

**PANOCHE WATER DISTRICT  
FIREBAUGH, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
FEBRUARY 28, 2017**

**PANOCHÉ WATER DISTRICT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
FEBRUARY 28, 2017**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF NET POSITION .....	3
STATEMENT OF ACTIVITIES .....	4
STATEMENT OF CASH FLOWS .....	5
NOTES TO THE BASIC FINANCIAL STATEMENTS .....	7
OTHER AUDITOR'S REPORT	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	19
FINDINGS AND QUESTIONED COSTS	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	22
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	26
MANAGEMENT'S RESPONSE TO FINDINGS .....	28



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Panoche Water District  
Firebaugh, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Panoche Water District (the "District") as of and for the year ended February 28, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

677 Scott Avenue  
Clovis, CA 93612

tel 559.299.9540

fax 559.299.2344

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Panoche Water District, as of February 28, 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by Government Auditing Standard**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2019, on our consideration of Panoche Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Price Pange & Company*

Clovis, California  
May 14, 2019

**PANOCHÉ WATER DISTRICT  
STATEMENT OF NET POSITION  
FEBRUARY 28, 2017**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 13,450,938
Accounts receivable	3,677,463
Employees receivable	25,793
Interest receivable	10,744
Current portion of notes receivable	283,840
Water inventory	6,959,756
Supplies inventory	105,715
Prepaid expense	<u>188,744</u>

Total current assets 24,702,993

Other assets:

Noncurrent portion of notes receivable	952,446
Capital assets	<u>13,836,620</u>

Total other assets 14,789,066

Total assets 39,492,059

**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	1,804,681
Prepayments/prebillings on account	2,390,950
Line of credit	1,000,000
Current portion of noncurrent liabilities	<u>304,944</u>

Total current liabilities 5,500,575

Noncurrent liabilities:

Notes payable	2,580,147
Deficit deposits	<u>6,777</u>

Total noncurrent liabilities 2,586,924

Total liabilities 8,087,499

**NET POSITION**

Net investment in capital assets	13,312,663
Unrestricted	<u>18,091,897</u>

Total net position \$ 31,404,560

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2017**

<b>OPERATING REVENUES</b>	
Irrigation water sales	\$ 17,548,670
District operations and maintenance	5,451,290
Expense reimbursements from other governments	3,080,818
Municipal and industrial water sales	67,798
Other operating revenue	<u>164,657</u>
 Total operating revenues	 <u>26,313,233</u>
 <b>OPERATING EXPENSES</b>	
Water costs	16,136,638
Transmission and distribution	5,279,305
Administration and general	4,375,677
Depreciation	1,122,969
General plant	<u>1,043,360</u>
 Total operating expenses	 <u>27,957,949</u>
 Operating income (loss)	 <u>(1,644,716)</u>
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Nonoperating grant revenue	102,414
Capital improvement fee	293,683
Interest revenue	64,781
Sale of capital assets	12,560
Interest expense	(136,129)
Nonoperating grant expense	<u>(22,390)</u>
 Nonoperating revenues (expenses)	 <u>314,919</u>
 Change in net position	 (1,329,797)
 Net position - beginning	 <u>32,734,357</u>
 Net position - ending	 <u><u>\$ 31,404,560</u></u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 26,309,885
Payments to suppliers	(21,975,084)
Payments to employees	<u>(3,517,604)</u>
Net cash provided (used) by operating activities	<u>817,197</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets (capital outlay)	(505,091)
Gross proceeds from sale of equipment	12,560
Capital improvement fees received	293,683
Interest paid on noncurrent liabilities	<u>(136,129)</u>
Net cash provided (used) by capital and related financing activities	<u>(334,977)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Nonoperating grant revenue	102,415
Nonoperating grant expense	(22,390)
Loans to others	(309,000)
Repayment of loans to others	171,015
Funds borrowed for operating activities	1,000,000
Principal paid on noncapital noncurrent liabilities	<u>(337,056)</u>
Net cash provided (used) by noncapital financing activities	<u>604,984</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest revenue	<u>60,939</u>
Net cash provided (used) by investing activities	<u>60,939</u>
Net increase (decrease) in cash	1,148,143
Cash and cash equivalents, beginning of year	<u>12,302,795</u>
Cash and cash equivalents, end of year	<u>\$ 13,450,938</u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2017  
(Continued)**

**Reconciliation of Operating Income (Loss) to Net Cash Provided  
(Used) by Operating activities:**

Operating income (loss)	\$ (1,644,716)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,122,969
(Increase) decrease in accounts receivable	862,471
(Increase) decrease in prepayments/prebillings on account	(865,818)
(Increase) decrease in inventory	1,765,668
(Increase) decrease in prepaid expenses	(134,827)
Increase (decrease) in accounts payable and accrued expenses	<u>(288,550)</u>
 Net cash provided (used) by operating activities	 <u>\$ 817,197</u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Panoche Water District (the “District”) was formed in 1950 pursuant to the California Water District Act to furnish irrigation water to District land in Fresno and Merced Counties, California. Land eligible for water provided by the District as of February 28, 2017 approximated 38,000 acres. The District has entered into a contract with the United States Bureau of Reclamation providing for delivery of water to the District from the Delta-Mendota and San Luis Canals of the Central Valley Project. Such contracts also include a forty-year renewal provision.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in 2004. GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a management’s discussion and analysis section, a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted.

