

SIERRA FOOTHILLS PUBLIC UTILITIES DISTRICT

Audit Report

July 1, 2010, through June 30, 2012



JOHN CHIANG
California State Controller

December 2014



JOHN CHIANG
California State Controller

December 29, 2014

Thomas Skinner, General Manager
Sierra Foothills Public Utilities District
1625 Howard Road #387
Madera CA 93637

Dear Mr. Skinner:

Enclosed is the report of the State Controller's Office (SCO) review of the Sierra Foothills Public Utilities District administrative and internal accounting controls. The review was conducted to assess the adequacy of the district's controls to safeguard public assets and to ensure proper use of public funds. Our review was limited to the district's administrative and internal accounting controls.

Our review identified that, under the direction of the former General Manager and the Secretary to the Board, controls were nonexistent and no compensating controls were in place to mitigate risks associated with lack of controls. Our review was limited to reviewing and assessing the following:

- Compliance with Government Code section 12464(a)
- Internal control components and elements
- Tests of selected transactions

Additionally, we found that the district's Financial Transactions Reports and Compensation Reports that are required to be completed and filed with the State Controller's Office have been consistently delinquent and/or remain outstanding. See the Findings and Recommendations section of the report – Noncompliance with Government Code section 12464(a).

As part of the review, we selected 79 internal control elements based primarily on guidance by the General Accounting Office's Internal Control Management and Evaluation tool. Of the 79 control elements evaluated pertaining to internal control components, we found that:

- 71 control elements were nonexistent and/or deficient, and without any compensating controls in place to address these deficiencies; and
- 8 control elements were not applicable due to the small size of the district.

We found that Sierra Foothills Public Utilities District did not have a policy and procedures manual. Additionally, we found that the district's administrative and internal accounting controls were nonexistent and/or grossly deficient and that the district had no compensating controls in place to mitigate risks associated with deficient controls. As a result of these deficiencies, lack of oversight, and lack of compensating controls, there was potential for abusive practices, including fraud, forgery, and embezzlement of district funds by key staff. It appears that the Board failed to exercise its fiduciary responsibility to oversee and ensure that the district's finances were in order.

The results of our review and evaluation of the elements of internal control are included in this report as an Appendix. Our assessments of the elements were based on the conditions that existed during our review of fiscal year (FY) 2010-11 and FY 2011-12. As necessary, we expanded our review to include prior and current transactions to follow-up on issues identified through interviews of district officials, reports, and other available information.

Please note that the current General Manager (GM) is working diligently to make positive changes to reconstruct the district's records and to keep the district operating. Additionally, the GM is in the process of obtaining financial information, such as bank records and ledgers, to reconstruct the district's records for prior periods.

As always, my staff and I are available to address your questions. You may contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-6984 or by email at mspalj@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/kw

cc: David Brodie, Consultant
Sierra Foothills Public Utilities District
Dennes Coombs, Board Member
Sierra Foothills Public Utilities District
Timothy Blagan, Board Member
Sierra Foothills, Public Utilities District

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Review Report

Introduction

The State Controller's Office (SCO) reviewed the Sierra Foothills Public Utilities District's system of administrative and internal accounting controls for the period of July 1, 2010, through June 30, 2012 (fiscal years [FY] 2010-11 and FY 2011-12). As necessary, we followed up on issues identified through interviews of district officials, reports, and other available information.

On October 16, 2013, our office sent a letter notifying the district that a review of State Controller's records indicate outstanding Financial Transactions Reports (FTRs) and Compensation Reports (CRs) for FY 2010-11 and FY 2011-12.

Government Code (GC) section 53891 requires the officer of each local agency to submit these reports to the SCO annually. These reports include important disclosures that are necessary to provide state and local decision makers – as well as taxpayers – with the basic data necessary to monitor the financial health of governmental agencies.

Additionally, our letter indicated that if the past-due reports were not received by December 31, 2013, our office would seek to obtain these reports through Government Code section 12464(a).

