

Fulton-El Camino Recreation and Park District
Management Report
Fiscal Year Ended June 30, 2021

LARRY BAIN, CPA

AN ACCOUNTING CORPORATION

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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, 2021, and have issued our report thereon dated February 21, 2022. 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 2021-001 through 2021-004 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 2021-005 and 2021-006 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
February 21, 2022

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2021**

Significant Deficiencies and Material Weaknesses

Finding FS 2021-001: During the current year audit we detected material misstatements in the general fund for the following:

Decreased accrued payroll and payroll taxes by \$17,375.

Reclassified \$37,199 debt service principal and interest payments from building and equipment expense accounts.

Recorded \$37,518 proceeds of debt and \$37,518 capital expense to recognize the lease purchase of a new police vehicle.

Adjusted outside bank accounts \$68,624 and trued up the Bank of the West line of credit and cash account \$3,034.

Reversed the prior year \$96,450 grant receivable and reclassified the grant revenue from the building rent revenue account to state grant revenue.

Reduced the line of credit balance \$75,096, recognized \$1,294 interest expense on the line of credit and reduced capital outlay accounts \$76,390 that were recorded in error for the line of credit payoff.

Reclassified \$45,000 from capital outlay to transfers out for an operating transfer made from the general fund to the L&L fund, to resolve an expected cash deficit in the L&L fund.

Reclassified \$67,312 recorded to miscellaneous revenue to the appropriate revenue accounts.

Recorded \$10,000 receivable for an insurance recovery related to a June 2021 covered loss and recorded \$37,228 receivable for law enforcement services performed in June 2021 but received after fiscal year end.

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

Reclassified \$45,000 from capital outlay to transfers in for an operating transfer made from the general fund to the L&L fund, to resolve an expected cash deficit in the L&L fund.

Reclassified \$69,581 from capital outlay to principal and interest expense on debt service.

We reversed \$89,284 prior year accounts payable and recorded \$47,486 current year accounts payable.

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

Reclassified \$30,661 from capital outlay to principal and interest expense on debt service.

Reversed \$31,651 prior year accounts payable.

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 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, 2021**

Significant Deficiencies and Material Weaknesses (Continued)

District Management Response FS 2021-001:

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 2021-002: 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 2021-002:

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.

Finding FS 2021-003: During our audit we noted \$14,560 from law enforcement services was recorded in the maintenance assessment district. The law enforcement revenue is specific to the general fund and should not have been recorded in the maintenance assessment district.

Recommendation: We recommend the maintenance assessment district reimburse the general fund for the miscoded law enforcement revenue.

District Management Response FS 2021-003:

The District will record law enforcement activities in the general fund only to prevent such services being recorded in ineligible funds.

Finding FS 2021-004: During our testing of capital assets and insurance reimbursements we noted the \$66,811.90 paid to Westcon Construction for the Santa Anita Bridge damage repair was paid from the L&L fund 396A, however the \$64,811.90 insurance reimbursement was recorded to the general fund. This resulted in a cash flow issue in the L&L fund in which the District transferred \$45,000 from the general fund in an attempt to resolve.

Recommendation: We recommend better attention to detail in reimbursing the fund that incurred the expense when recording insurance reimbursements. We also recommend the District consider reimbursing an additional \$19,811.90 from the general fund to the L&L fund to make up the difference between the \$45,000 that was transferred to the L&L fund and the \$64,811.90 insurance reimbursement.

District Management Response FS 2021-004:

The District will ensure that funds received and drawn upon reflect the correct fund account to prevent comingling of funds or journal entries between funds to correct inaccuracies.

**FULTON-EL CAMINO RECREATION AND PARK DISTRICT
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2021**

Significant Deficiencies not Deemed Material Weaknesses

Finding FS 2021-005: 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 2021-005:

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.

Finding FS 2021-006: During our review of the bank activity in the Friends of Fulton-El Camino checking account we noted a \$5,000 deposit was received from Dignity Health to provide swim lessons to refugees. Per the District reconciliation over \$3,000 of the swim lesson services had been provided by the District as of June 30, 2021.

Recommendation: We recommend the District reimburse the amount of the swim lesson services provided by Fulton-El Camino Recreation and Park district from the Friends checking account to the District. The District should also keep a schedule of designated funds received for specific purposes in the checking account folder in order to track the activity.

District Management Response FS 2021-006:

The District will record activities paid for with grants through its registration software and invoice Friends of FEC for activities provided that will be reimbursed by grant funding. This will serve as the transaction record between FEC and Friends of FEC for any reimbursement for and funding collected for eligible activities.

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February 21, 2022

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, 2021, and have issued our report thereon dated February 21, 2022. 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 January 4, 2022, 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 in accordance with the scope and timing communicated to the Board of Directors on January 4, 2022.

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 2020-2021 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, 2021 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 February 21, 2022.

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