

Spalding Community Services District

Management Report

June 30, 2023

LARRY BAIN, CPA

An Accounting Corporation

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COMMUNICATION OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

To: Board of Directors
Spalding Community Services District

We have audited the financial statements of Spalding Community Services District as of and for the fiscal year ended June 30, 2023, and have issued our report thereon dated February 1, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spalding Community Services District's (District) internal control over financial reporting 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 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.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We consider findings 2023-001 through 2023-004 in the schedule of findings following this report to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider findings FS 2023-005 and FS 2023-007 in the schedule of findings to be significant deficiencies in the District's internal control.


Spalding Community Services District's Response to Findings

The Spalding Community Services District's response to the material weakness and significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the District's internal control over financial reporting, accordingly this report is not suitable for any other purpose.

This report is intended solely for the information and use of the board of directors and management of Spalding Community Services District.


Larry Bain, CPA,
An Accounting Corporation
February 1, 2024

**SPALDING COMMUNITY SERVICES DISTRICT
FINDINGS AND RECOMMENDATIONS**

June 30, 2023

Significant Deficiencies-Considered Material Weaknesses

FS 2023-001-GAAP Knowledge and Journal Entries

The District relies on the external auditor to ensure its financial statements are in accordance with Generally Accepted Accounting Procedures (GAAP). In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No.122 external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence. This is a common issue for a small district and we noted this condition in the prior audit.

During our audit we proposed journal entries to decrease accounts receivable by \$19,675 in the sewer fund to agree the accounts receivable balance to the aged receivable summary. We proposed journal entries to increase sewer trust fund cash \$6,955, increase fire trust fund cash \$3,450, and reduce recreation trust fund cash \$929. We proposed a journal entry to reverse \$11,987 prior year sewer fund accounts payable and accrue \$22,877 current year sewer accounts payable and to reverse \$2,467 prior year fire fund accounts payable. We proposed a journal entry to record \$428,961 depreciation expense and accumulated depreciation in the sewer fund. We also proposed entries for the government-wide financial statement conversion adjustments.

Furthermore the District opened a new checking account in March 2023. We proposed a journal entry to recognize the \$49,169 grant that was deposited to the new checking account related to the Quincy McCourt grant receivable recorded in the prior fiscal year. We also reduced \$10,000 recorded to operating transfers in at the County for a transfer made from the new checking account to the sewer account maintained at the County. This was not an operating transfer in, but rather a reduction in one cash account and an increase in another cash account.

Recommendation: The District should consider training staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements. The District could opt to take no action on hiring an outside accountant to assist with preparing GAAP financial statements if it considers the cost will outweigh the benefit.

The District should perform year-end procedures to record all know journal entries so that all account balances agree to the underlying support.

Management Response: The District now has a CPA on staff to prepare the GAAP financial statements, and does plan to implement training on proper accounting standards in order to assist with the preparation of proper governmental financial statements.

FS 2023-002-Fund Accounting

During our audit we noted the District QuickBooks accounting software is not set up to properly record a self-balancing set of accounts for each fund. While the revenue and expense accounts can be recorded to specific classes to properly reflect the activity in each fund, the balance sheet is not set up to reflect specific activity in each fund. Because of this the internal software program is not a reliable source for independently tracking the financial activity in each fund. We noted this condition in the prior audit.

Recommendation: We recommend prior to becoming fiscally independent that the District procure accounting software specifically developed for fund accounting.

Management Response: The District has performed research regarding the purchase of fund accounting software, but the cost and limitations of staffing continue to be prohibitive. As the District works to get our QuickBooks accounting software cleaned up and functioning correctly, with oversight and instruction from the CPA, we will continue to research opportunities to finance actual fund accounting software in the future.

**SPALDING COMMUNITY SERVICES DISTRICT
FINDINGS AND RECOMMENDATIONS**

June 30, 2023

Significant Deficiencies-Considered Material Weaknesses (Continued)

FS 2023-003-Capital Assets

During our testing of capital assets, we noted that QuickBooks had capital assets listed in the fire fund and the recreation fund. QuickBooks should reflect the modified accrual basis of accounting for the fire fund and the recreation fund which would not include long-term assets such as capital assets. We noted this condition in the prior audit.

Recommendation: We recommend the District report the capital assets under the modified accrual basis of accounting in the fire fund and recreation fund, which would not include booking capital assets on the balance sheet, or depreciation expense for these funds.

Management Response: The District does now have a CPA on staff to assist us with this type of specific reporting. We will focus on the implementation of this adjustment to our accounting routine.

FS 2023-004-Sewer Accounts Receivable

During our audit we noted a customer, who is also a Board member, with 3 accounts that had an outstanding balance at June 30, 2022 totaling \$19,843.20. There was no support provided indicating that this balance was ever been paid. Furthermore, the property had been sold to another customer and it does not appear that the past due balance was transferred to the new customer. We noted this condition in our prior audit.

We noted other items on the a/r aging summary as of June 30, 2023 that did not appear to be true receivables totaling a net of \$32,552.47. This included an account for State Grant Dan Newton for \$33,352.87 which was collected during the 2022/23 fiscal year and a credit balance of \$2,645 for State of Cal, Cal Fire.

The District also does not appear to have policies or procedures on how to collect past due accounts.

Recommendation: We recommend the District review accounts 181-12, 192-39, 182-09 and 183-14 for the prior board member and if it is determined that there is a past due unpaid balance, we recommend taking action to collect.

