

**INDIAN VALLEY COMMUNITY  
SERVICES DISTRICT/INDIAN VALLEY  
AMBULANCE SERVICE AUTHORITY**

Audit Report

*July 1, 2010, through June 30, 2012*



**JOHN CHIANG**  
California State Controller

December 2014



**JOHN CHIANG**  
**California State Controller**

December 29, 2014

Jesse Lawson, General Manager/Chief Operator  
Indian Valley Community Services District/  
Indian Valley Ambulance Service Authority  
127 Crescent Street  
Greenville, CA 95947

Dear Mr. Lawson:

Enclosed is the report of the State Controller's Office (SCO) review of the Indian Valley community Services District's and Indian Valley Ambulance Service Authority's administrative and internal accounting controls. The review was conducted to assess the adequacy of the district's and authority's controls to safeguard public assets and to ensure proper use of public funds. Our review was limited to the district's and authority's administrative and internal accounting controls.

Our review identified control deficiencies to be so serious and pervasive, under the former General Manager, that compensating controls, if any, were overridden. 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 and authority's Financial Transactions Reports and Compensation Reports that are required to be completed and filed with the SCO 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 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.

Our review 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, the district's former General Manager was able to manipulate financial records for her benefit without the Board's knowledge, thereby perpetrating fraud, forgery, and embezzlement of district funds.

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, work of independent auditors, and other reports.

Please note that the current General Manager has started to make positive changes to processes that may alleviate some of the noted deficiencies. The most significant change is contracting with a consultant who provides financial services to the district with increase oversight by the Board, including reviewing, approving, and signing checks.

Currently, the General Manager mainly performs administrative and operational activities and oversees the district's financial transactions. Other positive changes include the following:

- Securing the issuance of four annual audits, two single audits and a forensic audit;
- Changing the process whereby the Bank Statements go directly to the Board and the Finance Committee (segregation of duties);
- Working with the California Special District Association to update the District's Policy Manual;
- Developing and implementing procedures to ensure that District's administrative and internal accounting controls are adequate to safeguard assets and to ensure proper use of District funds.

Due to significant deficiencies noted in this report, our office will conduct a follow-up review on our findings and recommendations with the district within 12 months of report issuance.

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 [m spalj@sco.ca.gov](mailto:m spalj@sco.ca.gov).

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audit

JVB/kw

Jesse Lawson,  
General Manager/Chief Operator

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December 29, 2014

cc: Brad Smith, Chairperson  
    Indian Valley Community Services District  
Mike Yost, Vice Chair  
    Indian Valley Community Services District  
Jane Braxton Little, Director  
    Indian Valley Community Services District  
Blake Shelters, Director  
    Indian Valley Community Services District  
Matt Cassol, Director  
    Indian Valley Community Services District  
Jeff Luke Titcomb, Office Manager  
    Indian Valley Community Services District  
    Indian Valley Ambulance Service Authority

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# Review Report

## Introduction

The State Controller's Office (SCO) reviewed the Indian Valley Community Services District's and Indian Valley Ambulance Service Authority's system of administrative and internal accounting controls for the period of July 1, 2010, through June 30, 2012 (fiscal year (FY) 2010-11 and FY 2011-12). The authority is a small Joint Powers Authority (JPA) between Indian Valley Health Care District and the district. The district's General Manager is also the authority's General Manager and the district administers and manages all of authority's financial matters. As such, our review was limited to the district's administrative and internal accounting controls. As necessary, we followed up on issues identified through interviews of district officials and through our review of the work of the independent auditors and other audit reports.

On October 16, 2013, our office sent a letter notifying the district and the authority that a review of SCO 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 and authority of the outstanding FTRs and CRs and stating that, pursuant to GC 12464(a), our office would perform an investigation (review) of the internal management and spending controls.

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

## **Background**

The Indian Valley Community Services District supplies water and sewer services to the communities of Greenville, Taylorsville, and Crescent Mills, California. The communities own this system of utilities and it benefits all of them. The district serves as the local government for Indian Valley. It is similar to a city government, supplying such services as fire protection, fresh water, street lighting, wastewater treatment, ambulance services, and recreational facilities. The district exists under California law governing special districts (Government Code, Sec 61000 et seq).