GC section 12464(a) prescribes that if district reports are not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect, the Controller shall appoint a qualified accountant to make an investigation and to obtain the information required.

On January 23, 2014, our office followed up with another letter notifying the district of the outstanding FTRs and CRs and that, pursuant to GC 12464(a), our office would perform an investigation (review) of the internal management and spending controls.

This report presents the results of findings and conclusions reached in our review of the district's administrative and internal accounting controls.

Background

The Sierra Foothills Public Utilities District is located in the southern third of the Rio Mesa planning area in southeastern Madera County. Situated along the northwestern edge of the San Joaquin River, the district lies east of State Route 41 and is approximately two miles north of the development edge of the City of Fresno.

The district's formation was approved by the Local Agency Formation Commission and approved by the Madera County Board of Supervisors in accordance with its Resolution No. 98-229, pursuant to Government Code Section 56000, et seq. and the Public Utility Code Section 15501, et seq. On December 28, 1998, a resolution was filed by the Secretary of State ordering the formation of the district and its incorporation in the State of California as a Public Utility District, pursuant to Public Utility Code Section 15795.

The district was created for the purpose of providing public infrastructure facilities and services to the Rio Mesa Avenue 12 Village master planned community. The Rio Mesa Area Plan is comprised of three villages, allowing for the development of 30,000 homes with as many as 110,000 residents, two championship golf courses, a conference-center hotel, an office park, and a community shopping center.

The district owned, operated, and eventually leased, to an independent operator, the Riverbend Golf Course. Since the community was not built as planned, the district's only activity was the golf course. The district recently transferred the golf course's ownership due to a court order.

Currently, the district does not generate any income and therefore the current General Manager is working pro-bono until such time that the district's Board decides whether the district should continue its existence.

Objective, Scope, and Methodology

The objective of this review was to evaluate the district's system of administrative and internal accounting controls to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguard of public resources.

To accomplish our objective, we performed the following procedures:

- Evaluated the district's formal written internal policies and procedures;
- Conducted interviews with the district's current General Manager about the district's business operations for the purpose of evaluating district-wide administrative and internal accounting controls;
- Inquired about the district's documentation and supporting financial records;
- On a limited basis, attempted to perform tests of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls; and
- Assessed various aspects of the district's internal control components and elements in accordance with guidelines established by the General Accounting Office.

Conclusion

We found that the Sierra Foothills Public Utilities District did not have a policy and procedures manual. Additionally, we found that the district's internal controls and processes were nonexistent and/or grossly deficient and that the district did not have any compensating controls in place to mitigate risks associated with deficient controls. For example, since the district's inception, no external audit has been performed. As a result of these deficiencies, lack of oversight, and lack of compensating controls,

there was potential for abusive practices, including fraud, forgery, and embezzlement of district funds by key staff. Due to the lack of controls, the Board failed to exercise its fiduciary responsibility to oversee and ensure that the district's finances were in order.

As part of our review, we also made an assessment of various aspects of the district's internal control components and elements based on guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool. As part of our assessment, we found that:

- 71 control elements were nonexistent and/or deficient, and without any compensating controls in place to address these deficiencies; and
- 8 control elements were not applicable due to the small size of the district.

The results of our review and evaluation of elements on internal control are included in this report as an Appendix.

Please note that the current General Manager (GM) is working diligently to make positive changes to reconstruct the district's records and to keep the district operating. Additionally, the GM is in the process of obtaining financial information, such as bank records and ledgers, to reconstruct the district's records for prior periods.

Views of Responsible Officials

We issued a draft report on September 8, 2014. Thomas Skinner, General Manager, responded by letter dated September 12, 2014, agreeing with our findings. The district's response is included in the report as an attachment.

