

AGENDA
SANTA MARGARITA WATER DISTRICT
FINANCE AND ADMINISTRATION COMMITTEE MEETING
October 20, 2015

CALL TO ORDER: 8:00 a.m., Conference Room, District Office
26111 Antonio Parkway, Rancho Santa Margarita, California

COMMITTEE CHAIR: Charles T. Gibson
COMMITTEE MEMBER: Betty H. Olson

1. PUBLIC FORUM

Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. "Request To Be Heard" forms are available at the entrance to the Board Room. Comments are limited to three minutes, unless further time is granted by the Presiding Officer. Please submit the form to the Recording Secretary or Committee Chair prior to the beginning of the meeting.

Those wishing to address the Board of Directors on any item listed on the Agenda should submit a "Request To Be Heard" form to the Recording Secretary or Committee Chair before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.

2. INFORMATION ITEMS

- 2.1 Fiscal Year 2014/2015 Audit Update.....**Page 2**
- 2.2 Finance Department Changes and Internal Controls Update**Page 5**
- 2.3 Scheduling of Future Agenda Items and Re-Cap of September 24, 2015
Finance and Administration Committee Meeting**Page 7**

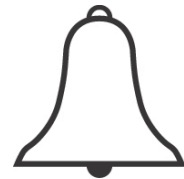
ITEMS DISTRIBUTED TO THE BOARD LESS THAN 72 HOURS PRIOR TO MEETING

Pursuant to Government Code section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection in the lobby of the District's business office located at 26111 Antonio Parkway, Rancho Santa Margarita, California 92688, during regular business hours. When practical, these public records will also be made available on the District's Internet Web Site, accessible at <http://www.smwd.com>.

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, as required by Section 202 of the Americans with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should direct such request to Kelly Radvansky Secretary, Board of Directors, at (949) 459-6642 at least 48 hours before the meeting if possible.

President, Betty H. Olson
Vice President, Charley Wilson
Finance Committee Chair, Charles T. Gibson
Engineering Committee Chair, Justin McCusker
Director, Sandra F. Jacobs
General Manager, Daniel R. Ferons

Santa Margarita Water District



MEMORANDUM

TO: Finance and Administration Committee

DATE: October 20, 2015

FROM: Nancy Trujillo

SUBJECT: Fiscal Year 2014/2015 Audit Update

SUMMARY

Issue: Annually, the District's fiscal year-end financial statements are audited by an independent auditor. McGladrey is conducting the audit for the Fiscal Year 2014-2015 (FY 2015), it is the second year that the firm has prepared the audit.

Recommendation: Informational update only

Fiscal Impact: None

Previously Related Action: Audit update to the Finance and Administration Committee on July 13, 2015.

DISCUSSION

The following is an update of the status for completion of the annual audit:

1. INTERIM TESTING: June 15-19
 - Focused on: Processes, large transactions (bond refundings), Pension GASB 68 implementation, capitalized interest, and reserve recognition
2. YEAR END AND CASH TESTING: August 10-October 13
 - Close June 2015 on October 15
 - Audit Report draft by October 22
 - Financial statement signoff by October 23
 - Final Audit Report draft to Finance and Administration Committee October 27
 - Finalize Audit Report draft by October 30
 - CAFR draft to Finance and Administration Committee – week of November 10
 - Final Audit Report and CAFR to Board – November 20

3. CASH AUDIT TESTING: October 5-13

- At June 30, 2015, McGladrey notified the District that the cash bank reconciliation reflected an unreconciled discrepancy of \$453,000. Subsequently, the District investigated the process and discovered inadequate internal controls were in place to verify the reconciliations were completed timely and any discrepancies were adequately reported. This was a reporting.
- A consultant was hired to review and correct the bank reconciliations for FY 2015. The \$453,000 unreconciled discrepancy was resolved as follows:
 - i. Incorrect bank balances entered on bank reconciliations \$427,000
 - ii. Unrecorded unsettled investment trades \$44,000
 - iii. Correction to investment gains/losses (\$20,600)
 - iv. Cost of issuance fees duplicated \$12,100
 - v. Bank fees and interest not recorded (\$7,400)
 - vi. Cash entries duplicated in error (\$1,300)
 - vii. Cash receipts and deposit errors (\$1,100)
 - viii. Write off remaining differences \$400
- McGladrey was engaged to perform a separate audit of the cash reconciliations, including the review of reconciling items and adjustments, and the related documentation. Due to the nature of the control weakness for the monthly unreconciled bank reconciliations and the lack of action to resolve it on a monthly basis, the audit management letter will include a discussion on the material control weakness. Management's response includes the mitigating measures immediately taken to correct the weakness.

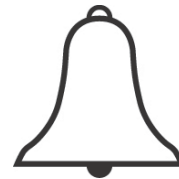
4. AUDIT CORRESPONDENCE:

- Pre-Audit Correspondence Letter distributed to the Board
- Board member interview completed
- Engagement Letters and Professional Service Contract and amendment completed
- The audit closing by McGladrey will be presented to the Board on November 20, and will include the following:
 - i. Responsibilities under GAAS (Generally Accepted Auditing Standards)
 - ii. Overview of the planned scope and timing of the audit
 - iii. Any accounting policies that were changed and those that are going to be changed in the future
 - iv. Significant of unusual transactions
 - v. Management's judgements and accounting estimates
 - vi. Summary of audit adjustments
 - vii. Summary of passed audit adjustments
 - viii. Any disagreements with management
 - ix. Consultations with the accountants
 - x. Significant issues discussed with management
 - xi. Management Letter comments (i.e. material weaknesses and significant deficiencies, including the material control weakness regarding the cash bank reconciliations).
 - xii. Other written communications between the District and McGladrey