**Financial Reporting Entity**

The Panoche Water District Financing Corporation is a component unit of the District as the Corporation’s governing board is appointed by the District’s Board of Directors and consists of all the members of the District’s Board of Directors. The District does not have a relationship with any other related activities, organizations or functions of government which should be included in the financial reporting entity of the District as required by GASB Statement No. 14, *The Financial Reporting Entity*. In addition, the District is not a component unit of any other governmental entity.

**Basis of Presentation and Accounting**

The financial statements of the District are presented using the full accrual method of accounting and conform to accounting principles generally accepted in the United States of America and with the policies and procedures of the office of the State Controller, State of California.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of accounts that comprise the District’s assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity; or (ii) that are required by law or regulation that the activity’s costs of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenue; or (iii) that the pricing policies of the activity establishes fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets less total liabilities) are segregated into net investment in capital assets, restricted and unrestricted components.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgetary Procedures**

The District operates under a budget prepared and approved by the Board of Directors. The budget is prepared on a detailed line item basis. Revenue is budgeted by use (services and supplies, other charges, water supply and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

The District follows these procedures in establishing the budgetary data: (a) prior to the beginning of the year, the budget is legally enacted through passage of a resolution; (b) budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that loan and bond proceeds are treated as other financial sources and loan and bond principal payments and fixed asset purchases are treated as expenditures.

**Assets, Liabilities and Net Position**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Inventory**

Panoche Water District accounts for water inventory consisting of water purchases in the current fiscal year and sold in the following fiscal year, such as: USBR CVP (Central Valley Project) Contract Water, Exchange Contractor water, Non-Project water, Wells, and Transfers. The District began a vigorous process of tracking all components of water inventory on a monthly basis. The new process accounts for any usage, transfers, or losses for the purposes of financial statement presentation. Water inventory is valued at cost using the average-cost method.

Supplies inventory consist of materials and supplies for ongoing maintenance of the District's facilities. Supplies inventory is valued at cost.

**Capital Assets**

Capital assets (fixed assets) are stated at historical cost, except for donated assets, which are stated at fair value on the date donated. It is the policy of the District to capitalize all property, plant and equipment, except equipment with a cost of less than \$1,000. Costs of assets sold or retired are eliminated from the accounts in the year of disposition and the resulting proceeds (if any) are recorded as proceeds of sales in the applicable fund. Depreciation is recorded using the straight-line method. The estimated useful life for the irrigation distribution system of the District is 50 years.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position** (Continued)

**Operating Revenue and Expense**

Operating revenues and expenses consist of those revenues that result from ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenue and expense items that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

**Net Position**

Net position comprises the various net earnings from operating income, nonoperating revenue, expenses and capital contributions. Net position is classified in the following three components:

***Net investment in capital assets*** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net components as the unspent proceeds.

***Restricted*** – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

***Unrestricted net positions*** – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

**Estimates**

Presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Unrestricted cash and Investments as of February 28, 2017 consist of the following:

Cash on hand	\$ 999
Cash in bank - business checking and savings	3,465,259
Local Agency Investment Fund	<u>9,984,680</u>
Total	<u>\$ 13,450,938</u>

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District maintains its cash balances in one financial institution, Rabobank, N.A. The balances are insured by the federal deposit insurance corporation up to \$250,000.

The District's deposits as of February 28, 2017, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The market value of pledged securities must equal at least 110 percent of the District's deposits. California law also allows financial institutions to secure the District's deposit by pledging first deed of mortgage notes having a value of at least 150 percent of the District's total deposit.

**Investments Authorized**

The District strives to maintain the level of investment of idle funds as near to 100% as possible and operates its pooled idle cash investments under the Prudent Investor Standard. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and other imposed legal restrictions. Permitted investments are identified in Section 53635 of the Government Code of California. Criteria for selecting investments and the absolute order of priority are safety, liquidity and yield. The primary basic premise underlying the District's investment policy is to insure the safety of principal and to provide funds when needed. A high dollar yield on investments, though important, ranks third in the priority of investment strategy.

Investment maturities are selected to anticipate cash needs, thereby obviating the need for forced liquidation and the accompanying loss of interest income.

The District operates its investment program with many Federal, State and self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in futures, options or security loan agreements. Longer term investments (over one year) are generally limited to maturities of five years or less.

To maximize investment income, the District uses all available, economically feasible investment aids. Economic conditions and various money markets are monitored in order to assess the probable course of interest rates.

**Local Agency Investment Fund (LAIF)**

The District participates in an external investment pool by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the District's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the District's position in the pool. The District's portion of the February 28, 2017 balance was \$9,984,680.

