

**RIO LINDA
RECREATION & PARK DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2021**

RIO LINDA RECREATION & PARK DISTRICT

Management Report
For the Year Ended June 30, 2021

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Board of Directors of the
Rio Linda Recreation & Park District
Rio Linda, California

In planning and performing our audit of the financial statements of the Rio Linda Recreation & Park District for the year ended June 30, 2021, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience or to perform any additional study of these matters. We thank the District's staff for its cooperation on this audit.

Fechter & Company
Certified Public Accountants



Sacramento, California
December 21, 2021

RIO LINDA RECREATION & PARK DISTRICT
Required Communications
For the Year Ended June 30, 2021

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 22, 2021, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Internal Control Related Matters

In any smaller entity, whether private enterprise or a governmental agency, the lack of segregation of duties can present potential issues in regards to the perpetuation and concealment of fraud. Even with a perfect segregation of duties frauds can be perpetuated and concealed. The District can perform some specific control procedures to help reduce the risk of fraud, however. Some of the controls would include:

- Having someone independent of the bank reconciliation function review the bank statements on a monthly basis. The District's current process includes this function and will continue to do this on a monthly basis.
- Examining financial statements on a monthly basis at the management and department levels. The District's current process includes this function and will continue to do this on a monthly basis.
- Examining a budget to actual report on a frequent basis. The District's current process includes this function and will continue to do this on a monthly basis.
- Comparing the financial statements on a detailed level to the prior year on a frequent basis. The District's current process includes this function and will continue to do so.

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- Having someone independent of the payroll process review payroll on a bi-weekly basis, checking for accuracy of pay rates, paid time off recorded, etc. The District’s current process includes this function and will continue to do this on a semi-monthly basis.
- Verifying that a second person is approving all disbursement activity and that an individual independent of the accounting function is signing checks and asking questions about invoices presented for payment. The District’s current process includes this function and will continue to do so.
- Frequently displaying “professional skepticism” when considering staff responses on District finances. The District’s current process includes this function and will continue to do so.

California Government Code Section 12422.5 requires the State Controller’s office to develop internal control guidelines applicable to each local agency by January 1, 2015. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. To this end, the State Controller’s Office has produced a draft of control guidelines for local Agencies. As the District contemplates changes to its system of internal control, we advise in utilizing these guidelines when developing internal procedures to assist with your internal control processes.

The State Controller’s office has defined internal controls into five components that work together in an integrated framework. Their guidelines were adopted from the definitions and descriptions contained in *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The components are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

Control environment is the set of standards, processes, and structures that provided the basis for carrying out internal control across the entity. The governing board and management establish the “tone at the top” regarding the importance of internal control, including expected standards of conduct which then cascade down through the various levels of the organization and have a strong effect on the overall system of internal control.

A District’s *Risk Assessment* process includes how management identifies risks (including fraud risk) relevant to the preparation and fair presentation of the financial statements in accordance with the District’s applicable financial reporting framework. In addition, this would also involve areas of business and operational risk which could potentially affect the District’s finances on a go-forward basis.

The District’s risk assessment process is an extremely important activity the board and management should undertake. Every organization, public or private, faces business risks on a day to day basis. Identifying those risks and then acting on them in a timely manner may prevent future problems from becoming completely unmanageable.

Management should consistently attempt to identify risks that exist and then present those risks to the board for action. It is impossible for us to identify every potential risk that exists but either way,

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management and the board should proactively attempt to identify risks that could adversely affect the District's operations.

Control Activities are in reference to establishing policies and procedures that achieve management directives and respond to identified risks in the internal control system. These are specific procedures designed to perform a secondary review of internal processes that will allow for segregation of duties and a management level review of processed transactions.

Information and Communication are the District's methods of identifying what information is relevant to present to management and the board to assist the District in making the correct decisions. It also is in reference to the District's internal processes of gathering and summarizing that information.

Monitoring involves evaluating the effectiveness of controls on an on-going basis and taking remedial actions when necessary when identified by the other control procedures in place. On-going monitoring activities often are built into the normal recurring activities of a local government and include regular management and supervisory activities.

There is no catch-all for finding all instances of fraud within any entity, whether public or private. One of the key factors in helping prevent fraud is to encourage ethical behavior at all levels of the organization, i.e., "tone at the top". Another key would be to note instances of abnormal behavior of finance or accounting staff when questioned about District financial matters.

The District should remember that they have outside resources available in the case of fraud – they are able to contact District auditor, their attorney, or county auditor-controller should anyone feel there is a chance of fraud or abuse.

Accounting Estimates

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 estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences.
- Capital asset lives and depreciation expense.

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Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the District's financial reporting process:

- Posting of all GASB 34 entries on behalf of the district.
- Assisting the District in preparing the closing entries on accruals and truing up year-end cash accounts for financial reporting purposes.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

Consultations with Other Independent Auditors

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.

Issues Discussed Prior to Retention of Independent Auditors

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 auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

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Audit Recommendations
For the Year Ended June 30, 2021

Current Year Finding 15-1 –

We noted the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We have noted this comment in previous audits.

Recommendation: The District should attempt to segregate accounting functions to the greatest extent possible. The Board of Directors also plays a more vital oversight role in reviewing and authorizing accounting records such as cash disbursements, cash receipts, cash transfers, account write-offs, payroll, and monthly bank reconciliations. The District could also consider hiring an outside consultant to review the current segregation of incompatible duties to determine the cost of correcting the weakness.

Current year follow-up: No significant changes to internal controls as previously discussed with the District manager and accountant. We will review this on an ongoing basis with them.

Current Year Finding 15-2–

During our audit, we noted the District did not have a written financial and accounting policy/manual that included internal control procedures. The District should create the financial and accounting policies that demonstrate how transactions are processed from beginning to end. The policy should include the processes for internal controls that are designed to provide reasonable assurance that objectives related to effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations are met. This also should include documenting controls over processing transactions, authorizing transactions and for maintaining and safeguarding assets.

The District also relies on the external auditor to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No. 122 external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence. The District is limited in preparing GAAP financial statements because the County of Sacramento closes their books in mid-July which does not give the District sufficient time to process all year end closing entries. We have noted this comment in previous audits.

Current year follow up: No change. We will continue to discuss these matters with management on an annual basis.

The District's response is as follows: The District does not prepare financial statements. The County of Sacramento prepares all financial statements required for the District through their Compass bookkeeping/accounting program. The District has access to that information on a daily basis and aligns itself with County financial and accounting procedures.