

Communication with Those Charged with Governance at the Conclusion of the Audit

February 27, 2024

Board of Directors
Weott Community Services District
P.O. Box 218
Weott, California 95571

We have audited the financial statements of the Weott Community Services District (the District), as of and for the years ended June 30, 2023, 2022, and 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 26, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the years audited. We noted no transactions entered into by the District during the years audited for which there is a lack of authoritative guidance or consensus, although due to missing records, we are unable to determine if this is the case. We were also unable to determine if all significant transactions had been recognized in the financial statements in the proper period.

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 estimates affecting the District's financial statements were:

- Estimate of depreciable lives of capital assets
- Estimate of uncollectible accounts

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

As a result of poor accounting practices and processes employed by the District's previous staff and management we were not provided with full and complete documentation underlying all transactions. In addition, we were not able to determine that all transactions of the District were actually recorded in the District's books and records. Other than missing accounting records, we encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The pervasive accounting issues arising from the lack of accounting records is demonstrated by the large number of material adjustments that were found during the completion of our audit procedures.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Year ended June 30, 2021:
 - To reclassify District journal entry incorrectly recorded to equity for \$12,732 of the current year impact of prior period changes.
 - To reclassify miscellaneous expense items incorrectly recorded to balance sheet accounts (\$11,416).
 - To record County fund activity, net loss effect of \$10,131.
 - To record a prior period adjustment of \$9,698 for bond issuance cost that should have been expensed in a prior year.
 - To record current year depreciation expense of \$123,685.
 - To adjust loan balances and interest expense for \$6,965 to agree to amortization schedule.
 - To adjust cash balances to agree to bank statements of \$22,406.
 - To expense fiscal year 2019-2020 prepaid expenses.
 - To record prior year adjustment of \$36,601 for depreciation of property easement.

- Year ended June 30, 2022:
 - To reclassify miscellaneous expense items incorrectly recorded to balance sheet accounts (\$11,276).
 - To record County fund activity, net loss effect of \$3,116.
 - To record current year depreciation expense of \$106,633.
 - To adjust cash balances to agree to bank statements of \$12,891.
 - To reclassify capital improvements of \$4,766 to expense.
 - To reclassify credit amount of \$4,470 recorded to grant receivable instead of grant revenue.

- Year ended June 30, 2023:
 - To record County fund activity, net loss effect of \$30,660.
 - To record current year depreciation expense of \$96,639.
 - To adjust cash balances to agree to bank statements of \$55,819.
 - To reclassify deposits applied to Monthly Customer Bills from 1/1/2023 - 6/30/2023 of \$110,580, included on desktop version of QuickBooks, to accounts receivable.
 - To record insurance settlement for employee fraud of \$60,275.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant 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 27, 2024.

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 application of an accounting principle to the District'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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During our audit, we became aware of the following deficiencies in internal control and other matters that are opportunities for strengthening internal controls and operating efficiency:

Finding 1:

Condition

The District uses two versions of QuickBooks to maintain its records as follows:

- The contracted bookkeeper maintains a file for payroll and invoicing customers.
- The District's administrative manager maintains another QuickBooks file (the office version) for cash disbursements and deposits.

The bookkeeper's version had beginning balances that agreed to the prior audited financial statements for the year ended June 30, 2020, as a result we used this version as our audit starting point. However, as we progressed through the audit, we noticed that the cash balances differed significantly from the bank statements since cash disbursements and deposits were not reported. We then reviewed The office version of QuickBooks noting it included cash balances which agreed to the bank statements, however, the only reliable balances were cash accounts. All deposits had been recorded to service revenue and all cash disbursements were recorded to expenses. There were no beginning balances for any of the other asset or liability accounts.

Recommendation

The District should maintain one general ledger, with appropriate subledgers, to capture all financial transactions, including all County originated transactions as incurred. The general ledger should be reconciled to the sources on a monthly basis. All reconciliation activity should be substantiated by a documented review process. Should the District continue to use QuickBooks as its general ledger software, we recommend updating the software regularly.

Finding 2:

Condition

We noted that cash receipts had not been applied to customer accounts since December 2022. As a result, we believe that accounts receivable was overstated by over \$100,000. However, we were unable to substantiate the exact amount of the misstatement.

Recommendation

We recommend that the customer payments are applied against the customer's ledger as soon as they are received.

Finding 3:

Condition

The District receives monthly reports from Humboldt County that show the current month activity in the District's funds. This activity was not reflected in the District's general ledger, resulting in errors in current year account balances (primarily cash, long-term debt, interest expense, and interest income).

Recommendation

The District's general ledger should include the activity of all of the District's transactions, including those recorded by the County. These accounts should be updated on a monthly basis and reconciled with the County reports. In addition, long-term debt principal amounts and interest expense should be reconciled to lender schedules.

Finding 4:

Condition

During the audit, we noted that amounts had been recorded to sick pay, however, there was no record of the District having a policy on vacation or sick leave. We also noted that there was evidence of payouts of sick leave at certain points throughout the audit period. However, there appears to be inadequate tracking of vacation and sick hours. Because there is no formal policy, we were unable to determine the compensated liability balance at the end of each year.

Recommendation

We recommend that the District adopt a policy on compensated absences and track them once it has been implemented.

Finding 5:

Condition

We noted that capital asset balances had not been updated since the prior audited financial statements and are not supported by a detailed asset listing with original cost and other identifiable information. Other than a small debit to capital improvements of \$4,766, which we were unable to substantiate, there were no additions or deletions recorded.

In addition, a detailed depreciation schedule for all capital assets was not provided and depreciation expense had not been recorded. Also, there was no evidence of a capital asset policy nor any evidence of a recent complete inventory of capital assets.

Recommendation

We recommend that the District adopt a policy on capital assets that includes a dollar threshold for capitalization depreciable lives of capital assets, and a policy on disposals. In addition, the District should perform a full inventory of all capital assets that can be reconciled to the general ledger and maintain a detailed depreciation schedule for all depreciable capital assets.

Finding 6:

Condition

Accounts Receivable increased considerably from June 30, 2020 to June 30, 2021, and has remained high since then. This may be related to the COVID pandemic. However, we noticed that there was no allowance for uncollectible accounts.

Recommendation

We recommend the District implement procedures to periodically review its accounts receivable for late payors and delinquent accounts to determine if an allowance should be recorded for probable bad debts.

Finding 7:

Condition:

As of the date of this letter, we note that the Board had not yet approved a District Policy Manual. However, we understand that a draft has been prepared and have been provided a copy of the draft.

Recommendation

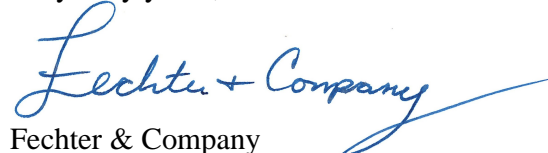
We reviewed the draft Policy Manual and recommend that the following policies be added:

- Monthly reconciliations for all accounts supported by third party systems.
- Completed reconciliations and financial statements should be provided to the Board for review at its monthly meetings.
- A compensated absences policy, as mentioned above, should be included.
- A capital asset policy, as mentioned above, should be included.
- A policy for determining uncollectible accounts, as mentioned above, should be included.

Restriction on Use

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

Very truly yours,


Fechter & Company
Certified Public Accountants