

Joshua Basin Water District
Management Report
June 30, 2021



Fedak & Brown LLP
Certified Public Accountants

Joshua Basin Water District

Management Report

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CONFIDENTIAL

Board of Directors
Joshua Basin Water District
Joshua Tree, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of Joshua Basin Water District (District) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Current Year Comments and Recommendations

Material Weaknesses

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 a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies to be material weaknesses:

Review of Financial Transactions

The District's financial transactions and financial results were not sufficiently evaluated with a questioning mind. As a result, during fiscal year 2021 through December 2021, the District's assets were misappropriated.

The Board of Directors sets goals concurrent with the mission of the District and oversees management to ensure that a plan of action is executed to meet these goals. In executing any plan of action, management follows board approved policies and procedures and reports the results to the Board of Directors. The Board of Directors should evaluate the results as a means of monitoring management's activities. Quality policies and procedures with proper oversight by the Board of Directors will result in an efficient and effective outcome while safeguarding the District's assets.

Current Year Comments and Recommendations, continued

Material Weaknesses, continued

Review of Financial Transactions, continued

We recommend that the Board of Directors review the District's finances and evaluate its reasonableness. Such review can include the review of monthly budget-to-actual reports, periodic check registers, or invoices. Unusual transactions should be investigated.

Procurement Policy

The District does not maintain approved policies and procedures for procuring goods and services. As a result, during fiscal year 2021 through December 2021, the District's assets were misappropriated.

A procurement policy reduces uncertainty when purchasing products and services. Moreover, a procurement policy prevents conflicts of interest and fraud that may arise. A good procurement policy should define the objective of the policy, vendor setup and onboarding process, contract signing authority, purchasing authority thresholds, delegation of authority, competitive bidding process, and forbidden purchases, at a minimum.

We recommend that the District develop written policies and procedures for procuring goods and services. The policies and procedures should be reviewed periodically to adapt to changing technology, internal controls, and the District's needs.

Credit Card Policy and Procedures

While the District maintains a credit card policy, the District did not obtain the most recent signed credit card policy from the General Manager. In addition, the District's credit card had an excessive maximum limit which enabled the purchase of restricted goods. Finally, the General Manager failed to submit invoices concurrent with the District's credit card policy. As a result, during fiscal year 2021 through December 2021, the District's assets were misappropriated.

A credit card policy describes the rules and responsibilities of the holder of the District's credit card. Before a credit card is issued, the District should obtain a signed policy that an employee agrees to the rules and responsibilities that are attached to the District's credit card. The maximum credit limit should not be excessive and should be issued to employees who travel frequently in the course of his/her duties. Finally, the user of the credit card should submit itemized credit card receipts for each transaction which are reconciled to credit card statements.

We recommend that the District review its credit card issuance and acknowledgment forms to ensure that signed copies have been obtained from all employees that have custody of District issued credit cards. In addition, the District should take steps to reduce the maximum credit limit. District employees should strictly follow the rules and responsibilities of having a District credit card.

Current Year Comments and Recommendations, continued

Material Weaknesses, continued

Whistle Blower Policy

While the District maintains a whistleblower policy, the policy is not complete as it lacked the means to communicate anonymous tips such as a phone number. As a result, during fiscal year 2021 through December 2021, the District's assets were misappropriated.

A whistleblower policy encourages employees to report information on illegal activities, violations of adopted policies, and fraud. In addition, a whistleblower policy protects the reporting employee from retaliation and identifies staff, board members, or 3rd parties to whom such information can be reported.

We recommend that the District adopt a formal whistleblower policy that sets forth the process to communicate known or suspected fraud. The policy must be displayed in a conspicuous place where it can be viewed by all concerned parties.