Restricted Use

This report is solely for the information and use of the Sierra Foothills Public Utilities District and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 29, 2014

Findings and Recommendations

Noncompliance with Government Code section 12464(a)

Pursuant to Government Code (GC) section 12464(a), our review determined the following reporting issues:

The Sierra Foothills Public Utilities District Financial Transactions Reports (FTR) and Compensation Reports (CR) that are required to be completed and filed with the State Controller's Office (SCO) have been consistently delinquent and/or remain outstanding as follows:

Financial Transactions Reports (FTR) for Sierra Foothills Public Utilities District

<u>Fiscal Year</u>	<u>Report Received</u>	<u>Date Received</u>	<u>Report Due Date</u>	<u>No. of Months Late</u>
2000-01	Delinquent	11/15/02	10/18/01	13
2001-02	Outstanding	---	10/18/02	142
2002-03	Outstanding	---	10/18/03	130
2003-04	Outstanding	---	10/18/04	118
2004-05	Outstanding	---	10/18/05	106
2005-06	Outstanding	---	10/18/06	94
2006-07	Outstanding	---	10/18/07	82
2007-08	Outstanding	---	10/18/08	70
2008-09	Outstanding	---	10/18/09	58
2009-10	Outstanding	---	10/18/10	46
2010-11	Delinquent	05/29/14	10/18/11	31
2011-12	Delinquent	05/29/14	10/18/12	19
2012-13	Delinquent	05/29/14	10/18/13	7

Compensation Reports (CR) for Sierra Foothills Public Utilities District

<u>Calendar Year</u>	<u>Report Received</u>	<u>Date Received</u>	<u>Report Due Date</u>	<u>No. of Months Late</u>
2009	Delinquent	---	10/18/09	58
2010	Delinquent	06/16/14	10/18/10	44
2011	Delinquent	06/16/14	10/18/11	32
2012	Delinquent	07/07/14	10/18/12	21
2013	Delinquent	07/07/14	10/18/13	9

Finding

Beginning with fiscal year (FY) 2000-01, the district has filed only four of the required 13 FTRs with the SCO. Additionally, for FY 2001-02 through FY 2009-10, these nine FTRs and one CR remain outstanding.

GC section 53891 requires the officer of each local agency who has charge of the financial records to furnish to the Controller a report of all the financial transactions of the local agency during the preceding fiscal

year. The report shall be furnished within 90 days after the close of each fiscal year and 110 days if the report is filed in electronic format.

GC section 53895 imposes a fine (\$1,000, \$2,500, or \$5,000 – depending on the prior year's total revenue) for failure or refusal to make and file a report within 20 days after receipt of a written notice from the Controller.

In addition to the above delinquency and outstanding reports, the following reporting issues were also noted for the district's FTRs for FY 2010-11 and FY 2011-12.

- Reported expenditures per the Revenues, Expenditures, Sources and Uses schedule does not add; and
- Long term debt is classified in error as Loan and Notes Payable.

Recommendation

The district's FTRs should be prepared accurately and submitted to the SCO timely (on or before the required due dates). If the district is unable to meet the statutory deadline, the district should notify the SCO. Failure to file required reports are subject to forfeit of funds to the State.

Additionally, the district's Board should work with the district's General Manager to ensure that controls are in place to effectively monitor and ensure the timely preparation and submittal of these statutorily required reports.

Results of Internal Control Components and Elements

As part of our review, we made an assessment of various aspects of the district's internal control components and elements based on guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool.

Of the 79 control elements evaluated pertaining to internal control components, we found that:

- 71 control elements were nonexistent and/or deficient, and without any compensating controls in place to address these deficiencies; and
- 8 control elements were not applicable due to the small size of the district.

The results of our review and evaluation of elements on internal control are included in this report as an Appendix.

Finding

Our review found that the district's internal controls regarding the above processes were nonexistent and/or deficient and that the district did not have any compensating controls in place to mitigate risks associated with deficient controls. Additionally, since the district's inception, no external audit has been performed.

As a result of these deficiencies, lack of oversight, and lack of compensating controls, the district is at risk of abusive practices, including fraud, forgery, and embezzlement of district funds by key staff.

The Board failed to exercise its fiduciary responsibility to oversee and ensure that the district's finances were in order.

