

Saddle Creek Community Services District
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Board of Directors
Sue Russ, President
Larry Hoffman
Ken Albertson, Secretary

June 14, 2016

Larry Bain, CPA,
An Accounting Corporation
2148 Frascati Drive
El Dorado Hills, CA 95762

Dear Larry,

We thank you very much for your timely and thorough review of the District's financial statements for fiscal year ending 2015. As always, we very much appreciate you're your knowledge and expertise in providing not only a comprehensive review of the draft statements, but also your guidance provided to our staff throughout the year and in your evaluation and recommendations related to the financial policies and practices of the District.

We also appreciate your willingness to include our audit response letter in the final audit. Transparency and accountability is paramount to our District staff and Board of Directors, and it is important for our community to understand all aspects of their local government and how we spend their tax dollars responsibly.

That said, below I have summarized the significant deficiencies described in your final audit, and provided our response including any actions planned for the upcoming year.

Audit FS 15-1: *The District has a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end.*

Saddle Creek CSD Response: As stated in your report, prior audits have also recognized that with our small staff size, it is virtually impossible without hiring additional staff or contractors to completely separate all financial duties where no single person has the opportunity to participate in processing financial transactions from beginning to end. We have evaluated the risks and benefits of engaging additional persons in financial transactions and feel that the certain cost of such effort will far outweigh the benefit our taxpayers would receive in the slight reduction in risk by having more people involved in our financial transactions. We will continue to maximize the cross training and separation of financial duties to the maximum extent feasible.

Audit FS 15-2 (Prior Year Finding 13-3): *During our testing of payroll, we noted the District was paying into Federal Unemployment Tax (FUTA). We also noted there was no supervisor signature/initial on the Maintenance Manager timecard. Current year follow up: The IRS refunded \$3,049.85 to the District for 2012-2014 FUTA payments. During 2015 the District paid into FUTA through May 2015.*

Saddle Creek CSD Response: As you have stated above, the District has received a refund from the IRS from FUTA payments made from 2012 through 2014 and we feel it very important to note that as of May 2015, no additional FUTA payments have been, or will be made by the

District. As no FUTA payments will be made in 2016, we expect this finding unnecessary in the audit of that year.

Audit FS 15-3: *The District had Jim Wilson Excavation perform professional services for the District in the amount of \$4,800, however there was no formal professional services agreement or contract obtained for this work, nor did we see any indication that the District was monitoring and complying with the provisions of the new prevailing wage laws that went into effect July 1, 2014.*

Saddle Creek CSD Response: We appreciate your reminder of the need for contracts and compliance with the California Government and Public Contract Codes. District management is very much aware of the public contracting requirements for all projects costing over \$1000; including the need for construction contracts that require:

1. The payment of general rate of Prevailing Wage for each craft to be paid by the contractor to its employees
2. The contractor's registration with the Department of Industrial Relations (DIR) as a Public Works Contractor
3. The contractor's indemnification of the District and providing adequate insurance coverage
4. Performance and Completion Bonding where required

The District also understands its responsibility to file the appropriate PWC-100 form with the DIR for each Public Works project, as well as the need to file appropriate notices with the County Clerk to verify final project completion.

The District Board of Directors has previously adopted a standard form of construction and professional services contracts, and management has prepared a detailed public works construction procedure including all required steps and processes for compliance with law and to reduce District liability exposure. Individual files (project binders) containing all documentation will be maintained for all future projects; and available for your review and audit.

Audit FS 15-4: *During our test of compensated absences we noted one employee who took 4 hours vacation according to his timesheet, however the vacation was not subtracted from his tracking log.*

Saddle Creek CSD Response: We have modified internal procedures to where the possibility of this type of oversight is reduced to nearly zero.

Respectfully Submitted,



Peter J. Kampa
General Manager