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COUNTY CLERK

COUNTY OF SAN BERNARDINO

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Auditor-Controller/Recorder
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Reply to:
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March 22, 2010

Mike N Williams, A.A.E., Director
Department of Airports
777 East Rialto Ave
San Bernardino, CA 92415-0831

Subject: **MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 60 – APPLE VALLEY AIRPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

We have completed an audit of the County Service Area No. 60 – Apple Valley Airport (District) Enterprise Fund, for the fiscal year ended June 30, 2009 and have issued our report thereon dated March 22, 2010. In planning and performing our audit of the financial statements of the District Enterprise Fund 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 two deficiencies in internal control that we consider to be material weaknesses.

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.

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 deficiencies are material weaknesses. These deficiencies were identified in the prior year and have not been fully corrected as of June 30, 2009. Management's responses have not been altered in any way and are included below as provided to us.

Prior Year Material Weakness # 1 – Unique department code not utilized for all District's funds.

Current Status:

The District has begun efforts to resolve this material weakness. The District appropriately requested deactivation of the incorrect fund/department code combination effective July 1, 2009; however, there continues to be activity under the incorrect department code.

Further Recommendation:

Continue efforts to consistently use department code 400 instead of APT to properly distinguish the District's financial information separate from the County Department of Airports. Contact the County Administrative Office (CAO) to assist you with correcting encumbered contracts and budgets to properly reflect the District's department code, as needed. The person(s) approving transactions should review the documents in detail to ensure that the correct department code is used. If transactions have accidently been processed under the incorrect department code, the District should prepare a transfer to correct the transactions.

Management's Response:

In response to previous District audits and as of July 1, 2009 the District is using department code 400. There are policies and procedures in place for reviewing and approving documents to assure that the correct department code is used.

Prior Year Material Weakness # 2 – Necessary year-end accruals are not being processed accurately.

Current Status:

The District has not corrected this finding. Two of the audit adjustments that were required last year were made again during this year's audit. Property tax and a cash receipt for Redevelopment Area pass-through revenue were not accrued as taxes receivables at year-end, resulting in an audit adjustment of $520,559. Also, a receivable of $30,040 was not accrued at year-end. This amount represents expenses incurred by the District as of June 30, 2009 and eligible for reimbursement from a Federal Aviation Administration (FAA) grant. Not properly accounting for year-end accruals can potentially have a material effect on the financial statements.

Further 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. The District should determine a methodology to estimate the appropriate accrual for property taxes and Redevelopment Area pass-through revenue. 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. Further, we recommend that the District become familiar with GASB 33 revenue recognition requirements and ensure any outstanding grant reimbursements and expenditures incurred but not submitted for reimbursement are accrued as a receivable at year-end.

Management's Response:

The District has created and will utilize a methodology to estimate the appropriate accrual for property taxes and Redevelopment Area pass-through revenue. The District will continue to remain familiar with the year-end closing manual provided by the General Accounting Section to the Auditor/Controller-Recorder to ensure the District makes all appropriate year-end accruals including grant reimbursements and expenditures incurred but not submitted for reimbursements. If in the event material items are found after the deadline for the accrual package, the District will notify the Auditor of the possible need for an audit adjustment.

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/Treasurer/Tax Collector

By:
Howard M. Ochi
Assistant Auditor-Controller

Quarterly copies to:

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LDW:HMO:RRB:mah