



CPAs & BUSINESS ADVISORS

MOULTON NIGUEL WATER DISTRICT

Communication With Those Charged With Governance



AUDIT SERVICES

Perform the audit, as of June 30, 2020:

- Comprehensive annual financial report (CAFR)
- Public Facilities Corporation (PFC)
- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*
- 2 CFR 200 Single Audit in accordance with the Uniform Guidance

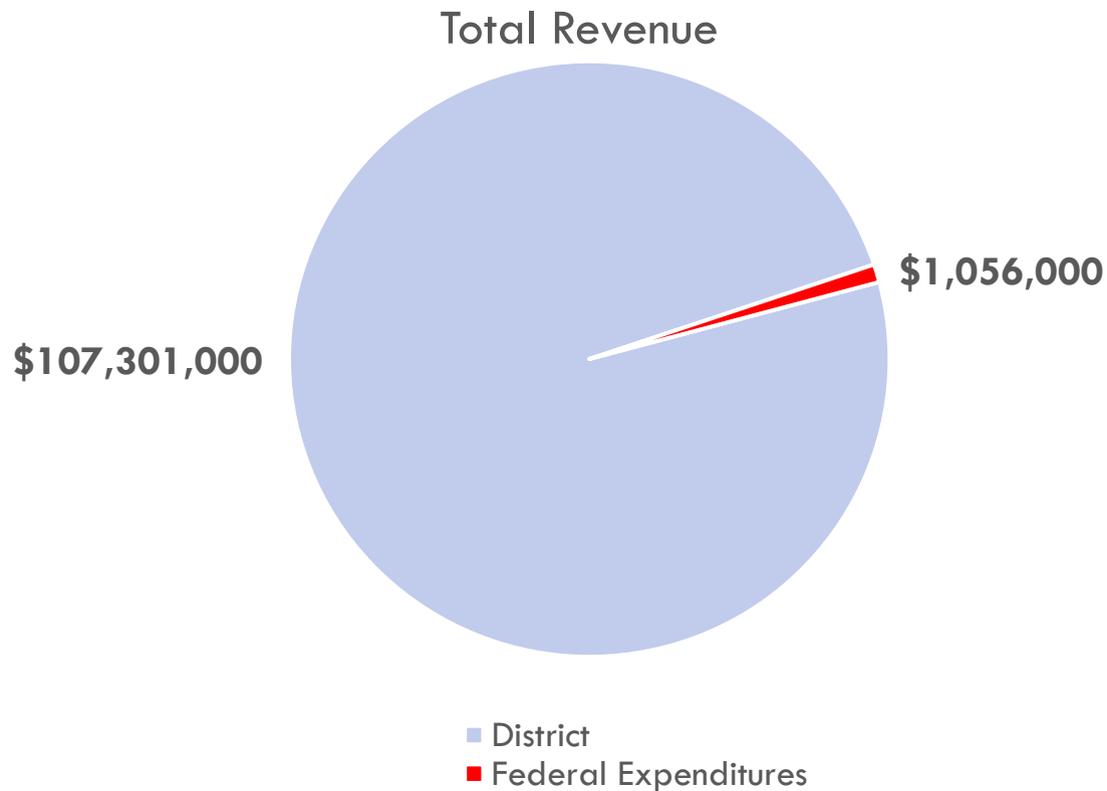
Perform Agreed Upon Procedures over the GANN Limit

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

- Form and express an opinion about whether the financial statements which are the responsibility of management, with your oversight, are presented fairly, in all material respects, in accordance with U.S. GAAP.
- Our responsibility is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- We considered internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- We considered internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

OUR RESPONSIBILITY, CONT'D

- Express an opinion as to whether the District complied with direct and material compliance requirements described in the OMB Compliance Supplement.



SUMMARY OF AUDIT RESULTS

Financial Statements

- Unmodified opinion on the financial statements of the District and the PFC

Government Auditing Standards

- No material weaknesses reported
- No instances of noncompliance reported

Single Audit

- Major Program – CFDA 15.507: WaterSMART
- Unmodified opinion on compliance
- Material weakness and an instance of noncompliance reported as 2020-001

AUDITOR COMMUNICATIONS

Ethics and Independence

- We have complied with all relevant ethical requirements regarding independence.

