

SUTTER BUTTE FLOOD CONTROL AGENCY

**MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER**

June 30, 2012

SUTTER BUTTE FLOOD CONTROL AGENCY
June 30, 2012

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES

9107 WILSHIRE BLVD. SUITE 500
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

5800 E. HANNUM, SUITE E
CULVER AGENCY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

December 4, 2012

Members of the Board of Directors
Sutter Butte Flood Control Agency
1227 Bridge Street, Suite C
Yuba City, California 95991

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency (Agency), as of and for the fiscal year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 significant deficiencies or material weakness and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Having completed the annual audit of the Agency's records for the fiscal year ended June 30, 2012, we are pleased to report that there are no observations, recommendations, or suggestions at this time.

We have included in this letter a summary of communications with the members of the Board of Directors as required by professional auditing standards. We would like to thank the Agency's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of the Board of Directors of the Agency and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

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December 4, 2012

Members of the Board of Directors
Sutter Butte Flood Control Agency
1227 Bridge Street, Suite C
Yuba City, California 95991

We have audited the financial statements of the governmental activities, and each major fund of the Sutter Butte Flood Control Agency (Agency) for the fiscal year ended June 30, 2012. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, one new accounting policy was adopted during the fiscal year ended June 30, 2012. The new pronouncement did not have an effect on the Agency's financial statements. We noted no transactions entered into by the Agency during the fiscal years for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the collectability of assessment revenues.

Management estimates that 100% of assessment revenues are collectable. We evaluated the key factors and assumptions used to develop this estimate and determined that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, one of the misstatements detected as a result of audit procedures and corrected by management was material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. The one adjustment was for taxes receivable and deferred revenue.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 4, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and

reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Moss, Levy & Hartzheim

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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***

Members of the Board of Directors
Sutter Butte Flood Control Agency
1227 Bridge Street, Suite C
Yuba City, California 95991

We have audited the financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency, as of and for the fiscal year ended June 30, 2012 which collectively comprise the Sutter Butte Flood Control Agency's basic financial statements, and have issued our report thereon dated December 4, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sutter Butte Flood Control Agency's internal control over financial reporting 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 Sutter Butte Flood Control Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sutter Butte Flood Control Agency's internal control over financial reporting.

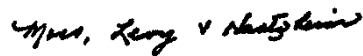
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Sutter Butte Flood Control Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

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



Moss, Levy & Hartzheim, LLP
Culver City, California
December 4, 2012

CURRENT YEAR RECOMMENDATIONS

No significant findings noted.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Significant Deficiencies

2011-01 Finding – Lack of certain policies:

During our review of Agency policies, we noted that the following policies have yet to be implemented:

- a. Capital assets
- b. Fraud reporting
- c. Purchasing policy
- d. Computer use
- e. Disaster recovery plan
- f. Drug free
- g. Labor regulation policies associated with grants

Effect:

Without the above policies, employees and contractors of the Agency do not have written guidelines and plans to follow when performing their duties. This could lead to a misappropriation of funds, fraud to occur and go unreported, and grants to be disallowed or not awarded.

Recommendation:

We recommend that the Agency implement the seven policies above, for stronger controls and proper written guidelines.

Status:

Implemented.

2011-02 Finding – Lack of insurance coverage:

During our audit, we noted that there was no liability insurance in place from the Agency's inception to June 30, 2008.

Effect:

Lack of insurance coverage could lead to unnecessary liability of the Agency.

Recommendation:

We recommend that the Agency have sufficient insurance coverage at all times.

Status:

Implemented.

STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

Other Matter

2011-03 Finding – Lack of “paid” stamp and approval on paid invoices:

During the test of cash disbursements, we noted that three paid invoices lacked a “paid” stamp and one paid invoice lacked an approval signature.

Effect:

Without a “paid” stamp defacing each paid invoice, there is a possibility of the paid invoice being resubmitted for payment and a duplicate payment could result. Also, paid invoices that do not contain approval signatures indicate that the invoice may not have been approved for payment.

Recommendation:

We recommend that all paid invoices be stamped “paid” at the time of payment, to avoid duplicate payments. Also, all invoices should contain approval signatures prior to processing for payment, to ensure that the invoice is for appropriate Agency business and has been reviewed and approved by the appropriate personnel.

Status:

Implemented.