

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT**

June 19, 2016 – 9:00 AM
1960 La Costa Avenue, Carlsbad, CA 92009

1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **New Business**
 - A. Audit Entrance Meeting with Davis Farr, LLP (Pages 2-4)
5. **Information Items**

None.
6. **Directors' Comments**
7. **General Manager's Comments**
8. **Adjournment**

MEMORANDUM

Ref: 17-5462

DATE: June 15, 2017
TO: Investment & Finance Committee (IFC)
FROM: Paul J. Bushee, General Manager
SUBJECT: Audit Entrance Meeting



RECOMMENDATION:

1. This item is for information purposes.

DISCUSSION:

During April 2016, LWD entered into an agreement with Davis Farr, LLP (Davis Farr) for the purpose of performing financial auditing services for Fiscal Years 2016 through 2018.

As a practice and as a part of the auditing process, the IFC typically meets with the District's auditors to discuss the auditing process. Jennifer Farr, CPA of Davis Farr, will be at the IFC meeting to present information about the FY17 audit and discuss items that may be of interest to the IFC. Attached is a copy of their letter "Communication with Those Charged with Governance" which was previously delivered to the full Board of Directors.

rad:PJB

April 17, 2017

Board of Directors
Leucadia Wastewater District
Carlsbad, California

We are in the process of planning the audit of the Leucadia Wastewater District (the "District") for the year ending June 30, 2017.

Professional auditing standards require that, as a part of our audit, we inquire of those in governance to ascertain whether or not the Board of Directors (the "Board") has knowledge of matters that might have a bearing on the auditor's risk assessment for the annual audit of the District's financial statements.

Examples of these matters are:

- Known or suspected instances of employee fraud
- Areas in which the internal controls of the District are thought by the Board to be weak
- Known or suspected misstatements in the accounting records of the District
- Known or suspected use of improper accounting practices by the District
- Any awareness of pressure upon the District or District management with respect to achieving certain financial results
- Matters that warrant particular attention during the audit
- Information about unusual transactions or other matters relevant to the audit

Generally, the scope of the audit is limited to *matters involving amounts that would be significant to the financial statements of the District taken as a whole*. If additional time is required to respond to the concerns of the Board, we will estimate for the District the costs involved.

Statement on Auditing Standards No. 114 requires the auditors to communicate the planned scope and timing of the audit. Additionally, at the conclusion of the audit, we plan to meet with the Board to communicate the auditor's responsibilities under generally accepted auditing standards and significant findings from the audit.

Timing of Audit

We plan to begin the final audit examination on September 25, 2017 and be completed with fieldwork in October. We plan to present the audit reports and results of the audit to the Board of Directors at the completion of the audit.

Planned Scope of Audit

In addition to our standard audit approach, we have identified the following potential fraud and error risk areas for the District and plan to modify our audit approach as follows:

- Risk of errors associated with recording capital asset additions: As a result of the significance of capital projects, we plan to test the most significant capital projects to ensure asset additions are properly recorded and removed from construction in progress when completed.
- Risk of errors in recording Encina Wastewater Authority transactions: We will review the Joint Powers Agreement to determine the proper accounting of the transactions. We will test a sample of payments to Encina Wastewater Authority to determine if they are properly reflected as either operating or capital expenses and were made in accordance with the Joint Powers agreement.
- As our unpredictability test for this year's audit, we will be performing data analytics on the District's expenditures including performing a Benford's Law Test, reviewing checks for gaps in sequence or duplicates, and reviewing checks written on weekends for reasonableness. We will report back to you the results of these tests.

If any member of the Board has information relevant to our audit (matters involving amounts that would be significant to the financial statements of the District taken as a whole), please contact the undersigned at (949) 783-1740 or JFarr@davisfarr.com.

Very truly yours,

A handwritten signature in blue ink that reads "Jennifer Farr". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Jennifer Farr
Davis Farr LLP