

**SUTTER BUTTE FLOOD CONTROL AGENCY**

**MANAGEMENT REPORT  
AND  
AUDITOR'S COMMUNICATION LETTER**

**June 30, 2010 and 2011**

**SUTTER BUTTE FLOOD CONTROL AGENCY**  
June 30, 2010 and 2011

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December 21, 2011

Members of the Board of Directors  
Sutter Butte Flood Control Agency  
1227 Bridge Street, Suite C  
Yuba City, California 95991

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency (Agency), as of and for the three fiscal years ended June 30, 2010 and one fiscal year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weakness and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies presented in the current year recommendations section as Findings 2011-01 and 2011-02 to be significant deficiencies in internal control.

During our audit we noted a certain other matter involving internal control and its operation, and are submitting for your consideration, a related recommendation designed to help the Agency make improvements and achieve operational efficiencies. This recommendation is described in the current year recommendations section as Finding 2011-03. Our comment reflects our desire to be of continuing assistance to the Agency.

The Agency's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the Agency's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communications with the members of the Board of Directors as required by professional auditing standards. We would like to thank the Agency's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the Board of Directors, and others within the Agency, and are not intended to be, and should not be, used by anyone other these specified parties.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California





# MOSS, LEVY & HARTZHEIM LLP

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January 18, 2012

Members of the Board of Directors  
Sutter Butte Flood Control Agency  
1227 Bridge Street, Suite C  
Yuba City, California 95991

We have audited the financial statements of the governmental activities, and each major fund of the Sutter Butte Flood Control Agency (Agency) for the three fiscal years ended June 30, 2010 and one fiscal year ended June 30, 2011. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America 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 December 20, 2011. 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 Agency are described in Note 1 to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, twelve new accounting policies were adopted during the three fiscal years ended June 30, 2010 and one fiscal year ended June 30, 2011. None of the new pronouncements had an effect on the Agency's financial statements except for Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into by the Agency during the fiscal years 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 estimate affecting the financial statements was the collectability of assessment revenues.

Management estimates that 100% of assessment revenues are collectable. We evaluated the key factors and assumptions used to develop this estimate and determined that it is reasonable in relation to the financial statements taken as a whole.

#### Difficulties Encountered in Performing the Audit

We encountered no 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, one of the misstatements detected as a result of audit procedures and corrected by management was material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. The one adjustment was for taxes receivable and deferred revenue.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 letters dated December 21, 2011 and January 18, 2012.

#### 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 Agency'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 Agency'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 Information in Documents Containing Audited Financial Statements

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 of the Agency and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Moss, Levy & Hartzheim".

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California



## CURRENT YEAR RECOMMENDATIONS

### Significant Deficiencies

#### 2011-01 Finding – Lack of certain policies:

During our review of Agency policies, we noted that the following policies have yet to be implemented:

- a. Capital assets
- b. Fraud reporting
- c. Purchasing policy
- d. Computer use
- e. Disaster recovery plan
- f. Drug free
- g. Labor regulation policies associated with grants

#### Effect:

Without the above policies, employees and contractors of the Agency do not have written guidelines and plans to follow when performing their duties. This could lead to a misappropriation of funds, fraud to occur and go unreported, and grants to be disallowed or not awarded.

#### Recommendation:

We recommend that the Agency implement the seven policies above, for stronger controls and proper written guidelines.

#### Management's Response:

SBFCA management is in the process of researching, developing and implementing the recommended policies. To the extent any Labor regulations and policies are associated with current or future state or federal funding programs, SBFCA will implement applicable labor compliance programs as required.

#### 2011-02 Finding – Lack of insurance coverage:

During our audit, we noted that there was no liability insurance in place from the Agency's inception to June 30, 2008.

#### Effect:

Lack of insurance coverage could lead to unnecessary liability of the Agency.

#### Recommendation:

We recommend that the Agency have sufficient insurance coverage at all times.

#### Management's Response:

During the time period noted, SBFCA was in the process of obtaining liability insurance. The recommendation has been implemented.



**Other Matter**

2011-03 Finding – Lack of “paid” stamp and approval on paid invoices:

During the test of cash disbursements, we noted that three paid invoices lacked a “paid” stamp and one paid invoice lacked an approval signature.

Effect:

Without a “paid” stamp defacing each paid invoice, there is a possibility of the paid invoice being resubmitted for payment and a duplicate payment could result. Also, paid invoices that do not contain approval signatures indicate that the invoice may not have been approved for payment.

Recommendation:

We recommend that all paid invoices be stamped “paid” at the time of payment, to avoid duplicate payments. Also, all invoices should contain approval signatures prior to processing for payment, to ensure that the invoice is for appropriate Agency business and has been reviewed and approved by the appropriate personnel.

Management’s Response:

The recommendation has been implemented along with additional invoice review and approval procedures.