

Sunnyslope County Water District

Finance Committee

A G E N D A

NOVEMBER 4, 2020

SPECIAL MEETING: 11:00AM

Teleconference only.



3570 Airline Hwy., Hollister, CA

Mission Statement:

“Our Mission is to provide safe, reliable, and high quality water and wastewater services to our customers and all future generations in an environmentally and financially responsible manner.”

AS AUTHORIZED BY THE STATE OF CALIFORNIA EXECUTIVE ORDER N-25-20 PUBLIC ACCESS TO DISTRICT MEETINGS CAN BE OBTAINED THROUGH THE FOLLOWING ACCESS POINTS:

Join from PC, Mac, Linux, iOS or Android:

<https://meetings.ringcentral.com/j/1483916043?pwd=MEpuYUx3MGhZL1JyZ1owQ0pRT0xwZz09>

Password: 4670

Or Telephone: Dial 1(623)404-9000 and when prompted enter Meeting ID: 148 391 6043

In-person public attendance is not available for this meeting. If you require special accommodation please call the District office at (831) 637-4670

A. CALL TO ORDER

B. ROLL CALL – Mike Alcorn, Director Judi Johnson

C. PUBLIC COMMENT – Members of the public may address the Committee on any District business not on the agenda, with a time limit of three minutes per speaker.

District Staff: Drew Lander, Travis Foster

Regular Session

D. FY20/21 BUDGET REVIEW – Review Budget Status of Fiscal First Quarter – Oral report.

E. AUDIT PROGRESS SUMMARY – Review and Discuss the District’s FY 2019-20 Audit Progress.

F. CONSIDER RECOMMENDATION TO EXTEND AUDIT SERVICES CONTRACT UNTIL 2023 – Staff Report: Staff Recommends Extension of Current Auditor Services Until End of Fiscal Year 2023.

G. ADJOURNMENT

Upon request, Sunnyslope County Water District (SCWD) will make a reasonable effort to provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. SCWD will also make a reasonable effort to provide translation services upon request. Please submit a written request, including your name, mailing address, phone number and brief description of the requested materials and preferred alternative format or auxiliary aid or service as soon as possible in advance of the meeting.

Next Regular Board Meeting – November 17, 2020 @ 5:15 p.m., District Office

AGENDA DEADLINE: 12:00 p.m. November 10, 2020

Future Scheduled Committee Meetings

Water Resources Agency – December 4th, 2020 @ 4:00 PM

Staff Report

Agenda Item: F

DATE: October 29, 2020 (Meeting on November 4, 2020)
TO: Finance Committee
FROM: Travis Foster, Finance & Human Resource Manager
SUBJECT: Consider Recommendation to Extend Audit Services Contract until 2023.

Summary:

Recently, I have had the opportunity of working with our current contracted auditors on the FY 19-20 audit engagement. My opening comment is that I am very impressed with their performance and consideration of many findings that I encountered in my first six months with the District. We have discussed extensively the General Manager's current changes and short-term implementation of a strategic enhanced vision for the District. I had the opportunity of walking thru our recent change to ADP for Payroll Processing and the enhanced controls ADP's service provides. We also discussed the transition to Watersmart, Invoice Cloud and the upcoming change to Tyler Technologies.

Our implementation of Tyler Technologies' Incode10, will be a milestone change in the Financial Controls of the District, in my opinion. We are leaving Quickbooks, which is an accounting system with very poor controls over Financial Reporting and moving to a software with significantly enhanced controls. I discussed this commitment with our auditors at length.

Recommendation:

The day following my field work with our auditor's, I reported back to the General Manager regarding my positive experience with our auditors. Given that we are about to embark on a financial system conversion beginning in December, I request that the Finance Committee consider staff recommendation is to extend our audit services with MRBK for a three-year period. If this is acceptable to the Committee I will bring the contract to the full Board for approval at the next regularly scheduled Board meeting. The process of performing a financial statement conversion and rotating auditors in the same year would be rather troublesome. Given the quality of services performed by our current auditors, I have requested an extension agreement from MRBK for your review, which is attached to this report. As part of the extension process, the audit partner is rotated on the engagement, which provides an internal rotation of auditor. This is a standard practice in the accounting industry.



McGilloway | Ray
Brown | Kaufman
ACCOUNTANTS AND CONSULTANTS

2511 Garden Road
Suite A180
Monterey, CA 93940
831-373-3337
Fax 831-373-3437

379 West Market Street
Salinas, CA 93901
831-424-2737
Fax 831-424-7936

3478 Buskirk Avenue
Suite A1000
Pleasant Hill, CA 94523
831-373-3337
Fax 831-373-3437

October 21, 2020

Sunnyslope County Water District
Attn: Travis Foster, Finance & Human Resource Manager
3570 Airline Hwy
Hollister, CA 95023

GAAP Audit Engagement Letter

To the Board of Directors,

We are pleased to confirm our understanding of the services we are to provide Sunnyslope County Water District for the years ended June 30, 2021, June 30, 2022, and June 30, 2023.

