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COUNTY OF SAN BERNARDINO

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June 29, 2009

Jeffrey Rigney, Director
Special Districts Department
157 W. Fifth Street, 2nd Floor
San Bernardino, CA 92415-0450

Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE GH GLEN HELEN FOR THE FISCAL YEAR ENDED JUNE 30, 2008

We have completed an audit of the County Service Area No. 70 – Improvement Zone GH Glen Helen (District) governmental activities and the business-type activities, for the fiscal year ended June 30, 2008 and have issued our report thereon dated June 29, 2009. In planning and performing our audit of the financial statements of the District's governmental activities and business-type activities as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 a deficiency in internal control that we consider to be significant deficiency and another deficiency that we consider to be a material weakness.

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 believe that the following deficiency constitutes a significant deficiency. Management's responses have not been altered in any way and are included below as they were provided to us:

Significant Deficiency # 1 – Necessary year-end accruals were not recorded.

The accrual basis of accounting should be used by this District, in accordance with Generally Accepted Accounting Principles (GAAP). Under this basis, revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. Preparing year-end accruals provides more accurate and reliable financial information that is useful in the decision making process over the District's operations. During our audit, we noted one invoice for $49,190 for construction services that was not accrued as accounts payable at year-end. In addition, retentions payable of $74,958 was not accrued for at year-end on construction projects. Not properly accounting for necessary year-end accruals can potentially have a material effect on the financial statements.

Recommendation:
We recommend that the District become more familiar with the year-end closing manual provided by the General Accounting Section of the Auditor/Controller-Recorder to ensure all appropriate year-end accruals are being made and included in the District's year-end accrual package. Follow the instructions in the manual and ask for guidance from General Accounting if needed. If invoices are not available from a vendor by the accrual package deadline, obtaining estimates from the vendor for services provided through June 30 is acceptable. Additionally, in the event that material items are found after the deadline for the accrual package, the District should notify the Auditor of the possible need for an audit adjustment.

Management's Response:
SDD has implemented a 2 person review of all active construction contracts at year-end closing to ensure retention payables are captured and appropriately accrued. This finding was identified to us in FY 2008/09 during the CSA 70 GH audit; we therefore had the retentions review in place prior to FY 2008-09 closing.

The referenced $49,190 invoice was received late; SDD will follow the Audit recommendation to (a) estimate and accrue amount due if invoice is not available, and (B) contact A/C-R immediately if a material payable is discovered after year-end closing deadline.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

Material Weakness # 1 – $2 Million check received from developer was not deposited into the District's funds.

Governmental Accounting Standards Board (GASB) Statement No. 34 requires easements to be reported as capital assets. In addition, the County's Internal Control and Cash Manual, Chapter 7 states that all County departments authorized to receive monies in the performance of their official functions are required to deposit their collections with the County Treasurer.

During our audit, we noted that the District entered into an agreement with the County to purchase an easement for $2 million. In addition, the District entered into an agreement with a developer to receive $2 million from the developer for the right to build a detention basin on the easement. The $2 million received from the developer was not deposited into the District's fund in the County Treasurer. Instead the check received from the developer was given directly to the County as payment for the easement, resulting in neither the revenue nor the easement being recorded in FAS within the District's funds.

Recommendation:
We recommend that the District become more familiar with GASB 34's capital asset requirements, which are included in the year-end closing manual provided by the General Accounting Section of the Auditor/Controller-Recorder. Also, the District should become more familiar with the County's Internal Control and Cash Manual and ensure that all revenue collected by the District is deposited into the District's fund in the County Treasury.

Management's Response:
As stated above, the referenced $2,000,000 check was delivered directly to the County for deposit. We understand that although the easement existed on Sheriff's Office land and the County would ultimately receive the $2,000,000 in payment, a step was missed which obscured the transaction. The check should have been placed in CSA 70 GH fund first, and then a transfer/payment should have been processed from CSA 70 GH to the County allowing appropriate booking of CSA 70 GH's receipt of revenue and acquisition of easement.

This receipt was a rare circumstance that the Department will not likely experience again. However, all Staff will be reminded that checks coming into SDD are to be receipted and deposited by the SDD Fiscal Section staff. If needed, the fiscal staff will seek direction from Budget Officer or Budget/Fiscal Manager regarding coding deposit of checks for asset purchases; note that current procedures require deposits to be approved by Budget/Fiscal Manager.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:
Howard M. Ochi
Chief Deputy Auditor

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Date Report Distributed: 8/25/09

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