



# BROWN ARMSTRONG

*Certified Public Accountants*

To the Honorable Members of the Board of Directors  
California Electronic Recording Transaction Network Authority  
Bakersfield, California

We have audited the financial statements of California Electronic Recording Transaction Network Authority (the Authority) for the year ended June 30, 2018. Professional standards require that we provide you with 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 18, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*; GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*; GASB Statement No. 85 – *Omnibus 2017*; and GASB Statement No. 86 – *Certain Debt Extinguishment Issues*, during the year ended June 30, 2018. We noted no transactions entered into by the Authority during the year 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 estimates affecting the Authority's financial statements were:

Management's estimates used in establishing the net pension liability and related deferred outflows and inflows of resources are based on actuarial reports prepared and provided by an independent third party. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Note 8 – Pensions  
Note 10 – Prior Period Adjustments  
Note 11 – Restatement

The financial statement disclosures are neutral, consistent, and clear.

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#### *Difficulties Encountered in Performing the Audit*

We encountered no significant 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached list of misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the Authority's financial statements.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 July 31, 2020.

#### *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 Authority'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 Authority'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 Matters**

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of the Authority's Proportionate Share of the Net Pension Liability, and Schedule of the Authority's Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Budgetary Comparison Schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

**Concerns over the Authority's Internal Control on Accounting over Payroll Liabilities**

The Authority's employment contract with its employees does not have limits over vacation and sick leave accruals. In addition, due to lack of segregation of duties and the fact that there are only two full-time employees, there is no monitoring in place over employees' time keeping and usage of vacation and sick leaves. As a result, the Authority's payroll expenses are subject to potential fraudulent charge and abuse.

**Restriction on Use**

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
July 31, 2020

Client: **14471 - California e-Recording Transaction Network JPA**  
Engagement: **14471.001 - 6/30/2018 Audit**  
Period Ending: **6/30/2018**  
Trial Balance: **TB**  
Workpaper:

Account	Description
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**Adjusting Journal Entries JE # 1**

To record prior year capital assets and advances payable.

0730	Computer Equipment	101,167	
2350	FUND BALANCE AVAILABLE	1,229,306	
0735	Accumulated Depreciation		52,681
1310	Advances Payable		1,277,792
<b>Total</b>		<b>1,330,473</b>	<b>1,330,473</b>

**Adjusting Journal Entries JE # 2**

To record prior year pension related entries.

0612	Deferred outflows- pensions	296,687	
2350	FUND BALANCE AVAILABLE	258,729	
1612	Deferred inflows- pension		82,602
1795	Net pension liability		472,814
<b>Total</b>		<b>555,416</b>	<b>555,416</b>

**Adjusting Journal Entries JE # 3**

To adjust net position for prior adjustments that did not get recorded on the trial balance.

2350	FUND BALANCE AVAILABLE	32,430	
5260	OTHER SERV FOR GOVTL		32,430
<b>Total</b>		<b>32,430</b>	<b>32,430</b>

**Adjusting Journal Entries JE # 4**

To adjust fund balance for prior year adjustments that did not get recorded on the trial balance.

7525	PSS/DATA PROCESSING	19,250	
2350	FUND BALANCE AVAILABLE		19,250
<b>Total</b>		<b>19,250</b>	<b>19,250</b>

**Adjusting Journal Entries JE # 5**

To remove payroll funding expenditure from 2017-18 fiscal year and make a prior period adjustment to move the expenditure to 2016-17 fiscal year.

2350	FUND BALANCE AVAILABLE	29,980	
7514	PSS/OTHER ADMIN COSTS		29,980
<b>Total</b>		<b>29,980</b>	<b>29,980</b>

**Adjusting Journal Entries JE # 6**

To accrue 2017-18 expenditure for payroll funding.

7514	PSS/OTHER ADMIN COSTS	30,004	
1015	Accrued Expenditures		30,004
<b>Total</b>		<b><u>30,004</u></b>	<b><u>30,004</u></b>

**Adjusting Journal Entries JE # 7**

To record current year depreciation.

7990	Depreciation Expense	15,636	
0735	Accumulated Depreciation		15,636
<b>Total</b>		<b><u>15,636</u></b>	<b><u>15,636</u></b>

**Adjusting Journal Entries JE # 8**

To reclass current year additions.

0730	Computer Equipment	11,588	
8000	FIXED ASSETS		11,588
<b>Total</b>		<b><u>11,588</u></b>	<b><u>11,588</u></b>

**Adjusting Journal Entries JE # 9**

To adjust loans payable balances to actual.

1310	Advances Payable	87,425	
7997	Interest Expense	12,575	
7514	PSS/OTHER ADMIN COSTS		75,000
8859	OPER TRANS OUT-LOAN REPAY		25,000
<b>Total</b>		<b><u>100,000</u></b>	<b><u>100,000</u></b>

**Adjusting Journal Entries JE # 10**

To record GASB 68 pension liability and related accounts.

0612	Deferred outflows- pensions	1,365	
1612	Deferred inflows- pension	20,954	
1795	Net pension liability		34,909
7514	PSS/OTHER ADMIN COSTS	12,590	
<b>Total</b>		<b><u>34,909</u></b>	<b><u>34,909</u></b>

**Adjusting Journal Entries JE # 11**

To record compensated absences liability to actual and restate net position

2350	FUND BALANCE AVAILABLE	228,862	
7514	PSS/OTHER ADMIN COSTS	29,374	
1750	COMPENSATED ABSENCES PAYABLE		258,236
<b>Total</b>		<b><u>258,236</u></b>	<b><u>258,236</u></b>