* * * * *

This communication is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP

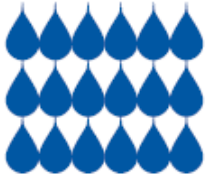
Fedak & Brown LLP
Cypress, California
June 29, 2022

APPENDIX

Joshua Basin Water District

Audit/Finance Committee Letter

June 30, 2021



Christopher J. Brown, CPA, CGMA
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Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited the financial statements of the business-type activities of the Joshua Basin Water District (District) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting the District's financial statements were:

Management's estimate of the fair value of cash and cash equivalents is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for delinquent/doubtful accounts is based on historical write-offs of past due delinquent/doubtful customer accounts, customer creditworthiness, and calculated assumptions of expected future write-offs. We evaluated the key factors and assumptions used to develop the allowance for delinquent/doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Matters, continued

Qualitative Aspects of Accounting Practices, continued

Management's estimate of the defined benefit pension plan's deferred outflows of resources, net pension liability, and deferred inflows of resources are based on an actuarial valuation which was conducted by a third-party actuary. We evaluated the basis and actuarial methods and assumptions used by the actuary to calculate these amounts for the District to determine that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the basic financial statements were:

The disclosure of fair value of cash and cash equivalents in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of the District's allowance for delinquent/doubtful accounts in Note 3 to the basic financial statements represents amounts susceptible to external factors the District has no control over such as the state of the economy in the District's service area.

The disclosure of capital assets, net in Note 6 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the District's defined benefit pension plan in Note 10 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

The disclosures in the basic financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties except for the following:

During the course of our audit, we noted that the District's assets were misappropriated. Consequently, audit procedures were expanded to address this matter.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate to the financial statements taken as a whole. A listing of all journal entries are list in the Schedule of Audit Adjusting Journal Entries on pages 4 and 5 of this report.

Disagreements with Management

For the 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 significant to the basic 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 June 29, 2022.

Significant Audit Matters, continued

Management Consultations 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 the application of an accounting principle to the District’s basic 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 District’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, Schedules of the District’s Proportionate Share of Net Pension Liability, and Schedules of the Pension Plan Contributions which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restrictions on Use

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the cooperation extended us by Anne Roman, Director of Finance, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.



Fedak & Brown LLP

Cypress, California

June 29, 2022

Joshua Basin Water District
Schedule of Audit Adjusting Journal Entries
June 30, 2021

| Account | Description | Debit | Credit |
|---|------------------------------------|--------------------------|--------------------------|
| Adjusting Journal Entries JE # 1 | | | |
| AJE - To correct unbilled receivable calculation for June 30, 2021. | | | |
| 100-13120 | UNBILLED WATER SALES | 13,213.84 | |
| 400-41010 | METERED WATER SALES | | 13,213.84 |
| Total | | <u>13,213.84</u> | <u>13,213.84</u> |
| Adjusting Journal Entries JE # 2 | | | |
| GASB 68 Entry #1 - To reclassify 2021 contributions to NPL at June 30, 2021. | | | |
| 200-22360 | NET PENSION LIABILITY | 226,625.00 | |
| 100-13600 | DEFERRED OUTFLOWS OF RESOURCES | | 226,625.00 |
| Total | | <u>226,625.00</u> | <u>226,625.00</u> |
| Adjusting Journal Entries JE # 3 | | | |
| GASB 68 Entry #2 - TTo reclassify 2021 contributions to Deferred Outflows of Resources at June 30, 2021. | | | |
| 100-13600 | DEFERRED OUTFLOWS OF RESOURCES | 238,632.00 | |
| 509-09215 | RETIREMENT: CALPERS GASB 68 CONTRA | | 238,632.00 |
| Total | | <u>238,632.00</u> | <u>238,632.00</u> |
| Adjusting Journal Entries JE # 4 | | | |
| GASB 68 Entry #3 - TTo reclassify 2021 contributions to Deferred Outflows of Resources at June 30, 2021. Note: Outflow Inflow activity is summarized in this entry. | | | |
| 100-13600 | DEFERRED OUTFLOWS OF RESOURCES | 182,396.00 | |
| 200-23050 | DEFERRED INFLOWS OF RESOURCES | 29,528.00 | |
| 509-09215 | RETIREMENT: CALPERS GASB 68 CONTRA | 123,282.00 | |
| 200-22360 | NET PENSION LIABILITY | | 335,206.00 |
| Total | | <u>335,206.00</u> | <u>335,206.00</u> |
| Adjusting Journal Entries JE # 5 | | | |
| GASB 68 Entry #4 - To reclassify 2021 contributions to Deferred Outflows of Resources at June 30, 2021. Note: Outflow Inflow activity is summarized in this entry. | | | |
| 509-09215 | RETIREMENT: CALPERS GASB 68 CONTRA | 213,787.00 | |
| 100-13600 | DEFERRED OUTFLOWS OF RESOURCES | | 189,321.00 |
| 200-23050 | DEFERRED INFLOWS OF RESOURCES | | 24,466.00 |
| Total | | <u>213,787.00</u> | <u>213,787.00</u> |
| Adjusting Journal Entries JE # 6 | | | |
| AJE - To accrue June 2021 worker's comp (check 63562) to accounts payable at June 30, 2021. | | | |
| 551-01225 | WORKERS COMPENSATION INSURANCE | 12,085.66 | |
| 200-21100 | ACCOUNTS PAYABLE | | 12,085.66 |
| Total | | <u>12,085.66</u> | <u>12,085.66</u> |