**Credit Rate Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At February 28, 2017, the Local Agency Investment Fund managed by the State of California and was not rated.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

**Concentration of Credit Rate Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) did not exceed 5% or more of total District investments.

**Fair Value**

LAIF investment pool invests in numerous types of investments ranging all levels in the fair value hierarchy, and accordingly, is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at February 28, 2017:

Others	\$ 1,335,764
Water user fees	3,050,624
Less allowance for doubtful accounts	<u>(708,925)</u>
 Total	 <u><u>\$ 3,677,463</u></u>

**NOTE 4 – CAPITAL ASSETS**

Following is a summary of activity affecting capital assets for the year ended February 28, 2017:

	<u>Balance Mar 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Feb 28, 2017</u>
Nondepreciable assets:				
Construction	<u>\$ 4,288,725</u>	<u>\$ 163,113</u>	<u>\$ (3,940,669)</u>	<u>\$ 511,169</u>
Total nondepreciable assets	<u>4,288,725</u>	<u>163,113</u>	<u>(3,940,669)</u>	<u>511,169</u>
Depreciable assets:				
Improvements and equipment	<u>26,288,776</u>	<u>4,282,646</u>	<u>(141,678)</u>	<u>30,429,744</u>
Total depreciable assets	<u>26,288,776</u>	<u>4,282,646</u>	<u>(141,678)</u>	<u>30,429,744</u>
Accumulated depreciation:				
Improvements and equipment	<u>(16,123,002)</u>	<u>(1,122,969)</u>	<u>141,678</u>	<u>(17,104,293)</u>
Total accumulated depreciation	<u>(16,123,002)</u>	<u>(1,122,969)</u>	<u>141,678</u>	<u>(17,104,293)</u>
Depreciable assets, net	<u>10,165,774</u>	<u>3,159,677</u>	<u>-</u>	<u>13,325,451</u>
Total capital assets	<u><u>\$ 14,454,499</u></u>	<u><u>\$ 3,322,790</u></u>	<u><u>\$ (3,940,669)</u></u>	<u><u>\$ 13,836,620</u></u>

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Following is a summary of accounts payable and accrued expenses as of February 28, 2017:

Trade payables	\$ 1,623,856
Compensated absences payable	167,202
Interest payable	<u>13,623</u>
 Total	 <u>\$ 1,804,681</u>

**NOTE 6 – LONG-TERM LIABILITIES**

Following is a summary of noncurrent (long-term) liabilities for the year ended February 28, 2017:

	<u>Balance Mar 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Feb 28, 2017</u>
Note payable, State Water Resources Control Board	\$ 776,133	\$ -	\$ (252,176)	\$ 523,957
Bonds payable, San Luis & Delta Mendota Water Authority	2,405,001	-	(43,867)	2,361,134
Capital lease payable, Ford Motor Credit	<u>41,013</u>	<u>-</u>	<u>(41,013)</u>	<u>-</u>
 Total	 3,222,147	 -	 (337,056)	 2,885,091
Less current portion	<u>(337,056)</u>	<u>-</u>	<u>32,112</u>	<u>(304,944)</u>
 Noncurrent portion	 <u>\$ 2,885,091</u>	 <u>\$ -</u>	 <u>\$ (304,944)</u>	 <u>\$ 2,580,147</u>

Note payable, State Water Resources Control Board reflects a note used for capital improvements of District property. The note bears interest at a rate of 2.60 percent per annum with future payments summarized as follows:

<u>Due During the Years Ending,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
02/28/18	\$ 13,623	\$ 258,733	\$ 272,356
02/28/19	<u>6,895</u>	<u>265,224</u>	<u>272,119</u>
Total	<u>\$ 20,518</u>	<u>\$ 523,957</u>	<u>\$ 544,475</u>

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 6 – LONG-TERM LIABILITIES (Continued)**

Bonds payable, San Luis & Delta Mendota Water Authority reflects Panoche Water District's, a Financing Participant, share of bond proceeds used to complete general planning requirements, preliminary engineering and design, and required environmental analysis and documentation leading to implementation of elements of the Bay Delta Conservation Plan. Under the DWR funding agreement, Westlands Water District agreed to pay 100% of the principal and interest when due for purposes of funding the Water Authority obligations under such agreement; failure of a Financing Participant to make payment required by this DHCCP Activity Agreement shall not relieve Westland Water District of its obligation to pay 100% of the outstanding bonds payable, which mature February 2043. Panoche Water District has made all required scheduled payments year-to-date. The bonds bear interest at a rate of 5 percent per annum, with future payments summarized as follows:

Due During the Years Ending,	Interest	Principal	Total
02/28/18	\$ 118,057	\$ 46,211	\$ 164,268
02/28/19	115,747	48,555	164,302
02/29/20	113,318	50,900	164,218
02/28/21	110,773	53,578	164,351
02/28/22 - 02/28/26	510,937	310,420	821,357
02/28/27 - 02/28/31	425,178	396,146	821,324
02/28/32 - 02/28/36	315,761	505,311	821,072
02/28/37 - 02/29/41	176,207	644,616	820,823
02/28/42 - 02/28/43	<u>23,088</u>	<u>305,397</u>	<u>328,485</u>
	<u>\$ 1,909,066</u>	<u>\$ 2,361,134</u>	<u>\$ 4,270,200</u>

Line of credit, Rabobank, N.A., consists of a note payable used for working capital purposes. The note bears interest at the rate of 3.53 percent per annum and maturity on August 31, 2018. The line of credit has an outstanding balance as of February 28, 2017 of \$1,000,000.