The Indian Valley Ambulance Service Authority is a small Joint Powers Agreement (JPA) between the Indian Valley Health Care District and the district to provide locally based 24/7 ambulance service through a contract with Mountain Life Flight Inc. Mountain Life Flight Inc. is a private company based in Susanville, California that provides ambulance services around the clock to all residents of Indian Valley. The ambulance is on standby in Greenville, California. The authority is governed by a five-member board representing each district and the community.

## **Objective, Scope, and Methodology**

The objective of this review was to evaluate the district's and authority'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 and authority's formal written internal policies and procedures;
- Conducted interviews with district and authority employees and observed the district's and authority's business operations for the purpose of evaluating district- and authority-wide administrative and internal accounting controls;
- Reviewed the district's and authority's documentation and supporting financial records;
- On a limited basis, performed 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 and authority's internal control components and elements in accordance with guidelines established by the General Accounting Office.

## Conclusion

We found that the Indian Valley Community Services District's policy manual was outdated and the District did not have a Procedures Manual. Also, policies and procedures were not followed by the former General Manager. Additionally, compensating controls, if any, were not practiced by the Board and/or were overridden by the former General Manager. Without compensating controls in place to mitigate risks associated with nonexistent controls, the district's former General Manager was able to perpetrate fraud, forgery, and embezzlement of district funds. The Board failed to exercise its fiduciary responsibility to oversee and ensure that the district's finances were in order.

The former General Manager was arrested in November 2013 and charged with fraud, forgery, and embezzlement, initially totaling \$381,841. In February 2014, the District Attorney increased the embezzlement amount to \$676,375.

According to the four-count criminal complaint, the former General Manager was accused of fraud, forgery, and embezzlement during her tenure from January 2007 through March 2012. The complaint stated that the former General Manager used a variety of methods to funnel money to herself, adding herself to the payroll, writing checks to herself while forging signatures of district Board members, and making unauthorized purchases with the district credit card by circumventing controls.

As part of our review, we also made an assessment of various aspects of the district's and authority'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 deficient and/or nonexistent, 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.

The current General Manager has started to make positive changes to processes that may alleviate some of the noted deficiencies. The most significant change is contracting with a consultant who provides financial services to the district. As such, most of the district's financial activities are handled by the consultant with significant oversight by the Board, including reviewing, approving, and signing the checks. Currently, the General Manager mainly performs administrative and operational activities and oversees the district's financial transactions.

Other positive changes include the following:

- Securing the issuance of four annual audits, two single audits and a forensic audit;



- Changing the process whereby the Bank Statements go directly to the Board and the Finance Committee (segregation of duties);
- Working with the California Special District Association to update the District's Policy Manual;
- Developing and implementing procedures to ensure that District's administrative and internal accounting controls are adequate to safeguard assets and to ensure proper use of District funds.

**Views of  
Responsible  
Officials**

We issued a draft report on September 8, 2014. Jesse Lawson, General Manager/Chief Operator responded by a Memorandum for Record on September 22, 2014, agreeing with the findings, and is working to correct all issues identified in the audit. District's response is included in the report as an attachment.

**Restricted Use**

This report is solely for the information and use of the Indian Valley Community Services District, the Indian Valley Ambulance Service Authority, 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)

### Finding

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

The Indian Valley Community Services District’s and Indian Valley Ambulance Service Authority’s 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 Indian Valley Community Services 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	02/27/02	10/18/01	4
2001-02	Delinquent	02/25/03	10/18/02	4
2002-03	Delinquent	01/26/04	10/18/03	3
2003-04	Delinquent	12/09/04	10/18/04	2
2009-10	Outstanding	—	10/18/10	46
2010-11	Delinquent	03/18/14	10/18/11	29
2011-12	Delinquent	04/04/14	10/18/12	18
2012-13	Delinquent	06/26/14	10/18/13	8