Joshua Basin Water District
Schedule of Audit Adjusting Journal Entries
June 30, 2021

| Account | Description | Debit | Credit |
|---|-------------------------------------|----------------------------|----------------------------|
| Adjusting Journal Entries JE # 7 | | | |
| RJE - To reclass gain on sale of capital assets to the appropriate account. | | | |
| 400-47000 | MISCELLANEOUS REVENUE | 47,107.50 | |
| 400-47010 | GAIN/LOSS ON SALE OF ASSETS | | 47,107.50 |
| Total | | <u>47,107.50</u> | <u>47,107.50</u> |
| Adjusting Journal Entries JE # 8 | | | |
| RJE - To correct difference in current year depreciation expense versus tested current year accumulated depreciation. | | | |
| 504-07000 | MISCELLANEOUS EXPENSE | 83.00 | |
| 660-65000 | CAPITAL REPLACEMENT EXPENSE | | 83.00 |
| Total | | <u>83.00</u> | <u>83.00</u> |
| Adjusting Journal Entries JE # 9 | | | |
| AJE - To reclassify waste and abuse as documented by District at June 30, 2021. | | | |
| 509-09203 | Waste and Abuse | 3,136.64 | |
| 509-09203 | Waste and Abuse | 4,824.56 | |
| 509-09203 | Waste and Abuse | 60,141.09 | |
| 502-02211 | SMALL TOOLS - DISTRIBUTION | | 55.75 |
| 504-07008 | BUSINESS EXPENSE | | 453.93 |
| 552-04015 | OPS: SOFTWARE,SUPPORT & COMP. EQUIP | | 815.20 |
| 552-04015 | OPS: SOFTWARE,SUPPORT & COMP. EQUIP | | 4,824.56 |
| 552-04015 | OPS: SOFTWARE,SUPPORT & COMP. EQUIP | | 60,141.09 |
| 552-05005 | FUEL-VEHICLES | | 1,811.76 |
| Total | | <u>68,102.29</u> | <u>68,102.29</u> |
| Adjusting Journal Entries JE # 10 | | | |
| AJE - Field allocation revision post waste and abuse entries. | | | |
| 552-98000 | ALLOCATED EXPENSES - FIELD | 67,592.61 | |
| 501-98002 | FIELD EXPENSES ALLOCATED | | 20,832.04 |
| 502-98002 | FIELD EXPENSES ALLOCATED | | 24,002.14 |
| 503-98002 | FIELD EXPENSES ALLOCATED | | 2,771.30 |
| 512-98002 | FIELD EXPENSES ALLOCATED | | 19,987.13 |
| Total | | <u>67,592.61</u> | <u>67,592.61</u> |
| Total Adjustments | | <u>1,222,434.90</u> | <u>1,222,434.90</u> |

Legend:

| | |
|---------------|-----------------------------------|
| AJE | Audit Adjusting Journal Entry |
| RJE | Audit Reclassifying Journal Entry |
| GASB 68 Entry | GASB 68 Adjusting Journal Entry |