



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 (the District), as of and for the fiscal year ended June 30, 2019, 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 December 4, 2019.

**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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (finding 2019-1).

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

### **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, Reny & Hartgrain LLP*

Santa Maria, California

December 4, 2019

**Finding 2019-1**  
**Employee Reimbursement and Credit Card Usage**

**Criteria:**

All employee reimbursements and District credit card usage requires itemized receipts for meal purchases and all purchases should be approved by appropriate personnel other than the purchaser.

**Condition:**

During our testing, we noted one instance where an itemized receipt was not retained and submitted for reimbursement for a meal purchase and another instance where a credit card holder was the only approval signature for their own purchase.

**Cause:**

District oversight.

**Effect:**

The potential for misappropriation of assets.

**Recommendation:**

The District should ensure policies are established and enforced requiring itemized meal receipts and that all employee reimbursements and credit card purchases are approved by appropriate personnel who did not make the purchase. These controls are important to limit District liability and ensure that purchases are proper usage of District funds.

**District's Corrective Action Plan:**

Procedures will be added to the District's Purchasing Policy under the Credit Card Use section to ensure itemized receipts are submitted and are approved by the appropriate personnel. District staff will be appropriately trained and checked for compliance.

Prior to the adoption of the amended Purchasing Policy by the Board of Directors, the District Staff will implement this policy immediately requiring itemized meal receipts and that all reimbursement and/or credit card purchases are approved and dual signed by employee and supervisor or authorized personnel.

**Los Osos Community Services District  
Schedule of Prior Fiscal Year Findings and Responses  
June 30, 2019**

**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 2019.

**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.

**Current Status:**

Implemented.

**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, 2019.

**Condition:**

No count of inventory on hand was done at fiscal year end. The District did take an inventory count in October 2019. 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, 2019 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.

**Current Status:**

Implemented.



December 4, 2019

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, 2019. 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 April 17, 2019. 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) liability and deferred inflows and outflows related to OPEB are based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the OPEB liability and deferred inflows and outflows related to OPEB 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 and OPEB in Notes 7 and 8.

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 December 4, 2019.

### *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, Levy & Haugheim LLP*

Santa Maria, California