

**HILTON CREEK  
COMMUNITY SERVICES DISTRICT**

---

**REPORT ON ACCOUNTING CONTROLS  
AND PROCEDURES**

**June 30, 2022**

**ROBERT W. JOHNSON**  
**Certified Public Accountant**



Robert W. Johnson  
*an accountancy corporation*

---

6234 Birdcage Street, Citrus Heights, California 95610 | robertwjohncpajohnsoncpagroup@gmail.com | 916.723.2555  
www.bob-johnson-cpa.com

March 12, 2023

To the Board of Directors  
Hilton Creek Community Services District  
Crowley Lake, California

In planning and performing our audit of the financial statements of the business-type activities of Hilton Creek Community Services District as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Hilton Creek Community Services District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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 material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We have enclosed other recommendations for your consideration.

This communication is intended solely for the information and use of management and Board of Directors, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Robert W. Johnson, An Accountancy Corporation*

Robert W. Johnson, An Accountancy Corporation  
Citrus Heights, California  
March 12, 2023

1. Financial Analysis (Sewer):

	<u>2022</u>	<u>2021</u>	Favorable (Unfavorable)
Operating revenues	\$ 340,491	\$ 352,650	\$( 12,159)
Operating expenses	<u>571,213</u>	<u>515,294</u>	( 55,919)
Operating income (loss)	( 230,722)	( 162,644)	( 68,078)
Non-operating revenues (expenses)	<u>166,139</u>	<u>147,982</u>	<u>18,157</u>
Net income (loss)	\$( <u>64,583</u> )	\$( <u>14,662</u> )	\$( <u>49,921</u> )
Cash (sewer)	\$ <u>471,150</u>	\$ <u>479,638</u>	\$( <u>8,488</u> )

Observations:

Revenues –

Operating revenues are declining – rate increase is desperately needed!

Expenses –

Operating expenses rose by over 10%. High cost of personnel and benefits for size of District.

Cash –

\$8,488 decrease in sewer cash.

2. Prior Year Recommendation:

Accounts Payable:

Recommendation:

The District had a one-signer disbursement ritual that was not consistent with good management practice. The District should never allow blank checks to be signed.

Follow up:

We recommended the District reevaluate the procedures over cash disbursements and accounts payable for best business practice and to strengthen internal controls. This included the following:

1. No blank checks should ever be signed

Follow up – The District stopped this practice

2. Checks presented for signature should be accompanied by supporting documentation (approved vendor invoice)

Follow up – Implemented

3. Supporting documentation should be canceled (marked or stamped “paid” at time of payment)

Follow up – Implemented

4. Board Secretary/Finance Officer should activate the Bill Pay feature in QuickBooks to properly record accounts payable in the accounting system after vendor invoices are approved by management and/or the Board. This will enable a proper Accounts Payable Ageing Report for review by the Manager and the Board and improved accounting

Follow up – District now has an automated Accounts Payable Ageing but appears to still accrue month or year end accounts payable by general journal entry. As such, the District had two AP accounts on its 6/30/22 Quickbooks balance sheet.

5. Assign general ledger account numbers in QuickBooks

Follow up – Most, but not all, general ledger accounts now appear to have account numbers

3. Payroll:

Observation:

The District has three payperiods per month—two employees are paid every other week and two (part-time) employees are paid monthly.

Recommendation:

We recommend that the District simplify payroll by paying all employees at the same time. The District's accrued payroll liabilities, including payroll taxes and employee benefits are difficult to reconcile. Streamlining payroll periods should result in staff time savings and reduced chance of bookkeeping errors.

4. Capital (Connection fee) Reserve:

Observation:

We noted that connection fee (capital reserve) transactions are not memorialized in the board of director meeting minutes, e.g. \$26,656.80 transfer to clear out an encumbrance. Authorized capital reserve expenses (approved by the board) should be noted in the board minutes.

We understand that the Board does not formally authorize transfers; however the Finance Oversight Committee discusses and approves transfers from connection fee reserves and a report is provided in the financial reports approved by the Board.

Recommendation:

For transparency, we recommend the Board memorialize connection fee approved expenses/transfers in the District's board minutes.

