

Fulton-El Camino Recreation and Park District
Management Report
Fiscal Year Ended June 30, 2023

LARRY BAIN, CPA

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES 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, 2023, and have issued our report thereon dated April 5, 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 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 FS 2023-001, 2023-002 and 2023-003 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 findings FS 2023-004, 2023-005, 023-006 and 2023-007 in the following findings and recommendations to be significant deficiencies 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 5, 2024

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023**

Significant Deficiencies and Material Weaknesses

Finding FS 2023-001: During the current year audit we detected material misstatements in the general fund for the following:

Increased accrued payroll and payroll taxes by \$59,441.

Recorded \$181,370 cash in bank accounts that are not accounted for in the County general ledger.

Reclassified \$34,000 recorded to services and supplies and capital outlay to operating transfer to fund 396A.

Reclassified \$48,879 from professional services to capital expense for expenditures related to the Bohemia Park community center. Recorded \$48,879 grant receivable and grant revenue to match the reimbursable expenditures related to the Bohemia Park community center grant.

Recorded \$85,242 receivables and revenue based on our search for unrecorded accounts receivables.

Recorded \$26,986 prepaid expense related to CalPERS health insurance paid in June 2023 for July 2023 premium and for prepaid GOV Invest actuarial services.

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

Reclassified \$34,000 from service and supply account to operating transfer made from the general fund to the L&L fund.

Recorded \$18,496 accounts payable based on our search for unrecorded accounts payable.

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

Reclassified \$19,751 debt service principal expense that was coded to interest expense and equipment expense accounts.

Recommendation: We recommend the District verify that all capital lease payments are recorded to principal and interest as opposed to capital expenditure accounts and within the funds that the lease payments were budgeted to. We recommend that operating transfers should be made to operating transfer in and out accounts and not through service and supply or capital expense accounts. 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.

District Management Response FS 2023-001:

1. The District utilizes the budget format the County of Sacramento provides. District staff inquired and County staff confirmed that the County's budget format will accommodate the principal and interest budgeting requested by the auditor. The District will correct the budget to account for principal and interest for each asset lease/purchase that requires it.
2. The District will now post capital purchases made with lease proceeds to the capital expense and record the lease proceeds to proceeds of debt.

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023**

Significant Deficiencies and Material Weaknesses (Continued)

Finding FS 2023-002: 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. We have noted this condition in the prior audit.

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 2023-002:

District hired a director of finance who has experience with GAAP financial statement preparation.

Finding FS 2023-003: During our testing of accrued payroll we noted the payroll benefits, tax liability account had a negative \$56,522 balance. The liability account was not properly clearing when payments were made for health benefits and as a result the liability account and group insurance expense account were understated. We proposed a journal entry to true up the account. We also noted this condition in the prior audit.

Recommendation: We recommend the District review the payroll benefits liability account and take the appropriate action to adjust the account to agree to the underlying activity, The District should also review the procedure for processing the group insurance payments to ensure that this condition will be corrected going forward.

District Management Response FS 2023-003:

District hired a director of finance who has accounting experience with payroll benefits liability account activity.

Significant Deficiencies not Deemed Material Weaknesses

Finding FS 2023-004: 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 2023-004:

The District provides monthly board packets that has a list of all cash related activities, including all disbursements for their review and approval of the reports, which assists in mitigating the risk of potential errors and irregularities. The board's Finance and Personnel Committee also meet monthly to review financial information to each board meeting.

As noted above, the recent hire of a director of finance with accounting and auditing background will enable the District to correctly monitor and make changes if necessary in real time to strengthen internal controls, specifically with respect to segregation of duties.

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023**

Significant Deficiencies not Deemed Material Weaknesses

Finding FS 2023-005: During our search for unrecorded accounts receivable we noted a \$32,801 grant reimbursement related to the Howe Park bridge project received in August 2023 was coded to the building rent revenue account in the maintenance assessment district fund 396B as opposed to state aid, grant revenue account in the general fund 342A.

Recommendation: We recommend reviewing the coding for this revenue and consider providing the County with a journal entry to correct the account classification and fund designation.

District Management Response FS 2023-005:

As noted in our comments above, having recently hired a director of finance with experience with GAAP financial statement knowledge and preparation will prevent these types of errors to occur.

FS 2023-006: During our review of District provided benefits we noted that the District started withholding \$25.87 per pay period for the AFLEC (Post) benefit, from an employee during the May 1 to May 16, 2023 pay period. The benefit did not start until July 2023 with the first premium due on August 1, 2023. The District appears to have over withheld 2 months premium for this employee.

Recommendation: We recommend reviewing the withholding of this benefit for the employee in question and reimburse the employee if it is determined that the employee over paid for the benefit.

District Management Response FS 2023-006:

The District will work with the auditor to identify the employee and review the transaction in question, and will reimburse the employee if it is determined that an overpayment was made for the benefit. One of the duties of the new finance director is to continuously review our accounting process and procedures and make changes where necessary to improve our financial reporting practices.

FS 2023-007: During our review of disbursements we noted a payment was made for \$16,900 with invoice dated November 7, 2022 for work performed in Bohemia Park for the Creekside bridge repair. Per review of the invoice the Company performing the work did not indicate a California State Licensing Board (CSLB) contractor's license number, and per a search of the CSLB website we could not find that the company performing the work had a valid contractor's license.

Recommendation: Prior to entering into an agreement with company's performing work that requires a CSLB license we recommend the District search the CSLB website to verify that the company is licensed to perform the work.

District Management Response FS 2023-007:

As the District has opted into the California Uniform Public Construction Cost Accounting Act and as the nature of the repair was an emergency, the District 's interpretation of the Public Contract Code, where an "emergency" is defined at Section 1102 as "a sudden, unexpected occurrence that poses a clear and imminent danger, requiring immediate action to prevent or mitigate the loss or impairment of life, health, property, or essential public services" that it was following the allowances for this emergency.

Staff will re-review Section 22050 et seq., that provides the emergency contract procedures to be followed in these cases to ensure that the District is in compliance for future events

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April 18, 2024

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, 2023, and have issued our report thereon dated April 5, 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 July 6, 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

The audit was completed after the scope and timing communicated to the Board of Directors on July 6, 2023.

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 existing policies was not changed during the 2022-2023 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 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 our audit. Audit completion was delayed in order to give management additional time to review the report and complete the management’s discussion and analysis. This was partially the result of staff turnover.

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, 2023 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 5, 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.

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