5. PRELIMINARY SUMMARY OF SIGNIFICANT CHANGES TO THE PRELIMINARY FINANCIAL STATEMENTS PRESENTED TO THE BOARD IN JULY 2015 INCREASE (DECREASE) TO NET POSITION:

- GASB 68 Pension Liabilities:
 - i. Net Position Restatement for prior year liabilities (\$25.3) million
 - ii. Net Pension Liability \$23.4 million
 - iii. Pension Expense (\$.8) million
 - iv. Deferred outflows \$1.4 million
- Remove Gobernadora Lower Basin from CIP-County property (\$6.6) million
- Write down tax receivable for new accounting estimation (\$5.7) million
- Bond Refundings entries impact to Net Position \$4.5 million
- Accrue grant revenues from Prop 1E \$3.9 million
- CIP and expense year end accruals (\$3.8) million
- Accrue Cow Camp Rd accrual for amount due to RMV (\$3.2 million)
- Reclass ID 7 tax prepayment as a deferred revenue (\$3.0) million
- Accrue Gobernadora reimbursement due to RMV for facilities (\$2.5) million
- Capitalize year-end inventory \$.9 million
- Accrue grant revenues from Prop 50 \$.6 million
- Water revenue year end accruals and PY accrual reversal (\$.5) million
- Record additional capitalized interest \$.4 million

Santa Margarita Water District



MEMORANDUM

TO: Finance and Administration Committee **DATE:** October 20, 2015
FROM: Nancy Trujillo
SUBJECT: Finance Department Changes and Internal Controls Update

SUMMARY

Issue: During the annual audit for Fiscal Year 2014-2015 (FY 2015) a number of issues were identified with internal controls. The response includes a proposed reorganization and update of the accounting procedures to ensure a robust review process is in place throughout the department and appropriate reporting to the department head, general manager, Finance Committee and Board of Directors.

Recommendation: Informational update only.

Fiscal Impact: Expenses include review of the cash reconciliations by a limited term employee for approximately \$15,000 and additional audit requirements in the amount of \$7,900. Temporary staff have been hired, the cost is offset by open positions within the department due to recent resignations.

Previously Related Action: Update to Board members in September 2015.

DISCUSSION

The issues related to the discrepancies in the bank reconciliations for FY 2015 resulted in a significant review of the finance department staffing and accounting procedures. The reorganization has included resignation of employees and proposed new positions.

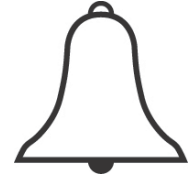
The District has hired two consultants as the interim Controller and interim Accounting Manager, and one limited term employee. The interim positions are providing immediate support to complete the audit, close the fiscal year and assist with establishment of new procedures to ensure adequate internal controls are in place for all accounting procedures.

The proposed organization will include elimination of the Director of Finance position and establishment of a Controller position. The Controller will be responsible for all general accounting functions within the District and will be a direct report to the Chief Financial Officer (CFO). In addition, the recently hired Financial Analyst will also be a direct report to the CFO and will provide financial planning for the District.

The Controller position will be filled with a permanent position upon approval of the new position by the Board in November. The limited term employee will revert to part time status in November.

The fiscal year-end closing and the issuance of the audit report has been delayed due to the change in staffing and the loss of continuity and knowledge. The temporary employees have strong technical and supervisory skills, but the learning curve is significant. Besides completing the work and tasks, our goal is to create a positive/upbeat and professional culture and ensuring that the staff is properly coached/supervised, cross trained, and developed/mentored. In addition, the District will be hiring a consultant to complete the review of internal controls and the accounting policies & procedures manual. Proposals are being requested for this work and the cost is estimated to be less than \$50,000. The board will be consulted and approval requested if the amount exceeds \$50,000. This project will provide assurance that the District is employing proper internal controls. The policies and procedures manual will document the processes and the controls, and will serve as a good training manual for cross training purposes and new employees.

Santa Margarita Water District



MEMORANDUM

TO: Finance and Administration Committee

DATE: October 20, 2015

FROM: Jennifer Wilt

SUBJECT: Scheduling of Future Agenda Items and Re-Cap of the September 24, 2015 Finance and Administration Committee Meeting

- **At the September 24th FA Committee meeting the following items were considered:**

ITEM NO.	DESCRIPTION	STATUS
2.1	Preliminary Water Budget Rates - January 1 st Implementation.	Information item only, no action required.

- **The DRAFT chart below includes anticipated items for the next three months:**

	FAC	Reports Due to Nancy	Reports Due	Pkg Posts	FAC 2	Reports Due to Nancy	Reports Due	Pkg Posts
October	20-Oct	12-Oct	15-Oct	16-Oct	27-Oct	20-Oct	22-Oct	23-Oct
Agenda Items	1. Information: FY14/15 Audit Update 2. Information: Update FAC Finance Department changes and internal controls				1. Information: Long Range Financial Plan 2. Information: August Financials 3. Information: Audit Report 4. Information: Update on State Controller Reports Filed. 5. Discussion: Project Change Orders 6. Discussion: IT - Board of Directors Requirements and Training Needs			
November	November Meeting Date TBD				November Meeting Date TBD			
Agenda Items	1. Action: Quarterly Financials - September (tentative) 2. Action: Draft CAFR (tentative) 3. Information: Long Range Financial Plan				1. Action: Trampas (tentative) 2. Action: RMV Buy-In (tentative) 3. Action: Final CAFR 4. Information: Long Range Financial Plan 5. Information: October Financials			
December	December Meeting Date TBD							
Agenda Items	1. Information: November Financials 2. Action: Pension Trust							