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To the Board of Directors
Citrus Heights Water District
Citrus Heights, California

Under auditing standards generally accepted in the United States of America, auditors are encouraged to report various matters concerning an entity's internal control noted during an audit, and are required to report certain of those matters. Matters that are required to be reported are significant deficiencies in the design or the operation of internal control that, in the auditor's judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As part of our audit of the financial statements of the Citrus Heights Water District (District) for the calendar year ended December 31, 2004, we considered the District's internal control in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. While our purpose was not to provide assurances on internal control, certain matters came to our attention that we want to report to you.

A material weakness is a significant deficiency, in which the design or operation of one or more of internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts, that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above.

The accompanying memorandum on internal control is intended solely for the use of management and District Board. This restriction is not intended to limit the distribution of this letter and the accompanying memorandum, which, upon acceptance by the District Board, are a matter of public record. To the extent that the District Board intends to rely upon this letter and the accompanying memorandum, such reliance should take into account the limited basis on which our recommendations were developed, as described above and the limitations inherent in internal control. In addition, the District Board should understand that the criteria used by us in considering the internal control could differ significantly from the criteria the District Board might be using for its purpose.

We wish to express our appreciation for the courtesies and cooperation extended to our firm during the course of the audit. The recommendations and suggestions herein noted are of general nature only and are not to be taken as criticism of current management. Should you wish to have a more detailed explanation or assistance in executing them, we would be happy to be of assistance in any way.

Moss, Levy & Hartzheim, CPAs

Moss, Levy & Hartzheim

**CITRUS HEIGHTS WATER DISTRICT
FINDINGS & RECOMMENDATIONS
MEMORANDUM ON INTERNAL CONTROL
December 31, 2004**

General

Finding: During our test of disbursements, we noted that stamp "RECEIVED" was being used instead of stamp "PAID."

Recommendation: We recommend to the District that they use stamp "PAID" to avoid possible misappropriation of funds and duplication of payments.

**Management
Response:**

The District disagrees that the "RECEIVED" stamp is being used instead of the "PAID" stamp. All invoices are stamped with the "RECEIVED" stamp on the date that they are received, providing a record on the invoice of the date that it was received by the District. A second stamp is used on each invoice when that invoice is paid by the District. The stamp contains several blank fields that are filled in with the payment voucher number that is generated by the District's financial accounting system, the vendor's invoice number (or other information to identify the specific invoice being paid), the District Expense Account number(s) from which the invoice was paid, and the amount(s) paid. Although this stamp does not say "PAID", the District believes this stamp is actually more functional and valuable than a simple "PAID" stamp. When completed at the time the invoice is paid, this stamp contains essential items of information that tells not only that the invoice was in fact paid, but how and when that invoice was paid. The District believes that the use of a "PAID" stamp in addition to the stamp currently used would be redundant and would serve no constructive purpose.

Disbursement Test

Finding: During our test of disbursements, we noted that one of sixty invoices, we were unable to recalculate the amount. The amount due was \$2.50 but payment was \$20.00.

Recommendation: We recommend to the District that all invoices be recalculated before making payment to avoid possible misappropriation of funds.

**Management
Response:**

The District concurs with this recommendation. It has been, and will continue to be, the District's practice to recalculate all invoices before making payment. The importance of consistently performing recalculations will be reinforced with all District staff responsible for accounts payable. Periodic random spot checks of invoices by District management will be conducted to help ensure compliance with this practice.

**CITRUS HEIGHTS WATER DISTRICT
FINDINGS & RECOMMENDATIONS (Continued)
MEMORANDUM ON INTERNAL CONTROL
December 31, 2004**

Receipts Test

Finding: During our test of receipts, we noted that upon examination of the payment posting journal, the page containing the item was missing.

Recommendation: We recommend to the District that all backup documentation be obtained/retained.

Management

Response: The District concurs with this recommendation. It has been, and will continue to be, the District's practice to obtain and retain all payment posting journals in accordance with generally accepted accounting practices and the District's own records retention policy. The District has reviewed its process for obtaining and retaining this information to ensure that it is being performed in a manner that will minimize the chances of missing information. In addition to printing a paper copy of the payment posting journals, these journals are now being saved in an electronic format so that a backup record exists in case the paper copy is lost or destroyed.