

To the Board of Directors
of the South Orange County Wastewater Authority

In planning and performing our audit of the financial statements of the South Orange County Wastewater Authority (Authority) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the following deficiency to be a material weakness:

(1) Adjustment Detected During the Audit

Auditing standards require the auditors to include in the report of internal controls any material adjustment detected during the audit process. For the year ended June 30, 2016, we recorded an adjustment to move certain capital assets out of construction in progress and place them into service. The Authority did record assets as placed into service for which they expected no additional costs, but did not record all assets that were in use as of June 30, 2016.

Recommendation

We recommend that the Authority record capital assets as placed into service along with the associated depreciation when the assets are in use.

Management Response

South Orange County Wastewater Authority agrees with the recommendation.

The following matters are not considered to be a material weaknesses or significant deficiencies but are best practice considerations to enhance internal controls:

(1) Need to Improve Internal Controls over Vendor Management

During our review of the account payable process, we noted that both the Senior Accountant and the Accounts Payable Accountant have the ability to edit/create vendors and print checks for vendor payments. These functions, ideally, would be assigned to different individuals, or effective compensating controls should be implemented such as a separate individual reviewing a vendor change report periodically.

Management Response

The Finance Controller will periodically review edits/changes to vendor records made by the accounting department.

(2) Controls Over Inventory

During our review of the inventory process, we noted that an accounting inventory of parts and equipment was performed in October 2016 for the year ended June 30, 2016. While the Authority maintains detailed records of inventory that has been purchased and used, it would be best practice to perform the inventory count closer to the yearend date.

Management Response

The physical inventory will be completed on or close to June 30th.

(3) Investment Policy Update

During our review of investments and the investment policy, we noted that the latest formal investment policy is dated August of 2007. It would be best practice to review and update the policy to a more current date.

Management Response

South Orange County Wastewater Authority will update the investment policy.

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



Irvine, California
June 23, 2017