**NOTE 7 – DEFICIT DEPOSITS: CENTRAL VALLEY PROJECT O&M AND CAPITAL OBLIGATIONS**

Federal legislation enacted in 1986 directed Reclamation to determine each water contractor's share of main projects O&M costs (occurring after October 1, 1985) which are not currently reimbursed to Reclamation under existing water contracts. Reclamation was further directed to accumulate these excess costs; including interest (collectively O&M deficits) until such time that the new contracts were renewed. Beginning in fiscal year 2008-2009, under the new interim contract, the District is required to reimburse Reclamation for such O&M deficits through increased costs of its water supply. As of September 30, 2016, according to Reclamation calculations, O&M deficits totaled \$2,666.

In addition, CVP main project capital allocated to the District must be paid in full by the year 2030. This capital is allocated to the federal water contractor on the basis of future projected water deliveries and is included in Reclamation's cost-of-service water rate. As of September 30, 2016, \$22,702,560 in unpaid CVP capital was reflected on Reclamation's accounting records as the District's future capital obligations. This amount has not been accrued as an obligation on the District's financial statements.

**NOTE 8 – COMPENSATED ABSENCES**

The District has a paid vacation policy which allows employees to accumulate vacation leave. Upon termination, employees are paid their accrued vacation at the rate of pay at separation. The District has a sick leave policy which allows employees to accumulate medical sick leave. Upon termination, the District has no obligation to compensate employees for unused sick leave. Accumulated vacation benefits in the amount of \$169,495, as of February 28, 2017, are included in accounts payable and accrued expense.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 9 – EMPLOYEE RETIREMENT BENEFITS**

The District provides retirement benefits for all of its full-time employees through a defined contribution plan (Panoche Water District Retirement Plan). The plan is administered by the Panoche Water District and uses the Central Administrative Services, Inc. trust approved by the IRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full-time employees, 21 years or older, are eligible to participate in the plan after six months of full-time service. The District makes an annual discretionary contributions, currently contributes seven percent of eligible employee's annual compensation. If the employee terminates employment before fully vesting, forfeiture will take place as of the end of the plan year in which the earlier of the following occurs: 1) the employee incurs five consecutive breaks in service, 2) the employee receives a distribution of the entire vested account balance. Any changes to the rates are approved by the Governing Board. Employees may make voluntary pre-tax salary deferral contributions to the plan subject to Internal Revenue Service limits which combine employer and employee contributions. Total District contributions for the year ended February 28, 2017 were \$245,369, with covered payroll equaling \$3,808,992.

**NOTE 10 – DEFERRED COMPENSATION**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan which is available to all permanent employees permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**NOTE 11 – PREPAYMENTS/PREBILLINGS ON ACCOUNT**

Prepayments/prebillings on account in the amount of \$2,390,950 represent prepayments from customers and water assessments billed in the current fiscal year for water which will be delivered to water users during the next fiscal year ending February 28, 2018.

**NOTE 12 – RISK MANAGEMENT**

The District is exposed to various risks and loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is self-insured for the first \$2,500 in claims paid for auto and general liability claims. Buildings, personal property and mobile equipment are also self-insured for the first \$2,500 in claims paid.

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority for insurance claims above the self-insured limits listed above. The District and Authority members have pooled funds to be self-insured for liability and property coverage. The District accounts for premiums paid as a pooling of risk arrangement and, accordingly, expense premiums as they are paid.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**Commitments**

As part of its ongoing operations, the District has entered into several long-term water purchase commitment agreements. Range of terms under individual agreements are as follows: 0-94,000 Acre Feet (AF), and \$99-\$1,000/AF, cost per AF under each agreement differs based on water source type and price escalators (if applicable); agreements expire based on individual agreement terms ranging from FY 2018 to FY 2034, new agreements may be negotiated upon expiration.

**Contingencies**

Imani Percoats and Chris Bettencourt v. Panoche Water District, Fresno County Superior Court Case 18CECG01651: This pending litigation was filed on May 10, 2018, alleging failure to pay overtime required by California Statutes for a period including FY 2017. The District believes that it has a strong defense to this action and expects to vigorously defend itself. An unfavorable outcome does not appear to be reasonably likely but may be possible; however, it is not reasonably possible to estimate the amount of any loss.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Contingencies (Continued)**

Stephen Sloan v Panoche Water District, Fresno County Superior Court Case 18CECG00511: This case was initially filed on February 8, 2018 and after preliminary motions, the Second Amended complaint is now pending. The matter arises from allegations that the District breached an agreement to purchase well water beginning in 2016, during FY 2017. The District believes that it has a strong defense to this action and expects to vigorously defend itself. An unfavorable outcome does not appear to be reasonably likely but may be possible; however, it is not reasonably possible to estimate the amount of any loss.