We also recommend reviewing accounts 151-23, 345-11, State Grant Dan Newton, and State of Cal, Cal Fire to verify if this are true receivables, and customer credits. The District should provide the Board of Directors with a list of accounts to remove from the billing/receivable software, for accounts that are not true receivables or credit balances. The District should also review all customer balances to verify that they are supported by the billings and payments. The District should adopt policies and procedures for collecting past due accounts and consider placing past due accounts on the County Tax roll or placing a lien on the property.

Management Response: The District knows and understands the obstacle of not having a process defined by Ordinance or Policy to collect on past due Sewer O/M accounts. We have been working with Legal Counsel to implement Litigation Guarantees for delinquent Bond payments (which will benefit the District if the property goes into foreclosure or a lien is placed), as well as developing a suitable process to collect on past due O/M accounts. The District will work with the CPA to review accounts 151-23, 345-11, State Grant Dan Newton, and State of Cal, Cal Fire to verify if these are true receivables, and customer credits. The District, with assistance from the CPA, will also work to implement procedures to create a list of accounts that are past due and provide these to the Board of Directors, and also develop a process to remove from the billing/receivable software all accounts that are not true receivables or credit balances. These processes will also include a review of all customer balances to verify that they are supported by the billings and payments.

**SPALDING COMMUNITY SERVICES DISTRICT
FINDINGS AND RECOMMENDATIONS
June 30, 2023**

Significant Deficiencies-Not Considered Material Weaknesses (Continued)

FS 2023-005-Expense Allocations

During our testing of disbursements, we noted the District is recording the majority of expenditures to the sewer fund, when sending the claim to the County, and then subsequently reallocating to the other funds. We noted several expenditures that were not sewer related that we could not determine if they had been reallocated to the proper fund. We also did not observe a district policy for allocating indirect expenses, such as utilities and staff admin pay, between funds. We noted this condition in the prior audit.

Recommendation: We recommend the bookkeeper record each direct expense to the proper fund when the claim is prepared. We also recommend the District provide staff direction on how to allocate indirect expenses to all funds.

Management Response: The District anticipates that this problem will be resolved in the 2023/2024 fiscal year as the District removed its treasury from Lassen County; nevertheless, there were approximately four months at the beginning of the 2023/2024 fiscal year where the District continued to submit claims/warrants to Lassen County. The District will work to correct any misappropriation regarding the above recommendation as well as provide staff direction on how to allocate indirect expenses to all funds with the direction and assistance of the CPA.

FS 2023-006-Segregation of Duties

We noted the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected, however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We noted this condition in our prior audit.

Management Response: Because of continued limited staffing, the Office Manager does have the ability to handle all aspects of processing transactions from beginning to end, though there will be oversight of these processes as the General Manager reconciles all bank accounts and the CPA is working to implement month-end processes.

FS 2023-007 Sewer Revenue Recognition

During our audit we noted the District is recording sewer revenue when the customer pays their sewer bill as opposed to when the customers are billed. For the full accrual method of accounting the District should record a debit (increase) to accounts receivable and a credit to revenue when the District bills its customers and then record a debit to cash and a credit (reduction) to accounts receivable when the customer pays their bill.

Recommendation: The District should review the methodology for recording sewer revenue and make changes in order to comply with generally accepted accounting principles.

Management Response: The District, with the assistance of the CPA, will review the methodology for recording sewer revenue and implement changes in order to comply with generally accepted accounting principles.

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February 12, 2024

To the Board of Directors
Spalding Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the fiduciary fund of Spalding Community Services District for the fiscal year ended June 30, 2023, and have issued our report thereon dated February 1, 2024. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 5, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

Fieldwork and report issuance were completed after the planned scope and timing communicated on September 5, 2023 to give the District additional time to prepare for the audit and as a result of weather related events.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Spalding Community Services District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the 2023 fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. No prior period adjustments were recognized in the June 30, 2023 financial statements. We passed on journal entries to increase accrued payroll \$4,843 and increase compensated absences \$1,937. We provided technical assistance to convert from the fund financial statements to the government-wide statements.

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(s) affecting the financial statements was (were):

Management's estimate of the useful lives of assets for calculating depreciation expense is based on GFOA recommended useful lives. We evaluated the key factors and assumptions used to develop the useful life estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in performing the Audit

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

Corrected any 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. All known misstatements have been corrected.

Disagreements with Management

For 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 significance 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 1, 2024.

Management Consultation 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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We discussed with management that subsequent to fiscal year end the District became fiscally independent from the County. The County transferred all funds in the Districts name that were held in the County treasury to the District. At the time of transfer the District did not have the appropriate fund accounting software, and did not appear to have the skill knowledge and experience with the current staff to manage the funds in accordance with generally accepted accounting principles. The Board should take immediate action to ensure that all funds are being properly accounted for, including the restricted funds that were previously managed by the County.

We also discussed with management that the District appears to be paying legal counsel more to collect on delinquent assessments than the amount of the delinquency. We recommended the District review if the cost benefit is worth having legal counsel collect on the delinquencies, or if there are alternative collection methods such as placing a lien on the properties or having the delinquencies go on the tax roll and then have a public auction, according to the county unpaid tax laws, in order to collect the delinquent assessments.

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

Very truly yours,



Larry Bain, CPA
An Accounting Corporation