



**VALLEY COUNTY WATER DISTRICT
MINUTES FOR THE SPECIAL MEETING OF THE FINANCE COMMITTEE HELD
FRIDAY, FEBRUARY 21, 2014**

Committee Members Present: Vice President Margarita Vargas, Chairperson
President Lenet Pacheco, Co-Chairperson

Others Present: Director Alfonso Contreras
Director Mariana Lake

Staff Present: General Manager – Lynda Noriega
Finance & Administrative Manager – Angela Skidmore

The special meeting of the Finance Committee held Friday, February 21, 2014 was called to order at 4:00 pm by Vice President Vargas.

1. Review DRAFT 2012-2013 Audited Financial Statements

- General Manager introduced Mr. Wilson Lam, a representative of Moss, Levy, Hartzheim LLP, who completed the annual financial audit for the District; stated that the 2012-2013 financial audit completed the second year of the three year contract approved by the District in August 2012; stated that Mr. Lam would be reviewing the 2012-2013 draft financial statements with the Finance Committee and Mr. Craig Hartzheim, Managing Partner, would be reviewing the 2012-2013 draft financial statements with the Board of Directors
- Mr. Lam reviewed the Independent Auditor's Report; noted that the report format changed to include headings for each section; stated that the firm issued a modified opinion on the financial statements, which was a clean opinion, indicating that the financial statements of the District were free from material misstatement as of August 31, 2013; addressed the report reference to the new Governmental Accounting Standards Board (GASB) provisions that impacted the financial statements throughout the 2012-2013 fiscal year; discussed the report requirements with regard to the Management Discussion and Analysis (MD&A) as well as the Schedule of Funding Progress for Retiree Health Plans; reviewed the Government Auditing Standards with reference to the District's internal controls over financial reporting; provided an overview of the MD&A report prepared by the General Manager and the Finance & Administrative Manager; explained that the MD&A provided the general public with an analysis and summary of the District's financial position; reviewed the Statement of Net Position; clarified that the report was previously referred to as the Statement of Net Assets or Balance Sheet; added that under the new GASB standard the report name changed; reported in 2013 the net position was \$72,735,692 whereas in 2012 the net position was \$72,637,482, an overall increase in net position; stated that the District's net position was higher, although the District posted a prior period adjustment related to the CalPERS Side Fund Liability; explained GASB suggested a portion of the pension benefit liability be booked as it related to the CalPERS lower than expected rate of return on its investments; indicated that the prior period adjustment totaled \$518,152
- General Manager reported that the Board of Directors had previously been made aware of the CalPERS Side Fund Liability following the preliminary audit review; stated that Lemieux & O'Neill clarified that the side fund was not the result of the District underfunding the pension plan; stated the liability was the result of CalPERS lower than expected returns on investments for the pension fund; stated CalPERS was covering the loss by

smoothing the liability amongst all CalPERS participants; recommended that the District work with CalPERS to pay off the balance during the 2013-2014 fiscal year to avoid the total amortization period of 15 to 30 years; highlighted that the current liability was approximately \$411,000

- Vice President Vargas inquired if the District would incur interest on the liability
- General Manager responded that the District would incur interest; stated that once the audited financial statements were approved and adopted by the Board of Directors, a presentation would be made to the Finance Committee to review options for paying off the CalPERS Side Fund Liability; explained that paying off the side fund would reduce the District's CalPERS pension benefit rates, which would reduce the overall pension benefit expense to the District
- Mr. Lam reviewed the Statement of Cash Flows; reviewed the notes to the basic financial statements; indicated that GASB Standards changed to list deferred revenue as unearned revenue; reported that the District received the remaining \$225,000 of the \$450,000 related to the Cooperating Respondent settlement agreement
- General Manager explained that the \$225,000 was from the settlement between the District and the Cooperating Respondents executed in 2010 relative to nitrate management at th Baldwin Park Operable Unit (BPOU) Treatment Facility
- Mr. Lam reported that the negotiations between the District and the Cooperating Respondents regarding the best alternative to address nitrate at the BPOU Treatment Facility were still in process; added that based on the ensuing negotiations it was recommended that the District use a five year period to estimate the uncollectible accounts receivable from the Cooperating Respondents
- General Manager responded that 2012-2013 was the third year of the five year period
- Mr. Lam reported capital assets remained the same; referenced the Other Post Employment Benefits (OPEB) study performed during the fiscal year
- General Manager stated that a presentation would be given to the Finance Committee regarding prefunding the OPEB liability in an effort to reduce overall future post employment liabilities and expenses of the District; referred to the presentation previously provided to the Board of Directors by a CalPERS representative in October 2013
- Mr. Lam reviewed the Schedule of Revenues, Expenses, and Changes in Net Position, highlighting the comparison of to approved general operating budget to the actual financial results
- General Manager reported that the variance was due to the BPOU operations; stated that the BPOU budget was not included in the District's general operating budget; suggested separating the financial statements for this schedule; inquired if separating the VCWD and BPOU operations on the financial statements would be possible
- Mr. Lam indicated that the District would need to set up a separate fund to account for the BPOU operations if separate statements were requested; suggested it be discussed further with the Managing Partner to determine the best solution for the District
- General Manager agreed that further discussion was needed to present an accurate picture of the budget when compared to actual results
- Vice President Vargas inquired if the auditor would review the inventory
- Mr. Lam indicated there were no significant findings in the inventory for the current year; reviewed the 2011-2012 recommendations listed within the Management Report and Auditor's Communication Letter; indicated that all findings were corrected in the prior year; reported on the 2012-2013 recommendations listed within the Management Report and Auditor's Communication Letter; stated that audit entries totaling \$1,738,609 for capital assets, accounts payable, OPEB contributions, and the CalPERS Side Fund were posted; stated there were two significant deficiencies and three other findings addressed in the report; reported on the first finding, citing lack of controls over customer account fee adjustments; recommended additional checks and balances to reduce the number of adjustments
- Vice President Vargas stated that checks and balances would help reduce inconsistencies; inquired if there was an account where adjustments could be posted for review
- Mr. Lam suggested that management set a limit for adjustments that required approval by a supervisor
- General Manager replied that the system was not set up to prevent an Accounting Technician from adjusting fees for any customer; stated controls have been implemented to limit the access to fee adjustment processing

