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## MANAGEMENT LETTER

To the Board of Directors and Management  
Mountain House Community Services District  
Mountain House, California

In planning and performing our audit of the financial statements of the Mountain House Community Services District (the District) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, during our audit, we became aware of the following matters that have been included in this letter for your consideration:

### Capital Assets

We recommend that qualified personnel perform a capital asset inventory in all departments. The District has policies in place regarding the performance of a capital asset inventory annually and the required reporting regarding the relocation and disposal of equipment.

We noted some of the lives and in-service dates were missing from the capital asset depreciation list and others were revised to reflect dates asset costs were certified. We recommend the District ensure the in-service date and depreciable life that was used to determine the accumulated depreciation is included on the detail list when it is provided for next year's audit.

*Management's response: The District's Strategic Plan includes a goal 2023 of developing an inventory program. A listing of assets is currently maintained in a spreadsheet; we are planning to implement the fixed assets module of our current accounting software that will make accounting for fixed asset additions and deletions, depreciation and taking an inventory more efficient. District staff will assign qualified personnel to inventory fixed assets annually. The lives and in-service dates will be addressed for the 2024 audit.*

Indirect Cost Allocation

We noted the District allocates indirect labor and overhead to funds with restricted resources using the budgeted percentage of activities by department. Due to the size of the allocation and restricted resources involved, we recommend the District hire a cost allocation expert to assist the District in the preparation of a cost allocation plan that would stand up to external scrutiny if challenged. Although the District does not currently receive any federal funds, we recommend the indirect cost allocation be prepared in accordance with the requirements of the Office of Management and Budget's former Circular A-87 as incorporated into Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as it is the industry accepted approach for cost allocations.

*Management's response: District staff is currently completing a cost allocation plan with a Cost Allocation Specialist. The new plan will apply to the 2023/24 fiscal year.*

Interest Allocations

We noted the District had significant cash in the Capital Projects Fund and Developer Enterprise Fund, but did not allocate investment interest to these Funds. Since investment income is increasing, we recommend the District allocate investment income to the funds in the future.

*Management's response: District staff will allocate interest to Capital Projects Funds and Developer Funds during the 2023/24 fiscal year.*

Capital Projects Fund

Capital projects funds are used for the construction of capital facilities and the purchase of other capital assets. However, we noted a significant amount of uncanceled expenditures were recorded in the fund. Noncapital projects should be budgeted and recorded in the General Fund or special revenue funds in the future.

*Management's response: District staff will create a new procedure to ensure only large capital expenditures will be recorded in the Capital Projects Fund in future years.*

Interfund Advance

An interfund advance of bond proceeds was approved between the Wastewater and Water Fund with the split of the bond payments unchanged. We recommend the District execute an interfund advance agreement specifying repayment terms and an appropriate interest rate as required by the District's interfund loan policy.

*Management's response: District staff will bring a resolution to the Board that will include specific repayment terms for the Wastewater Fund's advance to the Water Fund.*

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We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than the specified parties.

*Richardson & Company, LLP*