### **Compensation Report for Indian Valley Community Services 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	04/02/14	10/18/09	54
2010	Delinquent	04/22/14	10/18/10	42
2011	Delinquent	04/23/14	10/18/11	30
2012	Delinquent	04/23/14	10/18/12	18
2013	Outstanding	—	10/18/13	10

**Financial Transactions Report (FTR) for Indian Valley Ambulance Service Authority**

<u>Fiscal Year</u>	<u>Report Received</u>	<u>Date Received</u>	<u>Report Due Date</u>	<u>No. of Months Late</u>
1999-2000	Delinquent	12/04/00	10/18/00	2
2000-01	Delinquent	12/05/01	10/18/01	2
2001-02	Delinquent	02/05/03	10/18/02	4
2002-03	Delinquent	01/27/04	10/18/03	3
2003-04	Delinquent	11/24/04	10/18/04	1
2004-05	Delinquent	02/28/06	10/18/10	4
2010-11	Delinquent	04/03/14	10/18/11	30
2011-12	Delinquent	04/03/14	10/18/12	18
2012-13	Delinquent	07/02/14	10/18/13	9

**Compensation Report for Indian Valley Ambulance Service Authority**

<u>Calendar Year</u>	<u>Report Received</u>	<u>Date Received</u>	<u>Report Due Date</u>	<u>No. of Months Late</u>
2009	Outstanding	—	10/18/09	58
2010	Delinquent	04/02/14	10/18/10	42
2011	Delinquent	04/02/14	10/18/11	30
2012	Delinquent	04/02/14	10/18/12	18
2013	Outstanding	—	10/18/13	10

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, based on 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 delinquent and outstanding reports, the following reporting issues were also noted for the district's FTR for fiscal year (FY) 2011-12:

- Property tax revenues received by the County of Plumas were understated by \$182,883 (reported \$4,603 and allocated \$187,406);
- Long-term debt (debt revenue bonds) totaling \$1,776,153 was not reported; and
- Balance sheet amounts do not reconcile with the fund equity section of the report.

### Recommendation

The district's and authority's FTRs and CRs should be prepared accurately and submitted to the SCO in a timely manner (on or before the required due dates). If the district and authority are 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 and authority's Board of Directors should work with the 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 Controls and Elements**

Our review of the district's and authority's Administrative and Internal Accounting Controls focused on FY 2010-11 and FY 2011-12. However, we expanded our tests into prior and future periods as necessary to follow up on related issues.

As part of our review, we made an assessment of various aspects of the district's and authority'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 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 grossly deficient and that the district did not have any lack of compensating controls in place to mitigate risks associated with deficient controls. As a result of these deficiencies, lack of oversight, and compensating controls, the district's former General Manager was able to perpetrate fraud, forgery, and embezzlement of district funds. The Board failed to exercise its fiduciary responsibility to oversee and ensure that the District's finances were in order.

### Recommendation

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, implemented, and continually monitored 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 financial records and information for FY 2010-11 and FY 2011-12 was not available. Electronic records stored on the District computer's "hard drive" was destroyed and/or purged by the former General Manager.

Additionally, the former General Manager was indicted and charged with fraud, forgery, and embezzlement of funds totaling \$381,841. This amount was disclosed in the agreed-upon procedures report issued for the period of July 1, 2006, through June 30, 2012, by an independent audit firm.

Subsequently, in February 2014, the embezzlement amount was increased to \$676,375. This increase was due to additional work (reconstruction of accounting records) performed by the district's contracted business and tax consulting firm, the District Attorney, and the current General Manager.

### Recommendation

The district should take appropriate legal action to recover the embezzled funds and restore the financial integrity to the District.

**Appendix—  
Indian Valley Community Services District  
Indian Valley Ambulance Service Authority  
Evaluation of Elements of Internal Control  
Fiscal Years 2010-11 and 2011-12**

Management Oversight and Control (Control Environment)		YES	NO	COMMENTS
<b>Control Environment</b>				
<b>A1.</b>	<b>Integrity and Ethical Values</b>			
	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 has an approved policies manual developed using guidance from the California Special Districts Association. However, this manual is for fiscal year (FY) 2007-08 and has not been updated. Additionally, the contents of the manual were not communicated to district management and staff.
	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).
<b>A2.</b>	<b>Commitment to Competence</b>			
	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), for the period of January 2007 – March 2012, did not adhere to any of the Commitment to Competence elements.
	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).

