August 19, 2026

Linne Community Services District

Item 3A - Audit Compliance Status

As previously discussed, the District issued an RFQ to obtain properly licensed CPA audit services after learning that the prior audits prepared by Layered Accounting may not satisfy Government Code requirements because the firm is not licensed by the California Board of Accountancy.

The RFQ was sent to multiple CPA firms with governmental and special district audit experience. The request asked for pricing for the current audit year, prior-year corrective audits, and future audit services. Despite that outreach, the District received only one proposal. Several firms either did not respond or indicated the work would be outside the District's budget capacity after reviewing the size and resources of the District.

Because the one proposal received was significantly higher than the District's normal audit budget, I contacted Jim Hamilton, the San Luis Obispo County Auditor-Controller, to summarize the process followed, explain the limited response, and ask whether the District could avoid redoing all prior years given the circumstances. I noted that there has been no indication of fraud, misuse of funds, or financial irregularity; that the prior audits had been submitted and accepted in prior years; that the District remains current with its State Controller reporting; and that the cost of redoing multiple years would create a significant burden for a small, volunteer-run district.

Jim responded that he needs to discuss the matter further with his Audit Chief, but he acknowledged that the District has made a real effort to address the prior years. He also stated that his office cannot waive or alter Government Code requirements and that the Auditor-Controller's role is to monitor compliance. He indicated that the Board may decide to accept being technically out of compliance for the prior years and commit to obtaining qualifying audits moving forward. His office would continue to communicate the District's compliance status to the Board, the County Board of Supervisors, the State, and LAFCO, but he recognized that our documented good-faith efforts may be all the District can realistically achieve at this time.

Based on this response, the Board should discuss and provide direction on how to proceed. The key decision is whether the District will acknowledge that it may remain technically out of compliance for the prior audit years due to cost and lack of viable proposals, while committing to retain a properly licensed CPA firm for audits going forward.

The Board should also discuss whether to:

1. Proceed with a properly licensed CPA audit for the most recent/current fiscal year only;
2. Defer prior-year corrective audits until funding is available;
3. Continue asking the County whether any phased or lower-cost compliance option is available; and/or

4. Budget for future biennial audits using a licensed CPA firm so the District remains compliant prospectively.

No formal waiver has been granted by the County. The District's position would be that it made a good-faith effort to correct the issue, documented the procurement process, received only one proposal at a cost beyond the District's practical capacity, and will prioritize compliance going forward within available resources. I would also then inform Supervisor Meyer on the action we are taking.