



Moss, Levy & Hartzheim LLP

Certified Public Accountants

November 28, 2018

To the Board of Directors of the  
Los Osos Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District as of and for the fiscal year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Los Osos Community Services District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the fiscal 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 useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other postemployment benefits (OPEB) expense is based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the OPEB expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining 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 disclosure affecting the financial statements was:

The disclosure of the Pension Plans in Note 7.

The financial statement disclosures are neutral, consistent, and clear.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *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 and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the 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 November 28, 2018.

### *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 application of an accounting principle to the governmental unit's 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

*Moss, Remy & Hartgrain LLP*

Santa Maria, California



Moss, Levy & Hartzheim LLP

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Los Osos Community Services District  
Los Osos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Los Osos Community Services District's basic financial statements and have issued our report thereon dated November 28, 2018.

**Internal Control Over Financial Reporting**

In connection with our engagement to audit the financial statements of the District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (findings 2018-1 through 2018-2).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Los Osos Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Los Osos Community Services District's Responses to Findings**

The Los Osos Community Services District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Los Osos Community Services District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss, Levy & Haugheim LLP*

Santa Maria, California  
November 28, 2018

**Los Osos Community Services District  
Schedule of Findings and Responses  
June 30, 2018**

**Finding 2018-1  
Bond Reserve Account**

**Criteria:**

As part of the District's bankruptcy agreement, the District is required to repay the Los Osos Community Services District Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds Reserve Fund \$25,000 annually.

**Condition:**

We noticed that the \$25,000 annual repayment to the Bond Reserve Fund was not done during the year. We did note that the District did make the \$25,000 transfer in October 2018.

**Cause:**

The District personnel filled out an automatic transfer form with the bank, however, the bank did not fill the order as instructed and the District did not reconcile the account prior to year-end in order to catch the mistake in a timely fashion.

**Effect:**

The required transfer was not made into the Bond Reserve Account.

**Recommendation:**

The District should ensure that prior to June 30<sup>th</sup>, the required annual transfer of \$25,000 is actually posted to the account. Therefore, the District could initiate the transfer on time if the auto-transfer was not made. The District should transfer \$50,000 into the Reserve account in the subsequent fiscal year.

**District's Corrective Action Plan:**

US Bank has assured the District again that the automatic transfer is in place for every May. The Bookkeeper will create a procedure to make sure the transfer is made every May.

**Finding 2018-2  
Inventory**

**Criteria:**

Inventory must be counted at or near year-end in order to place a value on the inventory on hand at June 30, 2018.

**Condition:**

No count of inventory on hand was done at fiscal year end. The District did take an inventory count in October 2018. Although they used records of purchases and usage to roll it back, it's not as accurate as a count performed at or near year-end.

**Cause:**

Lack of proper management oversight of required year-end procedures.

**Effect:**

Inventory balance as of June 30, 2018 could be inaccurately reported. Possible misappropriation of assets.

**Recommendation:**

Although they used records of purchases and usage to roll inventory back, it's not as accurate as a count performed at or near year-end. The District should ensure that inventory is counted on June 30<sup>th</sup> of every year in order to create a list of items, the amount of each item, and total dollar value of the inventory on hand at the end of the fiscal year.

**District's Corrective Action Plan:**

Staff will utilize the new Computerized Maintenance Management System (CMMS) by placing the annual inventory into a re-occurring work order to ensure that it is completed in a timely manner.

**Los Osos Community Services District  
Schedule of Prior Fiscal Year Findings and Responses  
June 30, 2018**

**Finding 2017-1  
Accounting for the Fiduciary Fund**

**Criteria:**

The District reports on assets held by the District in a fiduciary capacity for the Los Osos Community Services District Wastewater Assessment District No. 1. Only the assets held for the Los Osos Community Services District Wastewater Assessment District No. 1 should be reported in the accounting system within this fund.

**Condition:**

During our examination of account balances in the general ledger, we noticed that revenues and expenditures related to the assessment process were recorded in this fund.

**Cause:**

District oversight and current staff was unaware of the fund purpose after employee turnover.

**Effect:**

Expenditures were initially posted in incorrect funds until adjustments were recorded.

**Recommendation:**

The District should ensure that staff understands the purpose of this fund is only to report the assets of the Los Osos Community Services District Wastewater Assessment District No. 1 and all District administration and assessment related costs should be reported in the District's Wastewater Treatment Project Fund.

**Current Status:**

Implemented.

**Finding 2017-2  
Compensated Absences**

**Criteria:**

The District's personnel policy grants employees vacation time accrual at certain rates based on their length of employment with the District.

**Condition:**

During our testing of payroll controls and processes, we found that compensated absences hours were not being tracked by the ADP Computer System which the District switched to at the end of 2016. Upon discovery of this, a temporary system of having employees monitor and record their own comp time hours was used until the District could reconfigure the ADP system to record comp times, beginning with the employee recorded balances at that time. According to Renee, the ADP system should be recording comp times as of the second pay period in August.

**Cause:**

The ADP system was not properly set up prior to the payroll processing switch.

**Effect:**

Possible misstatement of payroll was possible due to the lack of appropriate controls over the compensated absences.

**Recommendation:**

Ensure that compensated absences are properly input and tracked in the ADP system and that the balances are periodically reviewed in order to ensure the accrual and use of the compensated absences is being properly tracked.

**Current Status:**

Implemented.

**Los Osos Community Services District  
Schedule of Prior Fiscal Year Findings and Responses  
June 30, 2018**

**Finding 2017-3  
Payroll**

**Criteria:**

All employee pay rates should be reported on the Board approved Salary Schedule.

**Condition:**

During our testing of payroll controls and processes, we found that upon reorganization of the District employment structure, two employees were promoted to positions not included in the most recent step-and-range schedule. The promotions were Board approved, however, no updated step-and-range schedule was/has been created to include their new positions. Both were paid beyond the step-and-range agreement.

**Cause:**

District oversight.

**Effect:**

Possible misappropriation of funds in not paying employees based off of the official Board approved salary schedule.

**Recommendation:**

Ensure that a new Salary Schedule is created and approved by the Board for any District reorganization that creates new positions and/or new pay rates.

**Current Status:**

Implemented.