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COUNTY OF SAN BERNARDINO

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February 24, 2010

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

Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA 64 – SPRING VALLEY LAKE FOR THE FISCAL YEAR ENDED JUNE 30, 2009

We have completed an audit of the County Service Area 64 – Spring Valley Lake (District) Enterprise Funds, for the fiscal year ended June 30, 2009 and have issued our report thereon dated February 24, 2010. In planning and performing our audit of the financial statements of the District's Enterprise Funds as of and for the year ended June 30, 2009, 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 consider the following deficiency to be a significant deficiency in internal control. This deficiency was identified in the prior year and has not been fully corrected as of June 30, 2009. Management's responses have not been altered in any way and are included below as they were provided to us.

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

Current Status:

Special District Department corrected their query used to determine year-end tax receivable accrual to include the District's water activity, which resulted in an accurate estimate of taxes receivable accrued at year-end.

The District implemented a new procedure to review for retentions payable to include in their year-end accrual package, and the District showed improvement in this area. However, an additional invoice in the amount of \$74,037 for construction work performed prior to June 30, 2009 should have been included in the year-end accrual for accounts payable and an additional \$8,226 for retentions payable.

Also, a litigation settlement payable of \$93,899 was not recorded at year-end. An estimate should have been provided so the necessary payables could be recorded.

Further Recommendation:

Continue efforts to 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 30th 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:

In preparing for FY 2009-10 year-end closing, Special Districts Department (SDD) Managers and Budget/Fiscal staff will be provided with audit findings and management responses copied from past management letters. The listing/narratives will be updated each year, and a cover memo will be included to summarize findings and list tips to help prevent findings from being repeated.

As stated in the above finding, SDD implemented a final review of accruals for FY 2008-09 specific to searching for retentions payable. This review has improved the accuracy of SDD's accruals, though one construction invoice due 6/30/09 was not detected.

SDD did not accrue the litigation settlement partially because Staff thought it was likely to be paid by JPA insurance fund. It is understood that in cases of uncertainty Staff is to contact General Accounting (Copy to Internal Audits Section) for direction, or to inform them of suspected missed accrual(s).

SDD Staff understands accrual processes described in the year-end closing manual and will continue striving to fully comply.

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. Management's responses have not been altered in any way and are included below as they were provided to us.

Material Weakness #1 – Fund reporting Sewer activity was incorrectly captured under Water activity in prior year

The District's financial statements are prepared with columns presenting the Sewer and Water activity separately. The County's financial accounting system groups funds into fund classes, which distinguishes the District's funds as either Sewer or Water. The financial information at each fund class is presented in the two columns of the District's financial statements. During the planning of the audit, it was discovered that a fund reporting Sewer activity was incorrectly captured under Water activity in the prior year. This fund was incorrectly coded to the District's Water activity fund class. A restatement to beginning net assets in the amount of \$438,819 was required to move the fund from the Water activity to the Sewer activity.

Recommendation:

We recommend that when the District adds a new fund that all funds are reviewed to ensure that they are properly classified in the correct fund class. The District is ultimately responsible for ensuring that funds are properly coded to the correct fund class to ensure proper financial statement presentation.

Management's Response:

For internal reporting and budgeting purposes SDD Staff does not segregate funds by fund class, but by function, i.e., operating, reserve, or project. While performing a requested review of an auditor's worksheet, an SDD staff member discovered that the above mentioned sewer project fund was grouped with water project funds. Prior to that, SDD was unaware of an incorrect fund class being assigned to any CSA 64 funds.

Auditor/Controller-Recorder recently implemented a form "Fund Code Change Request" to affect fund adds/deletes/changes, etc. This form requires much more comprehensive set of information than was used to assign or make changes to funds in prior years.

I believe that use of the new form will greatly reduce the risk of incorrect classifications of any kind in assigning new funds.

SDD will be happy to review current fund class during audits to ensure correct grouping of funds.

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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