Robert Zavala v Panoche Water District, Fresno County Superior Court Case 18CECG00347: This case was filed on January 26, 2018, alleging multiple bases for claiming that the District's wrongfully terminated the employee after the end of FY 2017, in August, 2017. The District believes that it has strong defenses to this action and expects to vigorously defend itself in the matter. However, at this discovery stage of the case, it is not reasonably possible to assess the likelihood of any District liability or if there were such liability.

The District is also under investigation by the Civil Division of the United States Attorney's Office in conjunction with the OIG relating to the water use by the District from the Delta-Mendota Canal and the San Luis Canal. In addition, the investigation involves financial assistance agreements between the Bureau of Reclamation and the Panoche Drainage District. The District understands that this investigation is focused on potentially false claims relating to the water use and invoices and certifications under these federal grants. The District understands that the investigation originally focused in part on employee compensation invoiced to these federal grant agreements for Panoche Water District employees assigned to grant projects, as well as on certain claims relating to Panoche Drainage District's acquisition of equipment and failure to report certain items. At present, the investigation appears to be focused on potentially inflated claims by a Drainage District vendor who allegedly returned a part of such payments to a Water District employee. The District and the United States have entered into discussions including exchanges of potential settlement parameters with the United States in an effort to resolve these issues without any litigation, which are subject to a wide range of contingencies. If the matter cannot be resolved through these discussions, it is probable that the United States would assert claims and bring a civil lawsuit, in which case it is reasonably likely that there would be an unfavorable outcome to the District on one or more of the issues. The District would vigorously oppose such suit, and at present the District does not have information sufficient to reasonably estimate the amount of liability either through settlement or from any litigation.

Based upon the litigation filed by the California Department of Justice against certain former District employees noted below and after close of the FY 2017, the United States Environmental Protection Agency on April issued a Notice of Suspension to Panoche Water District and Drainage Districts suspending the Districts from participation on future federal contracts. The suspension was subsequently reversed and a notice to show cause issued. The District submitted documentation of its present responsibility to act as a federal contractor. USEPA still has not acted in response to that submittal, but the District is currently an authorized federal contractor.

Commencing in approximately May, 2016, the Water District has been subject to investigation by the California Department of Justice relating to issues regarding handling and disposal of chemicals under the jurisdiction of the Department of Toxic Substance Control. The investigation also potentially relates to whether personnel of the District may have misused District credit cards, issued or received District loans to public employees, or violated requirements under the Fair Political Practices Act. On February 20, 2018 the California Department of Justice filed a felony complaint against the former General Manager, former office manager, two former employees and one employee (since separated from the District), People v. Cascia, Fresno County Superior Court Case No. F18901227. Counts in the complaint include conspiracy to misappropriate public funds; 6 counts of embezzlement and misappropriation of public funds; one count of unlawful disposal of hazardous waste; one count of unlawful transportation of hazardous waste; and special allegations. It does not presently appear that the California Department of Justice intends to bring any criminal complaint against the District itself as there are no counts or allegations against the Panoche Water or Drainage Districts in the matter. However, at this time, the District does not have information sufficient to clearly conclude if claims or litigation against the District or other individuals will result or if such were asserted, the likely outcome, or the range of the District's liability.

**PANOCHÉ WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FEBRUARY 28, 2017**

**NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Contingencies** (Continued)

Finally, the District could be subject to fines or penalties assessed by the Department of Toxic Substance Control, the State Water Resources Control Board or the County of Fresno relating to matters arising during or after FY 2017 which have been or are being investigated by those agencies and that have been remediated by District actions. The Department of Toxic Substance Control and the State Water Resources Control Board have notified the District of their intent to bill for investigation time, estimated to be in the range of \$200-\$1000. At this time, the District does not have information sufficient to conclude if claims or litigation against the District will result or if such were asserted, the likely outcome or the range of the District's liability.

**NOTE 14 – RELATED ORGANIZATIONS**

The District's Governing Board presides as the Panoche Drainage District (PDD)'s Governing Board, PDD is a separate Special District organized to provide for the Water of certain agricultural lands, other than swamp and overflow lands located in Fresno and Merced Counties. A separate audit is performed for Panoche Drainage District and financial information of PDD can be obtained by writing to the PDD's Chief Financial Officer, 52027 W. Althea Avenue, Firebaugh, CA 93622.

PDD reimburses the District for the cost of providing PDD with personnel services, including related taxes and benefits, and other operational costs. Amounts charged to PDD for fiscal year ended February 28, 2017 were approximately \$3.08 million in total.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

The District has outstanding employee loans receivable totaling \$25,793 as of the fiscal year ended February 28, 2017. During the prior years, management made interest free loans to several employees. The District made these loans without proper authorization documents or agreements documenting the terms of the loans. In correcting this practice, Board adopted formal, written policy prohibiting loans to any persons, including employees, except as authorized by law in August of 2016 in addition to adopting Reasonable Expense Reimbursement/Use of Public Resources Policy Statement "Reimbursement/Resources Policy") incorporating Loan Policy the following month (September 2016). Employee training on Reimbursement/Resources Policy was conducted by special counsel. In September 2016, Board adopted Employee Handbook including no-loan policy, formally acknowledged by all District employees.