<b>A3.</b>	<b>Audit Committee</b>			
	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. Additionally, during the tenure of the former General Manager (January 2007 – March 2012), no compensating controls were in place to address issues related to financial reporting for the district.
	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).
<b>A4.</b>	<b>Management Philosophy and Operating Style</b>			
	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 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).
<b>A5. Organizational Structure</b>				
	a. Is the District’s organizational structure appropriate for its size and the nature of its operation?		X	Although the district is small in size, compensating controls should have been in place for the Board of Directors to monitor and evaluate the actions of the GM. The former GM was given authority to handle all financial matters without Board oversight.
	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).
<b>A6. Assignment of authority and responsibility</b>				
	a. Is the District appropriately assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives?		X	The districts Board assigned all financial 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).



<b>A7. Human Resources policies and practices</b>			
a. Are policies and procedures established for hiring, training, and promoting employees and management?		X	The district had a written policies manual that was not current (last update was FY 2007-08) nor communicated to management. The District did not have a procedures manual. None of these policies and practices were adhered to by the former GM.
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).
<b>Risk Assessment</b>			
<b>B1. Establishment of Entity-wide Objectives</b>			
a. Are there entity-wide objectives that were established by management?		X	The district’s Board relied on the former GM to establish entity-wide objectives. However, not only did the former GM not establish entity-wide objectives, pertinent financial information was not disclosed to Board members.
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).
<b>B2. Risk Identification</b>			
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. Other than the GM, the district did not receive any input from district staff or independent sources.
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).
<b>B3.</b>	<b>Risk Analysis</b>			
	a. After risks to the District have been identified, does management undertake a thorough and complete analysis of the possible effect?		X	The former GM did not perform any risk analysis. Additionally, the Board did not have any compensating controls 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).
<b>Control Activities</b>				
<b>C1.</b>	<b>Policies and Procedures (General Applications)</b>			
	a. Do appropriate procedures, techniques, and mechanisms exist with respect to each District’s activities?		X	Although the District possessed a policies manual relating to general applications, these policies were not practiced by the former GM.
	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).
<b>C2.</b>	<b>Common Categories of Control Activities</b>			
	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). The district’s policies manual is not current and has not been communicated to staff. Also, the District did not have a procedures manual.
<b>Information and Communication</b>				
<b>D1.</b>	<b>Information</b>			
	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 and financial audits to the district’s Board. Financial audits and 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).
<b>D2.</b>	<b>Communications</b>			
	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 issue.
	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).
<b>Monitoring</b>				
<b>E1. On-going monitoring</b>				
	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 on going 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).
<b>E2. Separate evaluation</b>				
	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 weakness.
	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).
<b>E3.</b>	<b>Reporting deficiencies</b>			
	a. Are there means of obtaining reports of deficiencies from both internal and external sources?		X	The former GM withheld and falsified reporting information from the Board of Directors. 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**

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## Indian Valley Community Services District

*"Providing services for our community health, well being, and prosperity."*

P.O. Box 899, 127 Crescent St. Greenville CA. 95947  
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indianvalleycsd.com Email: ivcsd@frontiernet.net

### Board of Directors

Brad Smith, Chair  
Mike Yost, Vice-Chair  
Blake Shelters  
Jane Braxton Little  
Matt Cassol

#### MEMORANDUM FOR RECORD

TO: CALIFORNIA STATE CONTROLLERS OFFICE  
FROM: JESSE LAWSON, GM/CHIEF OPERATOR, IVCS D  
RE: AUDIT REPORT DRAFT  
22 SEPTEMBER 2014

This memorandum is to serve as a response to the Audit conducted by the State Controller's office for fiscal years 2011 and 2012. The District agrees with all findings and is working to correct all issues identified in the Audit.

\*\*\*\*\*NOTHING FOLLOWS\*\*\*\*\*

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**