AUDITOR-CONTROLLER/
TREASURER/TAX COLLECTOR

COUNTY OF SAN BERNARDINO

☒ 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

☐ 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

March 1, 2011

Brian Cronin, Secretary
City-County Animal Services Joint Powers Authority
351 N Mt. View Avenue, 3rd Floor
San Bernardino, CA 92415

Subject: MANAGEMENT LETTER – CITY-COUNTY ANIMAL SERVICES JOINT POWERS AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2010

We have completed an audit of the City-County Animal Services Joint Powers Authority (JPA) governmental fund for the fiscal year ended June 30, 2010 and have issued our report thereon dated January 13, 2011. In planning and performing our audit of the financial statements of the JPA's governmental fund as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the JPA'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 JPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the JPA'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 deficiencies, significant deficiencies, or material weaknesses. A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not note any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.
Here are the following significant deficiencies:

Significant Deficiency #1 – Policies to keep track of in-kind contributions have not been established.

According to the JPA agreement, Article V, Section 5.01. Contributions: The Members may use its personnel, equipment or property in lieu of contributions or advances. These types of contributions are considered in-kind contributions. The JPA currently does not have a policy in place to keep track of in-kind contributions. We recommend that the JPA develop policies to keep track of these in-kind contributions. The policies should include the following:

1. The timing of when the in-kind contributions must be reported.
2. The estimation method used to account for in-kind contributions.
3. The type of documentation required to support the in-kind contributions.
4. Approval required for acceptance of in-kind contributions.

Management's Response:

The JPA was created to assist in the construction activities of an animal shelter facility to be jointly operated by the County and the Town of Yucca Valley. Since the Authority was recently created, the primary activity has focused on the identification of the initial functions, responsibilities and objectives of the Authority. Additionally, significant effort was extended in assembling the various components needed to allow the Authority to move towards the primary objective related to the construction of a new facility. With this as the background, the Authority acknowledges that certain policies are needed in order to adequately implement and adhere to the JPA agreement. These policies become all the more critical as the Authority moves out of the initial stages of formation into full operational status. Accordingly, the Authority agrees with the Auditor's recommendation to implement an in-kind contribution policy. It is anticipated that such a policy will be in place prior to the end of FY 2010-11. Furthermore, any such contributions will not be recognized prior to the establishment of this policy.

Auditor's Response:

The JPA's planned actions will correct the deficiencies noted in the finding.

Significant Deficiency #2 – A capital asset policy has not been established.

Good accounting practices require that a capital asset policy be established to identify capitalization threshold and estimated useful lives. This policy should cover both tangible and intangible assets. The JPA currently does not have a capital asset policy in place. Although no capital assets have been acquired, we recommend the JPA develop a capital asset policy for future acquisitions. The policies at a minimum should include:

1. A policy to determine capitalization level. We recommend using the Government Finance Officers Association (GFOA) Best Practice: Establishing Appropriate Capitalization Thresholds for Capital Assets for further guidance.
2. A process to identify capital assets which may include equipment with a unit valuation equal to or more than the capitalization level and a useful life of one year or more.
3. Acquisitions should be measured by the cash or cash equivalent price to obtain the asset and bring it to the location and condition necessary for its intended use.
4. Depreciation methods to be used to depreciate capital assets.
5. Records to track capital assets from purchase date to disposal date which also shows adjustments for depreciation and any impairments.
6. The processes to be used for the sale, disposal and transfer of capital assets.
7. Records to track construction in progress (CIP) costs from beginning to end.
8. A process to ensure completed CIP is capitalized.

We also recommend developing a policy to maintain control over sensitive equipment. Sensitive equipment may include smaller high-dollar items that may be easily susceptible to misappropriation. We recommend maintaining a list of these items and performing regular inventory counts. Please review the GFOA Best Practice: Ensuring Control over Noncapitalized Items for further guidance. It may also be in the JPA's best interest to survey other government's capital asset policies for guidance.

Management's Response:

As mentioned in the prior response, the primary focus of the Authority in FY 2009-10 has centered on the transition from the formational stage to an operational entity. As such, standard accounting policies have yet to be adopted. While the Authority does not expect to acquire additional capital assets prior to June 30, 2011, the Authority agrees with the Auditor's recommendation to implement a Capital Asset Policy. Accordingly, it is anticipated that such a policy will be adopted by the Authority prior to the end of FY 2010-11.

Auditor's Response:

The JPA's planned actions will correct the deficiencies noted in the finding.

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/Treasurer/Tax Collector

By: ____________
MARK COUSINEAU
Chief Deputy Auditor

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