We will audit the financial statements of net position, revenues, expenses, and changes in net position, and cash flows, including the related notes to the financial statements, which collectively comprise the basic financial statements of Sunnyslope County Water District as of and for the years ended June 30, 2021, June 30, 2022, and June 30, 2023. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Sunnyslope County Water District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Sunnyslope County Water District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Changes in the Net OPEB Liability and Related Ratios
3. Schedule of OPEB Contributions
4. Schedule of the District's Proportionate Share of the Plan's (PERF C) Net Pension Liability
5. Schedule of the District's Pension Plan Contributions

Gerald Ray, CPA | Patricia Kaufman, CPA, CGMA | Jesus Montemayor, CPA | Smriti Shrestha, CPA

Sarita Shannon, CPA | Sukhdev Singh, CPA | Whitney Ernest, CPA | Devvyn MacBeth, CPA | Laura Armbruster, CPA | Rose Maxwell, CPA

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Budgetary Comparison Schedule
2. Schedule of Net Position – By Fund
3. Schedule of Revenues, Expenses, and Changes in Net Position
4. Schedule of Salaries and Benefits
5. Schedule of Operations and Maintenance Expenses

Audit Objective

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of Sunnyslope County Water District's financial statements. Our report will be addressed to the Board of Directors of Sunnyslope County Water District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance.

If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, with in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

Audit Procedures: General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and

performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We may request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures: Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures: Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Sunnyslope County Water District's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Other Services

We will also prepare the financial statements of Sunnyslope County Water District in conformity with U.S. generally accepted accounting principles based on information provided by you.

The other services are limited to the financial statement services as previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material

misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparations and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

With regard to using the auditor's report, you understand that you must obtain in our prior written consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

In connection with the engagement, we may communicate with you or others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure of emails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure or communication of confidential or proprietary information.

Hiring of Employees

We have a significant investment in the training and development of our staff, and they are valued employees of McGilloway, Ray, Brown & Kaufman. If you should hire one of our shareholders, managers, or professional employees either during the audit or within one year after the completion of this engagement, you agree to pay a personnel placement fee of 50% of their annual salary to compensate McGilloway, Ray, Brown & Kaufman.

Management also has the responsibility to ensure that they have not caused McGilloway, Ray, Brown & Kaufman's independence to be impaired by hiring a former or current McGilloway, Ray, Brown & Kaufman shareholder, manager, or professional employee in a key position, as defined in the Code of Professional Conduct of the American Institute of Certified Public Accountants (AICPA), that could cause a violation of the AICPA Code of Professional Conduct or other applicable independence rules. Any offer of employment to members of the team prior to issuance of our report may impair our independence, and may result in our inability to complete the engagement and issue a report.

Engagement Administration, Fees, and Other

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

We will not undertake any accounting services (including but not limited to reconciliation of accounts and preparation of requested schedules) without obtaining approval through a written change order or additional engagement letter for such additional work.

The audit documentation for this engagement is the property of McGilloway, Ray, Brown & Kaufman and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to an oversight agency of its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of McGilloway, Ray, Brown & Kaufman personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties or its designee. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

Our firm subscribes to the AICPA Peer Review program, mandated by the California Board of Accountancy for all California licensed firms. As part of that program this engagement could be selected for review. If selected, we will retain the strictest confidentiality rules.

Patricia M. Kaufman is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We will provide copies of our reports to the Authority; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

<u>For the Year Ended June 30,</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Audit and Preparation of Financial Statements	\$24,000	\$25,200	\$26,460
New Account Structure Grouping	500	-	-
Total:	\$24,500	\$25,200	\$26,460

You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. Currently, our rates range from \$100 per hour for clerical to \$300 per hour for partners. You will receive the final audited financial statements in one bound copy as well as an electronic (PDF) version. If you would like additional bound copy versions printed for you, the charge will be \$20 per copy.

The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. The fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or the incomplete and untimely receipt by us of the information on the client participation list such as:

1. Anticipated cooperation from Sunnyslope County Water District's personnel
2. Timely responses to our inquiries
3. Timely completion and delivery of client assistance requests
4. Timely communication of all significant accounting and financial reporting matters
5. The assumption that unexpected circumstances will not be encountered during the engagement
6. Material changes in current or prior period financial reporting
7. Multiple adjustments to the financial statements

8. Accounting assistance outside the scope of the audit (e.g., researching accounting topics, assistance with other accounting matters, etc.)

These fees shall be in addition to the above quoted fee for audit services. All billings for additional audit fees or services will be billed as these services are provided at our standard billing rate in effect at the time services are rendered.

Accounts past due over 30 days are considered delinquent and will be subject to an annual finance charge of twelve percent (12%), or a monthly rate of one percent (1%). There will be a minimum finance charge of \$1.00. Payments received on account will first be credited against any delinquency charges. Further, we will cease performing services on delinquent accounts if the account becomes 60 days or more overdue and will not be resumed until your account is paid in full. All expenses incurred to collect past due accounts, including collection fees will be added to any amount due. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If any dispute arises among the parties, they agree to try first in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) under its Commercial Mediation Rules. All unresolved disputes shall then be decided by final and binding arbitration in accordance with the Commercial Arbitration Rules of the AAA. Fees charged by any mediators, arbitrators, or the AAA shall be shared equally by all parties. In agreeing to arbitration, we both acknowledge that in the event of a dispute, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we accept the use of arbitration for resolution.

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentation to us.

Our audit engagement ends on delivery of our audit report and prepared financial statements. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

We appreciate the opportunity to be of service to Sunnyslope County Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



McGilloway, Ray, Brown & Kaufman

Response:

This letter correctly sets forth the understanding of Sunnyslope County Water District.

Management Signature: _____

Print: _____

Title: _____

Date: _____

Governance Signature: _____

Print: _____

Title: _____

Date: _____