



February 10, 2023

To the Board of Directors and Management  
Santa Lucia Community Services District  
Carmel, California

In planning and performing our audit of the financial statements of Santa Lucia Community Services District (the District) as of and for the year ended June 30, 2022, 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 auditing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or 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. We consider the following deficiency in the District's internal control to be a significant deficiency.

#### **FIXED ASSETS**

**Observation:** During the audit it was noted that the fixed asset schedules were not properly maintained. The schedules were not fully updated for additions and deletions. Further, the amounts posted to construction in progress were not reviewed to determine which amounts should be reclassified to fixed asset accounts, repairs and maintenance or remain as work in progress. There were also several items recorded in repairs and maintenance that needed to be capitalized and a couple of items capitalized that were below the capitalization policy. In addition, there were formula errors for assets that became fully depreciated during the current year and for new assets added.

**Recommendation:** We recommend that management follow the capitalization policy in place and review expenses regularly to determine the proper recording of these transactions. The District should communicate the policy to those who code property invoices to ensure the policy is consistently followed. Additionally, the District should reconcile the fixed asset schedule to the fixed asset accounts on a regular basis and verify formulas are correct for added assets and assets that become fully depreciated during the year.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

#### **ACCOUNTS PAYABLE**

**Observation:** During our search for unrecorded liabilities, we noted exceptions in which invoices related to goods received or services performed prior to June 30, 2022 were not recorded as payables or accruals for the year ended June 30, 2022 including various costs related to construction in process.

**Recommendation:** Proper cutoff is critical for the accuracy of the District's financial statements in order to reflect the complete effects of the District's financial transactions for a period. We recommended that the District review unpaid invoices at the balance sheet date and subsequent payments after that date (for a month) to ensure the completeness of accounts payable and accruals at the balance sheet date. This will help ensure that all material expenses and the related liabilities are recorded properly in the District's financial statements as of the balance sheet date.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

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 these specified parties.



**CliftonLarsonAllen LLP**

Salinas, California  
February 10, 2023