

## **AUDIT & FINANCE COMMITTEE**

### ***Georgetown Divide Public Utility District Accounting Practices***

Citizen Complaint #C1-02/03

#### **Reason for the Report**

A complaint was made against Georgetown Divide Public Utility District (GDPUD) for past accounting practices.

#### **Scope of the Investigation**

The members of the Grand Jury interviewed:

- The Complainant;
- GDPUD CPA (Consultant) for the period of 1976 to present;
- Two GDPUD board members;
- The prior GDPUD General Manager;
- The Current Auditor;
- The El Dorado County Auditor-Controller.

The Grand Jury also reviewed:

- The June 1, 1998, AICPA Code for independence as to audit services;
- The accounting records of GDPUD;
- The reports prepared by the in-house CPA;
- The annual audits for the fiscal years 1995 through 1998.

#### **Background**

Founded in 1946, Georgetown Divide Public Utility District is a public utility district operating under the State of California Public Utility Code and Special District Codes & Procedures. The District has a governing body of five elected Board of Directors and an appointed General Manager/Clerk of the Board. The District employs twenty full-time operations and administrative staff.

The first issue the complaint raised was the current Consultant conducted audits on his own work from 1981 through 1995. The committee found this to be true. GDPUD in-house personnel performed the basic bookkeeping functions and the information was given to the Consultant to complete the necessary accounting records. The Consultant was not an employee of GDPUD

and did not make management decisions. GDPUD's general manager signed the Consultant's Letter of Engagement.

During this period, the Generally Accepted Accounting Principles (GAAP), and Generally Accepted Auditing Standards (GAAS) conflicted with Government Auditing Standards (Yellow Book) regarding a self-audit. The 1994 Edition of the Yellow Book (Personal Impairment Chapter 3.16f, Note 3) does allow a self-audit under the following condition:

“An individual performs a substantial part of the accounting process or cycle, such as analyzing, journalizing, posting, preparing, adjusting and closing entries, and preparing the financial statements and later the same individual performs and audit. In instances in which the auditor acts as the main processor for transactions initiated by the audited entity, but the audited entity acknowledges responsibility for the financial records and financial statements, the independence of the auditor is not necessarily impaired.”

The second issue was the Consultant shared an office with the Auditor who performed the 1996 through 1999. A shared office arrangement would not necessarily violate the independence of the audit firm but could lead others to question the independence of the auditor.

The third issue was the current auditor did not obtain the mandatory Management Representation letter at the conclusion of the auditor's fieldwork for year ending June 30, 2000. The Grand Jury requested but was unable to obtain a copy of the Management Representative Letter from the auditor or GDPUD for the fiscal year ending June 30, 2000 therefore the Grand Jury was unable to determine whether the Management Representative Letter existed.

The fourth issue was for the fiscal year ending June 30, 2001, the fieldwork was completed in the fall of 2001, but the Management Representation letter was not prepared until January 7, 2002 and was ultimately signed by a person who was not employed by GDPUD during the audit period.

It was alleged that the Consultant made it difficult for the current auditing firm to proceed in a timely manner by ordering five rewrites. The current auditing firm has concluded that these rewrites were not the result of financial errors but of an interpretation nature.

The Consultant provided accounting services for GDPUD without a contract from 1976 through 2001 when the parties agreed to a written contract. An in-house CPA was hired in the fall of 2002 to provide financial information to the general manager and gradually assume the accounting functions of the Consultant.

## **Findings**

- F1. The Consultant performed audits for GDPUD from 1981 through 1995 in addition to certain accounting functions with GDPUD management knowledge and approval.
- F2. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) do not allow a self-audit. Government Auditing Standards (Yellow

