

MEMORANDUM

TO: Audit Committee

FROM: Trustee Sara Schmitz

SUBJECT: Review, discuss and agree on the approach of the Audit Committee to facilitating the external audit process for financial year 2020/2021 in accordance with Policy 15.1.0, Section 2.4 including election of a liaison to the Auditor and review actions taken to date including report on meeting with Davis Farr LLC

DATE: July 13, 2021

I. RECOMMENDATION

The Audit Committee review, discuss and agree on the approach of the Audit Committee to facilitating the external audit process for financial year 2020/2021 in accordance with Policy 15.1.0, Section 2.4 including election of a liaison to the Auditor and review actions taken to date including report on meeting with Davis Farr LLC.

II. BACKGROUND

Board Policy 15.1.0 Accounting, Auditing and Financial Reporting requires the Audit Committee to facilitate the external audit process. As part of this process, the Audit Committee is required to “provide an independent forum for auditors to report findings or difficulties encountered during the audit” (15.1.0.2.4.2). In order to initiate appropriate communications in the previous absence of an Audit Committee Chair, Audit Committee Member Trustee Schmitz recently held an initial meeting with the external auditor, Davis Farr. The report of this meeting is attached as Exhibit A. The Audit Committee should now review this report and agree on the approach to be adopted by the Audit Committee to facilitating the external audit process to include election of a liaison(s) to the Auditor.

III. ALTERNATIVES

Do not provide an independent forum for the external auditors in contravention of 15.1.0.2.4.2.

IV. FINANCIAL IMPACT AND BUDGET

There is no budgetary impact.

Meeting highlights: Meeting with Jennifer Farr

1. We discussed concerns regarding the unaccounted for expenditures related to the Pond Lining project from 2018 and the air pressure relief valves. I believe both were uncovered by Mr. and Mrs. Dobler.
 - a. Ms. Farr indicated their firm will be reviewing the 2020-2021 year and would not be evaluating prior years for unaccounted expenditures.
 - b. Any non-compliance with policy issues will be limited to the 2020-21 audit and prior years will not be reviewed. Project issues in prior years are not part of the Davis Farr LLC scope of work.
2. We discussed the issues brought forth by Moss Adams related to the financial reporting of the Special Revenue funds/Governmental accounting.
 - a. Ms. Farr indicated GAAP is a bit more of a guideline than hard and fast “rules” and that the prior year’s auditors ruled it was acceptable. **I think it would be more accurate to say that there is a variety of acceptable practices related to this issue and it is not uncommon for other governments to report these activities in special revenue funds**
 - b. Ms. Farr felt that while this reporting isn’t aligned with best practices, since the District is in the final year of reporting with governmental fund accounting, for consistency, reporting 2020-21 as prior years would be reasonable.
 - c. **When asked about the GASB requirements, Ms. Farr indicated these too have a bit of “gray areas”. I need to confirm my notes are correct on this point. I will follow up with Ms. Farr for confirmation. Reporting these activities in special revenue funds is “generally accepted” and not a violation of GAAP. However, I agree that it would be best practice to report the activities in Enterprise Funds.**
3. When discussing the Utility Fund and Engineering, Ms. Farr had a number of suggestions:
 - a. She suggested an ~~Engineering rate~~ **indirect cost or cost allocation study to compare our internal costs with other organizations and determine best practices for determining the rate charged to projects. This is something the Board should request every couple of years. By doing this, the public is informed of the methodology of engineering burden on projects. This is an internal study, not a comparison with other organizations. It looks at the administrative burden associated with direct labor and adds a burden rate on top of direct labor costs.**
 - b. When IT costs were brought up, she suggested the same approach be taken with IT, Engineering and Central Services Cost Allocations. **This is something to be discussed related to the scope of work for the Central Services Cost Allocation proposed project. She suggested a consulting firm be engaged to provide this analysis and recommendations.**

- c. **As for the financial health of the Utility Fund, she suggested better disclosure on the use of the \$2M collected annually and the fund balance excluding the \$2M collected for the effluent pipeline project. She mentioned funds collected for a specific project should be spent only on that specified project; how it is disclosed to the public. If there is deviation from this, it needs to be openly disclosed on the financial statements. I would like to see the resolution that restricted the funding before making this statement. I want to make sure the fee is actually legally restricted and not just part of the budget or plan for spending the money. If the fee is actually legally restricted, then I suggest we add more disclosure to the financial statements about the restriction and how much is left to spend.**
4. The issue of Stand-By Fees (the Recreational Facility Fee) was discussed. We discussed how the District has been over collecting funds from parcel owners that are identified in the budget as needed to cover operational costs. It has been shown that the amount of funds collected aren't needed for operations; that the charges for services are consistently more than budgeted leaving excess funds. These funds are then reflected in the fund balance and used in subsequent years for projects. In review of the Resolution for the collection of fees, it does not specify funds must be used for operations. Therefore, this isn't an issue from a financial reporting perspective. This is something the Board needs to review and handle through refunds, reduction of collection and/or Resolution. **The budget should more accurately reflect the expected charges for services to avoid over collection.**