



## HAYASHI | WAYLAND

January 26, 2022

**To the Board of Directors and Management  
Santa Lucia Community Services District  
Carmel, California**

In planning and performing our audit of the financial statements of *Santa Lucia Community Services District (the District)* as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing 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.

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 or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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. We consider the following deficiencies in the District's internal control to be material weaknesses:

### **FINANCIAL OVERSIGHT**

**Observation:** Though it appears that appropriate levels of management are reviewing the monthly financial statements, our review of bank reconciliations and journal entries revealed that many entries and reconciliations lacked indication of such review. Further, final closing procedures were not performed prior to the commencement of the audit. Allocations of balance sheet accounts from the Preserve Company to the District were not made prior to the trial balance being provided to the auditors. Although the allocations were not made, there was no impact to the change in net position. The allocations are made to detail out the District's share



of assets and liabilities on the Statement of Net Position instead of including all items net with the affiliate payable.

**Recommendation:** We recommend that management implement policies and procedures to ensure that a detailed monthly review of the financial statements along with supporting month end schedules, documents, journal entries and bank reconciliations is performed and maintained to support the month end financials. We further recommend that signatures be used by management as an indication of approval and review and that this is completed timely. We also believe that the year-end close process could be completed timelier by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. This process should be completed prior to the trial balance being provided for the audit.

## FIXED ASSETS

**Observation:** During the audit it was noted that the fixed asset schedules were not properly maintained. The schedules were not updated for additions and deletions. Further, the amounts posted to construction in progress were not reviewed to determine which amounts should be reclassified to fixed asset accounts, repairs and maintenance or remain as work in progress. In addition, depreciation expense posted was a projected figure and was not adjusted to actual based on a completed fixed asset schedule.

**Recommendation:** We recommend that management follow the capitalization policy in place and review expenses regularly to determine the proper recording of these transactions. The District should communicate the policy to those who code property invoices to ensure the policy is consistently followed. Additionally, the District should reconcile the fixed asset schedule to the fixed asset accounts on a regular basis and verify formulas are correct for added assets and assets that become fully depreciated during the year.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

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

Sincerely,



Michael T. Briley, CPA, CGMA  
Managing Partner  
Hayashi Wayland

