the relative merits of implementing such a system.

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the audit begins. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

November 17, 2014

APPENDIX

Cabazon Water District

Audit/Finance Committee Letter

June 30, 2013



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Board of Directors
Cabazon Water District
Cabazon, California

We have audited the basic financial statements of the Cabazon Water District (District) for the year ended June 30, 2013 and have issued our report thereon dated November 17, 2014. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated May 28, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the District's external financial reporting process or any other processes.

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 grants, 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 that are required to be reported under *Governmental Auditing Standards*.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing requirements previously communicated to management during our interim fieldwork and meetings with the District's Audit/Finance Committee.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the District during fiscal year 2013 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the position in the basic financial statements is (are):

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for delinquent/doubtful accounts is based on historical write-offs of past due delinquent/doubtful customer accounts, customer creditworthiness, and calculated assumptions of expected future write-offs. We evaluated the key factors and assumptions used to develop the allowance for delinquent/doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the basic financial statements are neutral, consistent and clear. Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the basic financial statements is (are):

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of the District's allowance for delinquent/doubtful accounts in Note 3 to the basic financial statements represents amounts susceptible to external factors the District has no control over, such as, the state of the economy in the District's service area.

The disclosure of capital assets, net in Note 4 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

Corrected and Uncorrected Misstatements

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were ten audit adjustment and/or reclassification entries made to the original trial balance presented to us to begin our audit. We have provided the audit adjustment to the District's management and have included it at the end of this report.

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 the application of an accounting principal to the District’s basic 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 auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit of the District.

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated November 17, 2014.

Conclusion

We appreciate the cooperation extended us by the Board of Directors and Calvin Louie, General Manager, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified, parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
November 17, 2014

**Cabazon Water District
Schedule of Audit Adjusting Entries
June 30, 2013**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
AJE - To adjust Equity per ending in prior years financial statements.			
39000	Retained Earnings	\$ 1,250.00	
56560	Miscellaneous		1,250.00
Total		<u>1,250.00</u>	<u>1,250.00</u>
Adjusting Journal Entries JE # 2			
AJE - To adjust FMV for LAIF to actual at June 30, 2013.			
40045	LAIF FMV Adjustment	1,643.66	
10255	LAIF Annual Market Adjustment		1,643.66
Total		<u>1,643.66</u>	<u>1,643.66</u>
Adjusting Journal Entries JE # 3			
AJE - To adjust inventory for obsolete items removed on inventory listing.			
55180	Line Maint and Repair Materials	10,100.00	
11000	Inventory		10,100.00
Total		<u>10,100.00</u>	<u>10,100.00</u>
Adjusting Journal Entries JE # 4			
AJE - To adjust AR to actual based on support provided (AR Aging) at 6/30/13.			
12001	Accounts Receivable - Co 1	733.31	
12002	Accounts Receivable - Co 2	318.90	
65600	Bad Debt Expense	615.01	
12004	Allowance for Doubtful Accounts		615.01
26201	Misc Short Term Liability		209.20
26201	Misc Short Term Liability		318.90
30010	Base Rate - Water Bills		524.11
Total		<u>1,667.22</u>	<u>1,667.22</u>
Adjusting Journal Entries JE # 5			
AJE - To adjust over depreciated asset (Building and Structures) at June 30, 2013.			
16000	Accumulated Depreciation	157.80	
66100	Depreciation		157.80
Total		<u>157.80</u>	<u>157.80</u>
Adjusting Journal Entries JE # 6			
AJE - To adjust A/P to actual for invoices noted at Search for Unrecorded Liabilities at June 30, 2013.			
55175	Line Maint and Repair Contractor	12,572.50	
55190	Well Maintenance	112.50	
57620	State Water fees	6,525.79	
60100	FEMA Disaster 1884 Jan 2010	9,665.57	
21200	Accrued Expenses		28,876.36
Total		<u>\$ 28,876.36</u>	<u>28,876.36</u>

**Cabazon Water District
Schedule of Audit Adjusting Entries
June 30, 2013**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 7			
AJE - To adjust compensated absences for over accrual of hours for GM and incorrect pay rate used for Customer Service at June 30, 2013.			
22800	Accrued Vacation Pay	\$ 128.10	
22800	Accrued Vacation Pay	2,931.82	
56010	General Manager		2,931.82
56020	Customer Accounts		128.10
Total		<u>3,059.92</u>	<u>3,059.92</u>
Adjusting Journal Entries JE # 8			
AJE - To reclass expenses related to capital project capitalized at June 30, 2013.			
14700	Source of Supply	158,234.15	
66100	Depreciation	2,637.24	
16000	Accumulated Depreciation		2,637.24
55110	Lab Fees		15.00
55180	Line Maint and Repair Materials		3,094.50
55180	Line Maint and Repair Materials		92,171.56
55300	Operational Expenses		10,596.31
57530	Legal Services		694.00
57540	Engineering Services		553.00
57540	Engineering Services		50,121.10
59000	Yard and Office Maintenance		700.00
59550	Equipment Rental		288.68
Total		<u>160,871.39</u>	<u>160,871.39</u>
Adjusting Journal Entries JE # 9			
CPE - To reclass copier costs at June 30, 2013.			
57030	Copier and Supplies	6,295.79	
57025	Supplies & Equipment		6,295.79
Total		<u>\$ 6,295.79</u>	<u>6,295.79</u>

**Cabazon Water District
Schedule of Audit Adjusting Entries
June 30, 2013**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 10			
AJE - To reclass capital assets in expense and reclass certain expenditures at June 30, 2013.			
14800	Transmission & Distribution	\$ 29,800.00	
15100	Office Furniture and Equipment	2,378.84	
15700	Vehicles	5,385.36	
55130	Meters	7,815.00	
55180	Line Maint and Repair Materials	3,613.31	
55190	Well Maintenance	3,153.95	
55200	Security	502.21	
56560	Miscellaneous	5,933.45	
57045	Postage	594.72	
57085	Water Billing System	2,903.46	
57530	Legal Services	1,259.04	
57560	Bank Service Charges	32.86	
57650	Other Legal Fees	2,000.00	
58500	General Liability Insurance	170.10	
59510	Shop Supplies and Small Tools	516.30	
59525	Vehicle Fuel	2,834.99	
59560	Service Trucks - Repairs and Maintenance	1,071.55	
59571	Water Ops Cell Phone/Internet	3,451.04	
59590	Communications	3,105.33	
66100	Depreciation	237.88	
66100	Depreciation	1,018.24	
16000	Accumulated Depreciation		237.88
16000	Accumulated Depreciation		1,018.24
55300	Operational Expenses		74,142.67
59590	Communications		2,378.84
Total		\$ 77,777.63	77,777.63