Significant Accounting Policies

- Adopted GASB 87, *Leases* (Notes 1 and 4)

Significant Estimates

- Net Pension Liability
- Net OPEB Liability

AUDITOR COMMUNICATIONS

Sensitive Disclosures

- Leases (Note 4)
- Pension Plan (Note 9)
- OPEB Benefits (Note 10)
- Subsequent Events (Note 18)

Misstatements

- No items were reported

Consultations with Other Accountants

- Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

AUDITOR COMMUNICATIONS

Significant Difficulties

- We encountered no significant difficulties in dealing with management.

Disagreements with Management

- No disagreements arose during the course of the audit

Emphasis of Matter

- An emphasis of matter was included in our audit report regarding the early adoption of GASB Statement No. 87, *Leases*.

THANK YOU

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CPAs & BUSINESS ADVISORS

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Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2020

Moulton Niguel Water District

Independent Auditor’s 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* 1

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

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Independent Auditor's 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*

The Board of Directors
Moulton Niguel Water District
Aliso Viejo, California

We have audited, 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, the financial statements of the Moulton Niguel Water District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated _____, 2020.

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) 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 's internal control. Accordingly, we do not express an opinion on the effectiveness of '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 entity'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. 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.

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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Laguna Hills, California
_____, 2020

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited the Moulton Niguel Water District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses and significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements. We issued our report thereon dated _____, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Laguna Hills, California
_____, 2020

DRAFT 11/3/20
Moulton Niguel Water District
 Schedule of Expenditures of Federal Awards
 For Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Department of the Interior - Bureau of Reclamation			
Direct Assistance			
WaterSMART (R18AP00172 - Phase II)	15.507	N/A	\$ 298,542
WaterSMART (R19AP00134 - Phase III)	15.507	N/A	<u>757,893</u>
Total CFDA 15.507			<u>1,056,435</u>
Total Department of the Interior			<u>1,056,435</u>
Total Federal Financial Assistance			<u><u>\$ 1,056,435</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Moulton Niguel Water District (the District) under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Organization has elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
WaterSMART	15.507
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None Reported.

Section III – Federal Award Findings and Questioned Costs

2020-001 **Department of the Interior – Bureau of Reclamation**
CFDA # 15.507, R18AP00172 – Phase II (2019); R19AP00134 – Phase III (2020)
WaterSMART

Activities Allowed or Unallowed; Allowable Costs and Cost Principles

Material Weakness on Internal Control over Compliance and Compliance

Criteria: 2 CFR Section 200.400(d) *Policy Guide* requires adequate documentation to support costs charged to the Federal award.

Condition: During our testing of expenditures incurred under the program we identified \$275,978 of costs that were the result of a duplicate entry in the general ledger. The District investigated the matter, identifying an additional \$292,942 of invoices that were entered in error, resulting from a transposition of invoice amount instead of quantity of units purchased. In total \$568,920 of invoices were recorded in error, resulting in an overstatement of expenditures and accounts payable in the District’s general ledger. When claiming expenditures, the District claimed and was reimbursed for \$147,919 of costs (\$568,920 x federal reimbursement rate of 26%), which were related to this input error. Of this amount, the auditor identified \$71,754, while the District, as a result of its due diligence, identified the additional \$76,165. The District subsequently reclassified all of these amounts and has recorded a liability for amounts drawn down under this grant. Future expenditures will be applied before the grant is closed out.

Cause: While the District performs a 3-way match for all disbursements, the District’s internal controls did not identify the input error on a timely basis, or prior to the funds being claimed for reimbursement.



Effect: The District has replenished the federal program with its own funds, and recorded unearned revenues of \$147,919 for the amounts received from the Federal agency prior to incurring costs. Subsequent grant disbursements will be reimbursed through these funds before additional funds are drawn down, and before the grant is closed out, in accordance with the terms and condition of the award.

Questioned Costs: The District recorded a journal entry to replenish the federal program with its own funds, and will deduct from subsequent drawdown requests. However, as costs were not supported by invoices at the time of audit, questioned costs of \$71,754 were identified by the auditor.

Context/Sampling: A nonstatistical sample of 12 transactions out of a 43 total transactions were selected for testing, which accounted for \$951,363 of \$1,204,354 total program expenditures. As a result of the items identified by the auditor and the District, the SEFA was adjusted by \$147,919 to a total of \$1,056,435 program expenditures.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend the District enhance its grant expenditure procedures to ensure that invoices are carefully reviewed against supporting documentation, and payment has been incurred, prior to requesting reimbursements from the granting agency. By carefully reviewing prior to submitting reimbursements, the District can validate costs are properly supported by invoices.

Views of Responsible Officials: See Separate Corrective Action Plan.

None Reported.