Recommendation

The district should have an independent audit of the district's prior finances to:

- Determine whether improprieties existed with the district and take appropriate actions to correct; and
- Ensure beginning balances have been carried forward accurately.

The district should refer to the California Special District Association's manual to develop a comprehensive remedial plan to address the deficiencies noted in the Appendix – Evaluation of Elements of Internal Control.

Internal management and spending controls should be established and implemented to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguarding of public resources.

Results from Tests of Selected Transactions

Finding

Tests of selected transactions were not performed because:

- The district could not provide financial information and documents for the period under review;
- General ledgers (Quickbooks) provided by the district have not been confirmed to source documents such as cancelled checks, bank statements, etc.; and
- Board minutes for the period under review were not made available for review.

Additionally, the district has not had an independent audit since its formation. Therefore, without an independent verification of district records, there is no assurance that financial information reported by the district is accurate.

Recommendation

The district should take appropriate corrective action to reconstruct district records and have an independent audit performed to ensure that financial information is adequately and accurately presented.

Observation

Since the district's formation in fiscal year 1999-2000, the District has not acted on or provided services for which it was established. The district was created for the purpose of providing public infrastructure facilities and services to future homes and a golf course within a planned community. However, due to the economic downturn, only a few homes were built. Without housing, the district focused its operations on the Riverbend Golf Course. There was no clear distinction between the operation and administration of the district and the golf course.

Our limited review of the general ledgers reflected that most of the financial activity was related to the golf course with lease payments to the district. The arrangement between the district and the golf course, including employees and expenditures, was not clearly defined. The district was managed by the former General Manager and a part-time Board Secretary. The Secretary was employed by, and her husband managed, the golf course. It appears that the husband/wife team had significant influence over the operation and administration of the district and the golf course. Due to a recent court order, the Riverbend Golf Course is no longer part of the district. Therefore, the district does not have any means to generate revenue.

The current General Manager is in the process of reconstructing the district's records. Due to lack of sufficient financial and other records we could not determine if the arrangement between the district and the golf course was beneficial to the district.

Recommendation

The district's Board members should work with the County's Local Agency Formation Commission to review and make a determination whether or not to continue operating the district.

**Appendix—
Sierra Foothills Public Utilities District
Evaluation of Elements of Internal Control
Fiscal Years 2010-11 and 2011-12**

Management Oversight and Control (Control Environment)		YES	NO	COMMENTS
Control Environment				
A1. Integrity and Ethical Values				
	a. Are code of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards to ethical and moral behavior established and communicated to all District management and employees?		X	The district does not have an approved policies and procedures manual. Additionally, the district was not able to provide any written documentation relating to the district's operations and organizational structure.
	b. Is the reasonable management attitude of "Tone at the Top" established and communicated to District management and staff?		X	See above comment – A1(a).
	c. Is everyday interaction with vendors, clients, auditors, and other parties based on honesty and fairness?		X	See above comment – A1(a).
	d. Is appropriate remedial action taken in response to non-compliance?		X	See above comment – A1(a).
	e. Is management appropriately addressing intervention or overriding established controls?		X	See above comment – A1(a).
A2. Commitment to Competence				
	a. Is management identifying and defining the tasks required to accomplish particular jobs and fill - various positions?		X	The district's former General Manager (GM) did not adhere to any of the Commitment to Competence elements. Additionally, the former board members were not involved in identifying and defining job classifications for the district.
	b. Does the District conduct appropriate analysis of the knowledge, skills, and abilities needed to perform job assignments?		X	See above comment – A2(a).
	c. Is the District providing training and counseling in order to help employees maintain and improve their job competence?		X	See above comment – A2(a).