- Mr. Lam reported on the second finding, citing lack of checks and balances on approving the General Manager's credit card statement for payment
- President Pacheco stated that she understood that during a period of the year the General Manager was also performing the duties of the Finance & Administrative Manager
- General Manager stated that since the hiring and training of the current Finance & Administrative Manager, new checks and balances had been implemented; stated that the Board of Directors also reviewed the credit card statement during the approval of the Consent Calendar at the regular meetings of the Board of Directors
- Mr. Lam commented on three other findings; stated that the matters were not significant; reported on the lack of control over payroll documentation, stating that payroll action forms were not included in the personnel files for those employees who were recently hired by the District; added that a time card was missing a signature from the immediate supervisor; explained that the General Manager and the Finance & Administrative Manager corrected all issues related to the payroll documentation findings; reported on the second finding, citing a lack of control over cell phone usage
- General Manager stated that the District implemented a new cell phone plan to restrict certain functions of the District provided cell phones to prevent personal use; further stated that text messaging was only available for management
- Mr. Lam explained that the recommendation had been made to eliminate the possibility of misappropriation of funds
- General Manager stated that any cell phone expenses incurred by an employee for personal use were collected from the employee per the District's cell phone policy; stated that the new plan would likely reduce and/or eliminate personal use
- Mr. Lam reported on the third finding, citing lack of control over employee computer loans; stated one employee had two computer loans concurrently; explained that employees had included the purchase of accessories in their loans; recommended that the District adhere to the Administrative Code as written to allow only one computer loan at a time; added that the District should review and revise the Administrative Code to include certain accessories
- General Manager agreed the Administrative Code may need to be revised to include protective equipment for devices
- Vice President Vargas stated the types of computer equipment available did not exist at the time the Administrative Code was written
- General Manager further stated that once the audit was approved, the Administrative Committee would need to review the Computer Loan Policy
- President Pacheco inquired why a second computer loan was approved before the employee paid off the original loan
- General Manager replied the loan was approved as presented and that she was unaware that a previous loan existed
- Finance & Administrative Manager stated that she was responsible for presenting the loan request incorrectly
- General Manager stated that the finding had since been corrected to avoid future errors
- Vice President Vargas inquired about the District's inventory count
- Mr. Lam stated the inventory count was acceptable; provided an informal recommendation to organize the physical inventory and to include a labeling system; stated that the inventory was not identified as a deficiency during the audit process for 2012-2013
- General Manager replied that the organization of the inventory should be addressed; stated previous audits recommended centralizing one location for all inventory items; stated that Mr. Craig Hartzheim, Managing Partner, would attend the March 10, 2014 Board of Directors meeting to present the final audited financial statements

2. Review DRAFT Resolution of the Board of Directors of Valley County Water District Adopting the Audited Financial Report for the Fiscal Year Ended August 31, 2013

3. Review DRAFT Resolution of the Board of Directors of Valley County Water District Transferring Funds Unappropriated as of August 31, 2013 to the Capital Improvement and Replacement Fund

- General Manager stated that the proposed resolutions would finalize the 2012-2013 fiscal year upon adoption by the Board of Directors; explained that the net position, or unappropriated fund balance, for the fiscal year ended August 31, 2013 would need to be appropriated to the capital improvements and replacement fund
- President Pacheco inquired if the General Manager recommended that the Finance Committee recommend adoption of the draft 2012-2013 audited financial report and adoption of the draft resolutions
- General Manager stated that she recommended adoption of the 2012-2013 audited financial report and adoption of the draft resolutions for the Board of Directors consideration at their regular meeting scheduled for March 10, 2014
- President Pacheco inquired if this was the first year the audited financial statements were first reviewed by the Finance Committee
- General Manager concurred; stated that in previous years the audited financial statements were presented to the Board of Directors without a review by the Finance Committee

The special meeting of the Finance Committee held Friday, February 21, 2014 was adjourned at 4:40 pm by Vice President Vargas.

SIGNED:



President of the Board of Directors

ATTEST:



Secretary of the Board of Directors

(OFFICIAL VCWD SEAL)