
SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2006

MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
2515 VENTURE OAKS WAY, SUITE 135
SACRAMENTO, CA 95833



MANAGEMENT REPORT

To the Board of Directors
South Feather Water & Power Agency
Oroville, California

In planning and performing our audit of the financial statements of the South Feather Water & Power Agency as of and for the year ended December 31, 2006, 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 opinion 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

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.

Mann, Urrutia, Nelson CPAs

April 5, 2007
Sacramento, California

PRINCIPALS

CURRENT YEAR FINDINGS

Payroll Process

Our review of the Agency's payroll system disclosed that the individual responsible for preparing the payroll also performs other payroll and personnel duties. Specifically, the individual who prepares the payroll also distributes the payroll checks, adds and removes employees from the payroll system and transfers the necessary payroll funds into the payroll bank account. To enhance the segregation of payroll procedures and strengthen internal control we recommend the following:

- The transfer of funds for the purpose of payroll should be done by a party independent of the payroll process. When paychecks are returned to the Agency by ADP, we recommend those checks be reconciled to reports provided by ADP and then distributed by an individual other than the employee charged with entering payroll.
- Management should be directly provided with reports generated by ADP disclosing any changes made to employee's pay records. This would include changes in pay rates, creation and deletion of employees and changes made to employee withholdings. These reports will be a simple way for management to monitor the approved changes to employee records.

Inventory

During our review of controls over the Agency's inventory, we noted the Power division does not maintain adequate inventory records. Management should establish a physical inventory tracking system and should implement procedures to ensure a physical inventory count is performed at least annually. The Agency currently has similar procedures in place for the Water division inventory. Performing these procedures will allow the Agency to better record and track their assets.