A3. Audit Committee			
a. Does the District have an audit committee that is appropriate for the size and nature of the entity?			N/A - The district is too small to have an audit committee and no compensating controls were in place to address issues related to financial reporting for the district. Additionally, since inception (FY 1999-2000), the district has not had an independent audit of its records.
b. Are members of the audit committee independent from the District management?			N/A – See above comment – A3(a).
c. Do audit committee members have sufficient knowledge, experience, and time to serve effectively?			N/A – See above comment – A3(a).
d. Does the audit committee meet regularly to set policies and objectives, review the District’s performance, and take appropriate actions; and are minutes of such meetings prepared and signed on timely basis?			N/A – See above comment – A3(a).
e. Do the members of the audit committee regularly receive the information they need to monitor management’s objectives and strategies?			N/A – See above comment – A3(a).
f. Does the audit committee review the scope and activities of the internal and external auditors?			N/A – See above comment – A3(a).
g. Does the audit committee meet privately with the Chief Financial Officer/and or accounting officers, internal auditors, and external auditors to discuss the reasonableness of the financial reporting process, the system of internal control, significant comments or recommendations, and management performance?			N/A – See above comment – A3(a).
h. Does the audit committee take actions as a result of its audit findings?			N/A – See above comment – A3(a).
A4. Management Philosophy and Operating Style			
a. Is management conservative in accepting risks, and does management move carefully, and proceed only after careful evaluation?		X	The district’s Board relied on the former GM and the Secretary to the Board to oversee all financial matters. Additionally, no compensating controls were in place to review and evaluate any decisions made by the former GM.
b. Are procedures or activities in place to regularly educate and communicate to management and employees the importance of internal controls and to raise the level of understanding control?		X	See above comment – A4(a).
c. Is personnel turnover in key functions at an acceptable level?		X	See above comment – A4(a).

	d. Does management have a positive and supportive attitude towards internal control and audit functions?		X	See above comment – A4(a).
	e. Are valuable assets and information safeguarded from unauthorized access or use?		X	See above comment – A4(a).
	f. Are there frequent interactions of senior management and operation management?		X	See above comment – A4(a).
	g. Is management attitude appropriate towards financial, budgetary and other operational reporting?		X	See above comment – A4(a).
A5. Organizational Structure				
	a. Is the District’s organizational structure appropriate for its size and the nature of its operation?		X	The district does not have an organizational chart nor does documentation exist to identify key areas of authority and responsibility.
	b. Are key areas of authority and responsibility defined and communicated throughout the organization?		X	See above comment – A5(a).
	c. Have appropriate and clear reporting relationships been established?		X	See above comment – A5(a).
	d. Does management periodically evaluate the organization’s structure and make changes as necessary in fluctuating conditions?		X	See above comment – A5(a).
	e. Does the District employ an appropriate number of employees, particularly in managerial positions?		X	See above comment – A5(a).
A6. Assignment of authority and responsibility				
	a. Is the District appropriately assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives?		X	The former Board assigned all financial reporting responsibilities to the former GM without any oversight or independent review.
	b. Does each employee know how his or her work interrelates to others in the way in which authority and responsibility are assigned, and how duties are related concerning internal control?		X	See above comment – A6(a).
	c. Is delegation of authority appropriate in relation to the assignment of responsibility?		X	See above comment – A6(a).

A7. Human Resources policies and practices			
a. Are policies and procedures established for hiring, training, and promoting employees and management?		X	The district does not have a policies and procedures manual nor does any documentation exist to support policies relating to hiring, training, and promotion of employees and management.
b. Are background checks conducted on candidates for employment?		X	See above comment – A7(a).
c. Are employees provided the proper amount of supervision?		X	See above comment – A7(a).
Risk Assessment			
B1. Establishment of Entity-wide Objectives			
a. Are there entity-wide objectives that were established by management?		X	The district was not able to provide any documentation relating to entity-wide objectives.
b. Are District-wide objectives clearly communicated to all employees, and does management obtain feedback signifying that communication has been effective?		X	See above comment – B1(a).
c. Is there a relationship and consistency between the department’s operational strategies and the District-wide objectives?		X	See above comment – B1(a).
d. Is there an integrated management strategy and risk assessment plan that considers the District-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks?		X	See above comment – B1(a).
B2. Risk Identification			
a. Is management appropriately and comprehensively identifying risk using various methodologies?		X	The former GM was solely responsible for risk identification and communicating risk factors to the Board. The district did not receive any independent input from district staff or other sources. Also, no compensating controls were in place to evaluate and identify risk.
b. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives?		X	See above comment – B2(a).
c. Do adequate mechanisms exist to identify risks to the District arising from external factors?		X	See above comment – B2(a).