The District has outstanding loans receivable totaling \$62,445 and \$331,287, from Rancho De La Esperanza and Bennet Ranches, respectively. John F. Bennet, the District's Governing Board president during the fiscal year ended February 28, 2017, is a partner in both of these business entities. The terms of the loans are similar to those issued in prior years by the District, under an Agricultural Drainage Management Program Loan Contract between the State Water Resources Control Board and the District, to provide funds to purchase drip, sprinkler, and gated pipe irrigation equipment.

OTHER AUDITOR'S REPORT

*THIS PAGE IS LEFT BLANK INTENTIONALLY.*



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Panoche Water District  
Firebaugh, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial of Panoche Water District (the "District"), as of and for the year ended February 28, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 14, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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 a 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 2017-001, 2017-002, 2017-003, 2017-004 and 2017-005.

677 Scott Avenue  
Clovis, CA 93612  
tel 559.299.9540  
fax 559.299.2344

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.

## **District's Responses to Findings**

The District's responses to the findings identified in our audit are described in the management's response to findings following the schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
May 14, 2019

## FINDINGS AND QUESTIONED COSTS

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2017**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting: Material weaknesses identified?	<u>  X  </u> yes <u>      </u> no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>      </u> yes <u>  X  </u> none reported
Noncompliance material to financial statement noted?	<u>  X  </u> yes <u>      </u> no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2017-001    **Financial Close and Reporting Process (Material Weakness)****

**Condition:**

The District did not properly record all payables, receivables, expenses and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

**Criteria:**

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Cause:**

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

**Effect:**

As a result of this condition, payables, receivables, expenses, assets, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- Accounts Payable – Well Water Purchases - Overstated by \$156,221
- Well Water Expense – Overstated by \$156,221
- Prepaid payroll expenses – Understated by \$139,884
- Accounts Receivable – Panoche Drainage District - Understated by \$205,201
- Health Insurance Expense – Overstated by \$205,201
- Accumulated Vacation – Overstated by \$141,793
- Water Inventory – Understated by \$690,1778
- Irrigation Water Sales – Understated by \$1,384,517
- Payroll Expense – Understated by \$2,068,207
- Management Services Contract Revenue – Understated by \$2,068,207
- Water Purchases Expense – Understated by \$667,145

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-001      **Financial Close and Reporting Process (Material Weakness)****

**Recommendation:**

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**Finding 2017-002      **Internal Controls Over Payroll (Material Weakness)****

**Condition:**

The District did not obtain proper authorization for payroll related transactions during the fiscal year. Specifically we identified the following transaction:

- Unauthorized Employee Fringe Benefits – No written contracts or agreements for housing provided to six employees. No written agreements or authorizations for rent payments, utility payments, wage rates, overtime, vacation and bonus payouts provided to employees.

**Criteria:**

COSO's Internal Control – Integrated Framework defines the five interrelated concepts of internal control which include: Control Environment, Risk Assessment, Information and Communication, Monitoring, and Control Activities. A proper control environment includes the following attributes: communication and enforcement of integrity and ethical values, commitment to competence, proper human resource policies and practices. Effective monitoring requires that the entity select, develop, and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. Additionally, the monitoring process requires that the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate. Adequate control activities over disbursements and payroll include various controls over initiating, authorizing, recording, processing, correcting, reconciling and reporting transactions,

**Cause:**

The District did not have a properly designed or operating internal control system. Specifically, the District did not have adequate written policies and procedures to address payroll/personnel transactions. Monitoring of financial transactions, was weak or non-existent.

**Effect:**

As a result of the condition described above, several transactions were processed by the District without proper documentation.

**Recommendation:**

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation and reporting of all accounting transactions.

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEBRUARY 28, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-003    Segregation of Duties (Material Weakness)**

**Condition:**

During our audit, we noted that there is an absence of appropriate segregation of duties consistent with appropriate District internal control objectives.

**Criteria:**

There are four general categories of duties or responsibilities which should be segregated, as follows: authorization, custody, recordkeeping and reconciliation. In an ideal system, different employees would perform each of these four major functions. In other words, no one person should have control of two or more of these responsibilities. The more negotiable the assets, the greater the need for proper segregation of duties.

**Cause:**

We found that the Office Manager is responsible for custody, recordkeeping and reconciliation of the District's credit cards. Also, the receptionist opens the mail, prepares the bank deposit and posts the bank deposit in the accounting records.

**Effect:**

Lack of appropriate segregation of duties increases the risk that errors or irregularities can occur and go undetected. The impact on the financial statements has not been determined.

**Recommendation:**

An appropriate segregation of duties should be developed and maintained to ensure the safeguarding of the District's assets.

