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## **District Response to Auditor's Findings Fiscal Years Ending June 30, 2018 and June 30, 2019**

December 18, 2020

This memorandum provides the District's responses to each of the Auditor's findings and recommendations as articulated as an outcome of the Fiscal 2018-2019 and 2017-2018 audits of the Cameron Park Airport District ("District" or "CPAD"). Because the audits for both fiscal cycles were conducted simultaneously and the auditor's findings were substantially identical for the two fiscal years, it was deemed best to address the findings in a single memorandum.

As background, CPAD is a small Special District formed under state and county codes for the purpose of operating and maintaining the Cameron Park Airport (CA GC §22001, et seq.) and, peripherally, Assessment District 2009-1 that manages a long-term USDA loan (commencing 2009, maturing 2029) obtained for purpose of reconditioning the CPAD's residential streets. The revenues generated through special annual taxes levied on the privately owned parcels within the District and revenues obtained through leaseholds, fuel sales, and occasional modest discretionary grants are the District's only sources of income. The District has a single employee charged with all aspects of operating and maintaining the District, supported by a volunteer Board of Directors consisting of five elected members.

The Board of Directors reviewed the existing financial practices and procedures and made substantive changes to both that are reflected in revised financial procedure documents that were duly noticed, reviewed, and adopted by the Board in public meetings. In addition, changes to the account numbering system and production of a written guide on how to charge expenses was implemented to make both cost control and auditing much easier in the future.

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### **SIGNIFICANT DEFICIENCIES DEEMED MATERIAL WEAKNESSES**

#### **FS 2018-001 | FS 2019-001 – Financial Policies & GAAP Training**

- 1) The District has updated accounting policies and procedures that were proposed and adopted in 2020, in response to Auditor's recommendations and due to need for an update in practices to mitigate risk and workload. (see 1.4.1, Accounting Procedures; 1.4.2 Accounting Procedure, Airport Manager; 1.4.3, Accounting Procedure, Bookkeeper; 1.4.4, Procurement and Purchasing Procedure).
- 2) A preference for training in GAAP financial accounting is acknowledged by the District. In Fiscal Year 2019, absent significant change in our tax base, investment in such training for the single W2 employee or retaining additional third-party professional assistance is beyond the District's budget. The Board put Measure P on the 2020 ballot to seek the first tax increase in the District

since 1989; a sufficient minority of the District's taxpayers deemed the increase too much and, as such, defeated the measure.

### **FS 2018-003 | FS 2019-002 – Assessment District Reconciling of Outstanding Bond Calls**

The Auditor correctly noted that certain District residents had paid down their portion of the 2009-1 Assessment District street improvement loan. All property owners may reduce their interest burden at any time during the life of the loan, without penalty, by paying their allocated portion of the loan principle. In 2018, such a payment was made; however, the District and its loan management consultancy did not retire the corresponding bonds. The Board of Directors detected this oversight in early calendar 2019 and steps were taken promptly to resolve the matter. All accounts were adjusted and brought into conformance.

Similarly, and contemporaneous with this audit, additional property owner(s) elected to pay off their portion of the loan's remaining principle. The Auditor correctly notes that the payments were made; however, the process of calling the bonds was not yet ripe with USDA (bond holders) and with the County's reporting cycle. Since that time, the District initiated and completed the bond calls for the noted loan payments and the record is in order.

### **SIGNIFICANT DEFICIENCIES NOT DEEMED MATERIAL WEAKNESSES**

#### **FS 2018-002 | FS 2019-003 – Reconciliation of Reserve Account Requirements for Assessment District 2009-1**

This deficiency, which carried over from the prior audit year (FY17-18), was address in this fiscal year (FY18-19). As of June 30, 2019, the 2009-1 reserve fund balance was \$85,997; the formula for determining the required reserve fund balance stipulates that the amount should have been \$89,094. Upon Treasure's analysis and corroboration of the shortfall, a transfer of funds to match the required reserve was promptly made. The reserve amount now meets the Reserve Requirement and is through the remaining life of the loan. Per Resolution No. 09-14, CPAD levied 1/10th of the maximum annual debt service for the first ten years or until the Reserve Fund balance meets the Reserve Requirement. The balance now meets the Reserve Requirement.

#### **FS 2018-004 | FS 2019-004 – Segregation of Duties**

CPAD acknowledges there was a lack of segregation of duties in financial processes with corresponding risk in terms of end-to-end transactional oversight, quality control, and authorizations. Given the limited personnel resources, a balance was sought that limits the significant expense associated with multiple individuals overseeing District transactions with ensuring that income, expenses, and assets are all managed and tracked per procedure. To that end, updates to financial policies and procedures were proposed, reviewed, and adopted in 2020 (see 1.4.1, Accounting Procedures; 1.4.2 Accounting Procedure, Airport Manager; 1.4.3, Accounting Procedure, Bookkeeper; 1.4.4, Procurement and Purchasing Procedure). Key points from the refresh of these procedures include:

- Separation of payment actions of all routine bills and invoices into a two-person track (independent bookkeeper and manager)
- Limiting single signature payments to less than \$1,000
- Review of all contracts with the Board of Directors at least monthly
- Monthly review by the District Treasurer of fuel transactions, rents, and Assessment District mortgage service, in addition to routine financial review.