	d. Is management assessing other factors that may contribute to or increase the risk to which the District is exposed?		X	See above comment – B2(a).
	e. Is management identifying risks District-wide and for each significant activity level of the District?		X	See above comment – B2(a).
B3. Risk Analysis				
	a. After risks to the District have been identified, does management undertake a thorough and complete analysis of the possible effect?		X	The district was not able to provide any documentation relating to risk analysis. Additionally, no compensating controls were in place to ensure that risks were identified and analyzed.
	b. Has management developed an approach for risk management and control based on how much risk can be prudently accepted?		X	See above comment – B3(a).
Control Activities				
C1. Policies and Procedures (General Applications)				
	a. Do appropriate procedures, techniques, and mechanisms exist with respect to each District’s activities?		X	The district does not have a policies and procedures manual relating to general applications. Additionally, no documentation exists to ensure that control activities relating to general applications were practiced by management.
	b. Are the control activities identified as necessary in place and being applied?		X	See above comment – C1(a).
	c. Are control activities regularly evaluated to ensure that they are still appropriate and working as intended?		X	See above comment – C1(a).
C2. Common Categories of Control Activities				
	a. Are top level reviews made of actual performance relative to budgets, forecasts, and prior periods?		X	Due to the small size of the district, major control activities relative to budgets and actual expenditures were handled by the former GM. The former GM did not adhere to any of the control activity elements and the district did not have any compensating controls in place to review, evaluate, and follow-up on whether control activities were performed.
	b. Do managers review performance reports?		X	See above comment – C2(a).
	c. For information processing, are varieties of controls in place for performing check accuracy, completeness, and authorization of transactions?		X	See above comment – C2(a).

	d. Are controlled items periodically counted and compared to amounts shown on control records?		X	See above comment – C2(a).
	e. For performance indicators, does management compare different sets of data and investigate differences?		X	See above comment – C2(a).
	f. Are duties properly segregated among different people to reduce the risk or error or inappropriate actions?		X	See above comment – C2(a).
	g. Are administrative and operation policies in writing, current, and do they set clear procedures for compliance?		X	See above comment – C2(a).
Information and Communication				
D1.	Information			
	a. Are mechanisms in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes?		X	The district’s former GM was responsible for providing financial reports to the district’s Board. Financial audits as well as required financial reports were not prepared and the district did not have any compensating controls in place to address reporting issues.
	b. Is information provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively?		X	See above comment – D1(a).
	c. Is development or revision of information systems based on the strategic plan linked to the entity’s overall strategy, and is it responsive to achieving District-wide objectives?		X	See above comment – D1(a).
	d. Does management support the development of necessary information systems and show its support by committing appropriate resources.		X	See above comment – D1(a).
D2.	Communications			
	a. Does management ensure that effective internal communications occur?		X	The district’s former GM did not practice effective internal communications with the district’s board and management and the district did not have any compensating controls in place to address this deficiency.
	b. Does management ensure that effective external communication occurs regarding issues with serious impact on programs, projects and other activities?		X	See above comment – D2(a).
	c. Does the District employ various forms and means of communicating important information with employee and others?		X	See above comment – D2(a).