**Finding 2017-004    Credit Card Authorization and Documentation (Material Weakness)**

**Condition:**

During our audit, we noted that the District's process ensuring that credit card charges are approved and include supporting documentation was not effective. Our review of the credit card charges found that charges made on the District's credit cards did not always have supporting documentation or necessary receipts and did not indicate the business nature of the charge.

**Criteria:**

Management is required to maintain sufficient controls over key accounting functions, including purchases and disbursements. The District should ensure that policies and procedures related to the use of the District's credit cards are effectively followed and monitored to prevent unauthorized use.

**Cause:**

Our review of credit card statements for May 2016 and December 2016 showed nine (9) instances adding to total of \$344 in which credit card transactions did not have supporting documentation.

**Effect:**

Lack of proper controls over credit card purchases could result in unauthorized and fraudulent disbursements.

**Recommendation:**

We recommend that the District actively monitor the use of the District's credit cards and require that all employees submit receipts with all credit card charges and indicate the business nature of the charge. Employees should be given no more than 30 days after the charge to turn in their receipts.

**PANOCHÉ WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
February 28, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-005 Internal Controls Over Disbursements and Loans (Material Weakness)**

**Condition:**

The District did not obtain proper authorization for some instances disbursements made during the fiscal year. Specifically we identified the following transactions:

- Unauthorized Loan to the Panoche Drainage District in the amount of \$1,000,000. We noted no formal approval for loan made to the Panoche Drainage District during the fiscal year.

**Criteria:**

COSO's Internal Control – Integrated Framework defines the five interrelated concepts of internal control which include: Control Environment, Risk Assessment, Information and Communication, Monitoring, and Control Activities. A proper control environment includes the following attributes: communication and enforcement of integrity and ethical values, commitment to competence, proper human resource policies and practices. Effective monitoring requires that the entity select, develop, and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. Additionally, the monitoring process requires that the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate. Adequate control activities over disbursements and payroll include various controls over initiating, authorizing, recording, processing, correcting, reconciling and reporting transactions,

**Cause:**

The District did not have a properly designed or operating internal control system. Specifically, the District did not have adequate written policies and procedures over loan disbursements. Monitoring of financial transactions, was weak or non-existent.

**Effect:**

Lack of internal control over disbursements resulted in transactions processed by the District without proper documentation.

**Recommendation:**

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation and reporting of all accounting transactions. Further, we recommend that the Board approve all loans made by the District.

**PANOCHÉ WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FEBRUARY 28, 2017**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2016-001      **Financial Close and Reporting Process (Material Weakness)****

**Condition:**

The District did not properly record all payables, receivables, expenses and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

**Recommendation:**

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances

**Current Status as of February 28, 2017:**

Not Implemented. See Finding 2017-001.

**Finding 2016-002      **Internal Controls Over the Accounting Function (Material Weakness)****

**Condition:**

The District did not obtain proper authorization for multiple disbursement and payroll related transactions during the fiscal year. Specifically we identified the following unauthorized and/or improper transactions:

- Unauthorized Personal Loan to Employees – Remaining balance of at February 29, 2016 is \$57,376.
- Unauthorized Use of District Credit Cards – For a sample of 40 credit card transactions tested, 5 transactions for \$2,168 has no support provided for reimbursements. Some disbursements appeared personal in nature.
- Unauthorized Employee Fringe Benefits – No written contracts or agreements for housing provided to six employees. No written agreements or authorizations for rent payments, utility payments, wage rates, overtime, vacation and bonus payouts provided to employees.
- No Written Contracts or Agreements with Vendors – There were no written contracts identified for the determination of charges, per acre feet, of water purchased and delivered. Credits to vendor accounts were also applied to invoices with no reason documented.

**Recommendation:**

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation and reporting of all accounting transactions.

**Current Status as of February 28, 2017:**

Not Implemented. See Finding 2017-002 and 2017-005.

**Finding 2016-003      **Segregation of Duties (Material Weakness)****

**Condition:**

During our audit, we noted that there is an absence of appropriate segregation of duties consistent with appropriate District internal control objectives.

**Recommendation:**

An appropriate segregation of duties should be developed and maintained to ensure the safeguarding of the District's assets.

**Current Status as of February 28, 2017:**

Not Implemented. See Finding 2017-003.

**PANOCHÉ WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FEBRUARY 28, 2017**

**FINANCIAL STATEMENT FINDINGS** (Continued)

**Finding 2016-004**    **Credit Card Authorization and Documentation (Material Weakness)**

**Condition:**

During our audit, we noted that the District's process ensuring that credit card charges are approved and include supporting documentation was not effective. Our review of the credit card charges found that charges made on the District's credit cards did not always have supporting documentation or necessary receipts and did not indicate the business nature of the charge.

**Recommendation:**

We recommend that the District actively monitor the use of the District's credit cards and require that all employees submit receipts with all credit card charges and indicate business nature of the charge. Employees should be given no more than 30 days after the charge to turn in their receipts.

**Current Status as of February 28, 2017:**

Not implemented. See Finding 2017-004.



