

Fulton-El Camino Recreation and Park District
Management Report
Fiscal Year Ended June 30, 2020

LARRY BAIN, CPA

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COMMUNICATION OF SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESSES

Board of Directors
Fulton-El Camino Recreation and Park District
Sacramento, CA

We have audited the financial statements of the Fulton-El Camino Recreation and Park District as of and for the fiscal year ended June 30, 2020, and have issued our report thereon dated April 8, 2021. 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 Fulton-El Camino Recreation and Park 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 2020-001 and 2020-002 in the following findings and recommendations to be deficiencies in internal control that we consider 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 finding 2020-003 in the following schedule of findings to be a significant deficiency in the District's internal control.

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 and accordingly this report is not suitable for any other purpose.

This communication 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 these specified parties.

Larry Bain, CPA,
An Accounting Corporation
April 8, 2021

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2020**

Significant Deficiencies and Material Weaknesses

Finding FS 2020-001: During the current year audit we detected material misstatements in the general fund for the following:

Increased accrued payroll \$15,083

Reclassified \$17,955 debt service principal and interest payments from building and equipment expense accounts.

Adjusted outside bank accounts \$24,139 and trued up the Bank of the West line of credit and cash account \$3,034.

Recorded \$95,450 grant receivable.

Reduced the line of credit balance \$78,000 to agree to the underlying activity.

Recorded \$78,030 site improvements that were paid from the line of credit where the expenditure was not recorded to the book of original entry (COMPASS).

We detected material misstatements in the Landscape and Lighting Assessment district for the following:

Reclassified \$108,753 from capital outlay to principal and interest expense on debt service.

We recorded \$89,284 additional accounts payable.

We detected material misstatements in the Maintenance assessment district for the following:

To record \$69,318 lighting project purchased with a SMUD rebate and a capital lease, and record \$54,269 to proceeds of lease and \$15,049 rebate from SMUD.

Reclassified \$11,897 from capital outlay to principal and interest expense on debt service.

Recorded \$43,903.80 warrant that was issued by the County as of June 30, 2019 and held by the District until releasing the check to its vendor in December 2019.

Recorded \$31,651 additional accounts payable.

Reversed the prior year due to/due from other funds to reimburse \$289,293 net expenses paid from the General Fund with grant proceeds that were deposited into the Maintenance Assessment District Fund. In the 2019/20 fiscal year the funds were expended from the Maintenance Assessment District Fund and we reclassified the expenditure to the General Fund and eliminated the due to/due from.

Recommendation: We recommend the District verify that all capital lease payments are recorded to principal and interest as opposed to capital expenditure accounts. We recommend that capital purchases made with lease proceeds are recorded to capital expense and the lease proceeds are recorded to proceeds of debt. The auditor should not be making material adjustments to the financial statements as this can impair independence. This condition could result in a qualified or adverse opinion if not corrected. We have noted this condition in the prior audit.

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2020**

Significant Deficiencies and Material Weaknesses (Continued)

District Management Response FS 2020-1:

1. The District utilizes the budget format the County of Sacramento provides. The county has informed District staff that the County's budget format will accommodate the principal and interest budgeting requested by the auditor. The District will adjust the budget to account for principal and interest for each asset lease/purchase that requires it.
2. The District will make sure that capital purchases made with lease proceeds are recorded to capital expense and the lease proceeds are recorded to proceeds of debt.

Finding FS 2020-002: The District relies on the external auditor to ensure its financial statements are in accordance with 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 AU-C 265 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.

Recommendation: The District should also consider training staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements.

District Management Response FS 2020-2:

District will seek appropriate class(s) to train staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements.

Significant Deficiencies not Deemed Material Weaknesses

Finding FS 2020-003: 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; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. This comment has been noted in previous audits.

Recommendation: The District should attempt to segregate accounting functions to the greatest extent possible. The Board of Directors also plays a more vital oversight role in reviewing and authorizing accounting records such as cash disbursements, cash receipts, cash transfers, account write-offs, payroll and monthly bank reconciliations. The District could also consider hiring an outside consultant to review the current segregation of incompatible duties to determine the cost of correcting any weaknesses.

District Management Response FS 2020-3:

1. The District will look into the possibility of having the Finance Committee review all expenditures on a monthly basis. The Administrative Assistant will be taught how to reconcile the bank statements to provide an increased level of oversight.

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May 17, 2021

To the Board of Directors
Fulton-El Camino Recreation and Park District

We have audited the financial statements of the governmental-type activities of Fulton-El Camino Recreation and Park District for the year ended June 30, 2020, and have issued our report thereon dated April 8, 2021. 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 July 1, 2020, 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

The audit was delayed from the dates communicated to the board on July 1, 2020 as a result of a change in management and from conditions caused by the pandemic.

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 application of other existing policies was not changed during the 2019-2020 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 recorded during the current fiscal year audit.

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.

Managements estimate of allocating expenses to the assessment districts are based on expected usage of services and supplies within the assessment district and is part of the budget approved in the engineers report. The district does not allocate salaries to the assessment districts. We analyzed current and prior allocations to determine reasonable trends in allocating expenses to the lighting and landscape assessment districts.

Difficulties Encountered in performing the Audit

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 trivial, and communicate them to the appropriate level of management. The material audit adjustments made for the June 30, 2020 audit are noted in the internal control letter in the audit report. We recorded all known misstatements and prepared the conversion entries from the fund financial statement presentation to government-wide financial statements.

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 April 8, 2021.

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.

This information is intended solely for the use of the Board of Directors and management of Fulton-El Camino Recreation and Park 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