*continued*

### **FS 2018-005 | FS 2019-005 – District Ordinance for Fees**

CPAD was formed contemporaneously with Proposition 62 and its associated statutes and pre-exists Propositions 218 and 26. The District complies with procedural requirements for proposed tax increases that are imposed on a property basis by consolidating its ballot measure(s) with the local county elections. This practice is evidenced by the lengthy record of the constituency declining to fund its budget with a two-thirds vote despite a robust simple majority electing to do so.

Where fees associated with use or rental of local government property are concerned, such as rents for hangars and tie-downs along with other similar activities, the fees are objectively exempt from the definition of Tax and, thereby, unaffected by Article VIII C of the California Constitution (from Proposition 218) and not subject to the two-thirds vote. Rather, a district Board of Directors of a local agency is empowered through resolution to establish and enact fees within the cost parameters of the activity supported by such fees.

Pursuant to Government Code Section 66106 and CPAD Rules and Regulations (assurances 22-24), the Board of Directors did so establish rates, charges and fees for rents and uses of district property and assets at airport. The District is reviewing the adequacy of its own enabling ordinance (as found in the 2002 revision to the Rules and Regulations) by conferring with the California Special Districts Association, El Dorado County Local Agency Formation Commission, and counsel. The District is confident that past adjustments to fees have been procedurally robust as recorded in Resolutions 88-8, 89-4, 94-4, 95-4, 04-2, 04-3, 06-3, 15-4, 17-2, and 19-2. It is the intent of the Board of Directors to refresh the enabling fee ordinance and revised fee schedule by the end of Fiscal 2020 (June 30, 2021).

### **FS 2018-006 | FS 2019-006 – Status of Sole Employee**

In response to Auditor's findings, CPAD retained outside counsel for the purpose of conducting an objective assessment of the status of the District's sole W2 employee against relevant State and Federal requirements. To be classified as exempt, the employee must satisfy criteria in both (1) the amount of compensation as well as (2) responsibilities and functions of the assigned job.

- (1) In California, to be classified as Exempt, the employee must earn a salary of at least twice the state minimum wage for full time employment (based on a 40-hour work week). In 2021, twice minimum wage is benchmarked at \$1,040 per week; whereas the CPAD manager position is \$961.54 per week (\$50,000 per year divided by 52 weeks). Without comment to a preference of non-exempt versus exempt, the CPAD manager's position objectively does not meet this compensation requirement to be classified as exempt.<sup>1</sup> Moreover, as minimum wage increases, the gap will increase.
- (2) In addition to satisfying the compensation requirement, a position must meet the requirements as defined by the State for positions in one of either Professional, Executive or Administrative capacities. For the CPAD manager job specification, the criteria for an Administrative role are most closely aligned: (i) Have his/her *primary* duty (more than 50 percent of his or her work time) the performance of office or non-manual work directly related to management policies or the general business operation of the employer or the employer's customers and; (ii) customarily and regularly exercise discretion/independent judgment with respect to matters of significance

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<sup>1</sup> Compensation for the Manager's position is unchanged for over 6 years (i.e., no cost-of-living adjustments). The position is based on 40 hours per week without accommodation for the position's on-call status (24 x 7 x 365). CPAD does not offer any employee benefits. Because the airport is more active on weekends, it is routine for a manager to visit the airport and office on weekends and holidays to check the fuel system, security, and facilities and, occasionally, to respond during off-hours to power outages or other urgent matters, all of which may exacerbate overtime accumulation.

and regularly directly assist a proprietor or an exempt administrator; or, perform under only general supervision, work along specialized or technical lines requiring special training, experience, or knowledge; or, execute special assignments and tasks under only general supervision.

The Board agrees that the role and responsibilities of the manager position adequately satisfy both 2(i) and 2(ii) as described above; however, further explanation detailing the role and responsibility for purposes of this responsive letter is unnecessary based on the analysis regarding compensation.

Due to budget restrictions and the failure of Measure P to be approved the Board cannot currently fund the position at a level that meets the exempt requirement. As a result, timecards with provisions for requesting, approving, and tracking Paid Time Off will be adopted and implemented commencing with FY20Q3 (as of January 1, 2021). The hourly rate and work hours may have to be adjusted to meet the available total salary budget while incorporating the additional administrative costs and the likely need for overtime pay in the planning.

**FS 2018-007 | FS 2019-007 – Separation of Charge Card Processing & Accounts**

Auditor notes that the Point-of-Sale charge card system and associated merchant bank account that primarily handles transactions for aviation fuel sales is the same merchant account used to charge certain tenants for monthly hangar or tiedown rents. While the Auditor is correct that income from the two sources (fuel and rents) comingles in the merchant account, the Auditor is incorrect that rent income is used to offset fuel operations. The transaction tracking system provides detailed accounting of both fuel sales and rent income. The revenue is recorded and allocated, accordingly, to respective journal entries. Fuel sales include a competitive margin retained by the District that is, in turn, used to maintain the fuel system and for general airport operation expenses. Routinely throughout the year income from hangar and tiedown rents plus excess from fuel sales is transferred to the Airport General Fund for operations.

Although tracking of income by its source is fastidious, the District is assessing options for other charging methods of tenants and airport customers. The objective is to both separate the fuel transactions from non-fuel transactions, and to also engage a less expensive merchant bank (lower transactional fees), all while improving security.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_