

**SILVERADO-MODJESKA
RECREATION AND PARKS DISTRICT**

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

June 30, 2022

ROBERT W. JOHNSON
Certified Public Accountant



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Communication of Significant Deficiencies

May 18, 2023

To the Board of Directors
Silverado-Modjeska Recreation and Parks District
Silverado, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities and major fund of Silverado-Modjeska Recreation and Parks District as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Silverado-Modjeska Recreation and Parks District's system of internal control over financial reporting (internal control) as a basis for designing audit 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.

Our consideration of internal control was for the limited purpose described in the first preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency, or a 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 3.a. *Back-up Documentation on Disbursements*, 3.b. *Bank Reconciliations* and 3.c. *Debit Cards* in the following schedule of findings to be significant deficiencies in the District's internal control. We have also included other recommendations (not considered significant deficiencies) for your consideration.

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

Sincerely,

A handwritten signature in black ink that reads "Robert W. Johnson, An Accountancy Corporation". The signature is written in a cursive, flowing style.

Robert W. Johnson, An Accountancy Corporation
Citrus Heights, California
May 18, 2023

1. Operating Comparisons (total) – Government-Wide (accrual):

	June 30,		Favorable (Unfavorable) Variance
	<u>2022</u>	<u>2021</u>	
Revenues	\$ 582,862	\$ 374,901	\$ 207,961
Expenses	<u>496,374</u>	<u>343,160</u>	(153,214)
Net income (loss)	\$ <u>86,488</u>	\$ <u>31,741</u>	\$ <u>54,747</u>
Total cash	\$ <u>499,967</u>	\$ <u>336,038</u>	\$ <u>163,929</u>

Observations:

- Increased revenues were a direct result of a large boost in enrollment at the Children’s Center and expanded events now being held at the Recreation and Park facilities.
- Expenses overall higher due to increased salaries, program costs and deferred maintenance projects now being completed.

2. Prior Year Recommendation:

a. District Website:

Recommendation – Effective on January 1, 2020 Senate Bill 929 requires Special Districts in California to have a website with five requirements: (1) contact information for the District; (2) the most recent agenda; the State Controller’s reports for the District’s (3) Financial Transaction Report and Board and (4) Staff Compensation Report (or a link to each of the State Controller’s websites); and the District’s (5) Enterprise System Catalog.

The District still needs to comply with the requirement of posting the State Controller’s reports (or a link to the State Controller’s website) and posting the Enterprise System Catalog.

Follow-up – The District still needs to comply with the last three requirements.

b. Interfund Receivable/Payable:

Recommendation – at June 30, 2021 the Children’s Center owes the Recreation/Park fund \$132,246. There has been no change in this balance since 2015. If the Recreation/Park fund does not intend for the interfund to be repaid, an alternative solution is to forgive the payable as “support for the Children’s Center.”

Follow-up – The board passed a motion at the October 18, 2022 meeting to remove interfund from the balance sheet.

3. Current-Year Recommendations:

a. Back-up Documentation on Disbursements (Significant Deficiency):

Observation: Testing of the October 2021 cash disbursements was done on the audit. Of the six selected transactions totaling \$4,326.12, four items totaling \$1,460.12 did not have supporting receipts (receipts could not be located).

Recommendation: While most of the unsupported transactions small (unsupported invoice amounts were \$10.90, \$269.36, \$64.86 and \$1,115.00), it is imperative the supporting documentation be obtained and retained.

A policy should be in place to require supporting documents to corroborate all checks issued. Supporting documentation should be authorized by management or those charged with governance (Board of Directors). The policy should be approved by the Board of Directors and be enforced.

b. Bank Reconciliation (Significant Deficiency):

Observation: During the fieldwork portion of the audit, it was discovered that there was no documented evidence the bank statements or reconciliation report were being reviewed by a Board member or management.

It also appears that the bank statements are not reconciled on a timely basis. For instance, the 6/30/22 savings account was reconciled on 11/17/22. The 6/30/22 checking account was reconciled on 7/3/22, but entries were made to the checking account after the reconciliation causing the report to no longer agree to the general ledger.

Recommendation: Bank reconciliations are an essential internal control tool and are necessary in preventing and detecting fraud. They also help identify accounting and bank errors by providing explanations of the differences between the accounting record's cash balances and the bank balance position per the bank statement. The main goal of reconciling cash is to ensure that the recorded balance on the general ledger and the recorded balance of the bank statement match up.

Ensure all bank reconciliations be done on a timely monthly basis. This ensures that errors or discrepancies can be reviewed and corrected on a timely basis. It is also a control to help prevent and detect any possible fraud.

Bank statements and reconciliations should be reviewed by a Board Member or management. The bank statement transactions should be reviewed, and the reconciliation should be reviewed to ensure the reconciliation agrees with the general ledger. Once the Board member or management reviews the statement and reconciliation, the statement can be initialed and dated by the reviewer.

3. Current-Year Recommendations, continued:

b. Bank Reconciliation (Significant Deficiency), Recommendation, continued:

It is also imperative that if transactions occur after the bank is reconciled, the cash be re-preconciled and then approved again by reviewer. It is best practice to capture all monthly transactions in a timely matter before the bank is reconciled.

c. Debit cards (Significant Deficiency):

Observation:

The District uses debit cards for many of its purchases at the Children Center for 6/30/22 fiscal year. The District does have a debit card policy, but was not followed as missing invoices in above recommendation (3.a.) were from debit card purchases. Unlike credit cards, funds are taken directly from the District's bank account upon use. Debit cards carry a higher level of liability than credit cards and subject the District to increased risk of misappropriation due to error, theft or fraud. If a debit card is stolen or compromised, unauthorized card transactions put funds directly at risk because money is immediately deducted from the account.

Recommendation:

Cease the use of debit cards, instead, the District may want to consider a credit card for small purchases to have increased fraud protection. If the credit card is lost or stolen, the District can dispute any unauthorized purchases without putting District funds directly at risk. A credit card policy should also be established providing guidelines for the permissible use of the District credit card. Board and management can establish a credit card policy which would set out: purchase limits, purpose of use, documentation for receipts and safeguarding the card.

c. Payroll:

Observation: For the 6/30/22 financials, payroll is being recorded at "net". Total wages for 6/30/22 was \$210,308. The general ledger before suggested audit entry stated wages were \$175,650. The discrepancy of \$34,658 was classed as payroll tax.

Recommendation: Salary and wages should be record at "gross" giving accurate costs on the financial statements.

3. Current-Year Recommendations, continued:

d. Development Deposits:

Observation: Development deposits at 6/30/22 is shown as \$13,600 liability on the balance sheet. This amount did not change from prior year. It appears this amount comes from County Report.

Recommendation: Research and analysis can be done on this account balance to determined when these deposits get earned, and are there restrictions on these funds. Once this analysis has been done, determine if the development deposits are a valid liability, or if they should be shown as income on the financial statements.