# PANOCHÉ WATER DISTRICT

52027 WEST ALTHEA AVE, FREBAUGH, CA 93622 • TELEPHONE (209) 364-6136 • FAX (209) 364-6122

## CORRECTIVE ACTION PLAN Fiscal Year Ended 2017

The Panoche Water District is in receipt of the findings with regards to the annual audit for fiscal year end 2017. Below is the corrective action plan submitted by the Panoche Water District in response.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	<p>Noted and agreed.</p> <p>The District has addressed the internal control system weakness by creating a written Accounting Policies and Procedures Manual that was prepared by management with assistance from an outside accounting firm. The first manual was adopted by the Board in April, 2017, and a revised, more detailed version was adopted by the Board in December, 2018. The District also reorganized its accounting department to include a controller, accounting supervisor and two accounting specialists. The offices are held by qualified and competent personnel. The Controller is leading the process of implementing the comprehensive accounting policies and procedure manual. There is particular emphasis on the financial close and reporting process. This process includes monthly and year-end close procedures following the written procedures along with a step-by-step checklist completion. Thus, the Controller is improving on the design and implementation of internal control system as provided in the accounting policies and procedures manual.</p>	Ongoing	John Paul Otollo
2017-002	<p>Noted and agreed.</p> <p>While the controls on employee benefits were weak at the beginning of FY 2017, the district has adopted numerous written policies to implement changes and has eliminated unauthorized employee fringe benefits. Employees benefiting from any fringe benefit including housing are subject to the applicable policy and procedures, where the value of fringe benefits is included in the employee's pay and whereby all the necessary taxes are applied and paid. Following procedures in the accounting policies and procedures manual, the accounting treatment of such fringe benefits ensures they are properly reported in the financial statements.</p> <p>The district has developed a district housing policy in 2018 and is implementing agreements consistent with that policy. Some of the adopted written policies implementing elements of the integrated framework include: July, 2016, Policy adopting modified compensation policy (addressed utility and electronics benefits); September, 2016, Policy Statement on Reasonable Expense Reimbursement and Use of Public Resources (updated November, 2017); September, 2016 Employee Handbook; February, 2017 Code of Conduct (revised April 2018); June, 2018 Compensation Policy; and December 2018, Ethics &amp; Compliance Program Charter. The District has appointed an Ethics &amp; Compliance Officer with responsibilities for monitoring and tracking compliance, in addition to creating multiple review levels within its accounting department. District staff has received trainings on the various policies. The written accounting policies and procedures manual sets forth step by step measures for all payroll procedures. The totalities addresses this particular finding effectively, including both written policies, training and monitoring procedures.</p>	Ongoing	John Paul Otollo
2017-003	<p>Noted and agreed</p> <p>The district has developed an accounting policies and procedures manual and is consistently implementing the policies as provided in the manual. The District also reorganized its accounting department to include a controller, accounting supervisor and two accounting specialists, staffed with competent personnel. The two specific instances noted, namely that regarding accounting for the district's credit cards and the preparation and recording of the daily bank deposit are being specifically addressed. In addition, the district will take note of any further potential instances where duties should be segregated.</p>	Ongoing	John Paul Otollo

Board of Directors: John F. Bennett, *President*  
Ross Koda, *Director*

Suzanne Redfern-West, *Vice President*  
Michael Linneman, *Director*

Michael Stearns, *Secretary*  
Ara Azhderian, *General Manager*

2017-004	<p>Noted and agreed.</p> <p>The district has adopted an accounting policies and procedures manual which extensively address the oversight of district credit cards. While adopting these procedures will give assurance that unauthorized disbursements do not occur and minimize the potential for any fraudulent transactions, every effort will be made to ensure no transaction are lacking of receipt or appropriate supporting documentation which notes the business purpose of the charge. An assigned member of the Board of Directors reviews credit card statements and receipts and reports to the Board monthly. In addition to the accounting procedures manual, in September, 2016, the District adopted a Policy Statement on Reasonable Expense Reimbursement and Use of Public Resources, along with an extensive Employee Handbook setting forth permissible uses of District property and prohibiting personal use, including prohibitions on personal loans and personal use of credit cards. It also established a written Credit Card authorization policy. This Policy Statement was updated in 2017 to reflect changes in District organization and certain minor adjustments.</p>		
2017-005	<p>In April, 2018, the District adopted a revised Investment Policy authorizing investment in notes, warrants, or other evidences of indebtedness with a maturity of no more than 5 years of a local agency. Subsequently, the district board of directors authorized and executed a repayment agreement in February 2019. The repayment agreement documents the transaction and provides the terms and conditions, including the payment of interest, of the Panoche Drainage District obligation to Panoche Water District.</p>	Ongoing	John Paul Otollo

Signature:   
 General Manager

Signature:   
 Financial Manager

---

Board of Directors: John F. Bennett, *President*  
 Ross Koda, *Director*

Suzanne Redfern-West, *Vice President*  
 Michael Linneman, *Director*

Michael Stearns, *Secretary*  
 Ara Azhderian, *General Manager*