	d. Does the District manage, develop, and revise its information systems in an effort to continually improve usefulness and reliability?		X	See above comment – D2(a).
Monitoring				
E1. On-going monitoring				
	a. Does management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations?		X	The former GM was responsible for providing monitoring of district activities as well as communicating district financial matters to the Board and management. The district did not have any compensating controls in place to ensure that effective ongoing monitoring was being performed.
	b. Do District personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly?		X	See above comment – E1(a).
	c. Are communications from external parties corroborated with internally generated data and able to indicate problems with internal control?		X	See above comment – E1(a).
	d. Is there appropriate organizational structure and supervision to help provide oversight of internal control functions?		X	See above comment – E1(a).
	e. Are data recorded by information and financial systems periodically compared with physical assets and discrepancies?		X	See above comment – E1(a).
	f. Are the District Auditor’s Office and other auditors regularly providing recommendations for improvements in internal control, and is management taking appropriate follow-up action?		X	See above comment – E1(a).
	g. Are meetings with employees used to provide management with feedback on whether internal control is effective?		X	See above comment – E1(a).
	h. Are employees’ regularly asked to state explicitly whether they comply with the District’s code of conduct?		X	See above comment – E1(a).
E2. Separate evaluation				
	a. Are the scope and frequency of separate internal control evaluations appropriate for the District?		X	The district’s former GM did not perform any internal control evaluations and the district did not have any compensating controls in place to address this deficiency.
	b. Are the methodologies for evaluating the District’s internal control logical and appropriate?		X	See above comment – E2(a).

	c. If the evaluations are conducted by the District Auditor's Office, does the office have sufficient resources, ability, and independence?		X	See above comment – E2(a).
	d. Are deficiencies found during separate evaluations promptly resolved?		X	See above comment – E2(a).
E3.	Reporting deficiencies			
	a. Are there means of obtaining reports of deficiencies from both internal and external sources?		X	The former GM withheld reporting information from the Board. Additionally, required financial transactions reports were not filed with the State Controller's Office from FY 2001-02 through FY 2009-10. The district did not have any compensating controls in place to address reporting functions.
	b. Is there ongoing monitoring of internal controls?		X	See above comment – E3(a).
	c. Are deficiencies reported to the person directly responsible and to a person at least one level higher?		X	See above comment – E3(a).
	d. Are the identified transactions or events investigated to determine causes and correct problems?		X	See above comment – E3(a).

**Attachment—
District's Response to
Draft Audit Report**

SIERRA FOOTHILLS PUBLIC UTILITY DISTRICT

43369 AVENUE 12
MADERA, CA 93638



September 12, 2014

Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874.

Dear Mr. Mar:

I have reviewed the draft report of the State Controller's Office (SCO) review of the Sierra Foothills Public Utilities District administrative and internal accounting controls. We acknowledge a time period of responding to this draft report and following is our response. Since the SFPUD Board will not again within the 10 day comment period, we will provide them with the draft report and our response at their next Board meeting.

In general the District agrees with the findings in the draft report; however it should be stressed that none of the funds generated by the District were public tax funds, rather revenue was generated from a District provided service (golf course). Nonetheless, we agree the District has a fiduciary responsibility in the handling of those funds. The report correctly points out that failures noted in the report were the actions of prior District Management and prior Board oversight.

We appreciate the recognition in the report of the efforts the current management of the District has made to bring current the Financial Transactions Reports (FTR) and Compensation Reports (CR) that were specifically requested by the SCO earlier this year. We also appreciate the notification in this report as to issues in the FTR's for FY 2010-11 and FY 2011-12. If those issues remain and the SCO recommends a correction be filed please notify us of such specific corrections.

The District acknowledges that a "policy and procedurals" manual is not currently known to exist for the District. The only manual that could be found was related to District employee practices. We also appreciate the reference to the California Special District Association's manual to begin addressing the deficiencies noted in Appendix A of the report. A policies and procedures manual identifying internal management and spending controls will be among the priority tasks of the District in the near term.

The District appreciates this opportunity to comment on the draft report, the ongoing discussions we have had with staff members of the State Controller's Office, their assistance in completing the challenges of becoming current with our reporting

responsibilities and their review of the Sierra Foothills Public Utilities District administrative and internal accounting controls.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

General Manager

Cc: Board Members
District Counsel

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