

MADISON COMMUNITY SERVICE DISTRICT

MANAGEMENT LETTER

**YEARS ENDED JUNE 30, 2013, JUNE 30, 2014,
JUNE 30, 2015, AND JUNE 30, 2016**



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

To the Board of Directors
Madison Community Service District
Madison, California

In planning and performing our audit of the financial statements of the Madison Community Service District (District), as of and for the years ended June 30, 2013, June 30, 2014, June 30, 2015, and June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing 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.

During our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses that are opportunities for strengthening internal controls and operating efficiency. The observations and recommendations are summarized below. This letter does not affect our report dated June 6, 2019, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

1) SEGREGATION OF DUTIES – BILLING AND CASH RECEIPTS

OBSERVATION:

Proper segregation of duties provides for a system of checks and balances such that the function of one employee are subject to review through the performance of the interrelated functions of another employee.

Through our inquiries with District management and observation of internal controls and processes related to the recording of cash receipt activities for fiscal years ended June 30, 2013, June 30, 2014, June 30, 2015, and June 30, 2016, we observed that one individual was responsible for preparing customer billings for utility services, including calculation of amounts due, receiving payments and recording of customer payments. Additionally, we found that this individual was also responsible for determining their own amounts due and payment for utility services provided to this individual.

RECOMMENDATION:

We recommend that the District establish procedures to segregate the responsibility of billing, collection, and recording of customer payments or to establish a system of internal controls to ensure that review is performed by a separate individual.

MANAGEMENT'S RESPONSE:

Beginning in July fiscal year 16/17 the service district eliminated the bookkeeper/secretary position.

All billing was transferred to Esparto CSD. Madison now pays a set fee for these services. No one employed at ECSD are residents of Madison. ECSD provides a monthly billing report at the beginning of each month including a shutoff list. There is no formal policy in place at the moment but MCSD plans to establish that policy sometime during the 19/20 fiscal year.

2) SEGREGATION OF DUTIES – PAYROLL AND HUMAN RESOURCES

OBSERVATION:

Proper segregation of duties provides for a system of checks and balances such that the function of one employee are subject to review through the performance of the interrelated functions of another employee.

Through our inquiries with District management, during the fiscal year 2015 and 2016, we found that one individual is responsible for recording changes, including creation of temporary/extra help employees and modifying of pay rates, including the rates for their own pay rate.

RECOMMENDATION:

We recommend that the District establish procedures to segregate the responsibility of recording changes to payroll and human resources systems or to establish a system of internal controls to ensure that review is performed by a separate individual.

MANAGEMENT'S RESPONSE:

Beginning in July fiscal year 16/17 the service district eliminated the bookkeeper/secretary position. This person no longer is in control of those tasks. The General manager has assumed those responsibilities.

MCSD is working on establishing policy regarding the sole responsibility of the GM. MCSD plans to make changes to board policy that make the Chairman responsible for oversight of GM's hires and established pay rate in regards to temporary/extra help. The entire board however is responsible to modify, change and oversee the GM's own Pay structure. The district plans to establish board policy that part of the financial report will be review of the payroll biannually. MCSD plans to do this during the fiscal year of 19/20

3) CAPITAL ASSETS

OBSERVATION:

Through our inquiries with District management and the result of procedures performed over the District's capital asset activities for the fiscal years ended June 30, 2013, June 30, 2014, June 30, 2015, and June 30, 2016, we observed that the District does not have procedures in place to reconcile/inventory the District's reported capital assets to existing assets and properties to ensure the existence and completeness of the District's capital asset balances.

RECOMMENDATION:

We recommend that the District establish procedures to reconcile and inventory the District's capital asset balances against asset records to ensure that reported capital assets in the name of the District exist and are complete.

MANAGEMENT'S RESPONSE:

Starting in fiscal year 18/19 MCSD retained the services of a retired auditor/controller to assist with audits and year end reconciliation including monitoring capital assets. MCSD plans to establish policy regarding capital assets in fiscal year 19/20.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the District gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
June 6, 2019