

**LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY**

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 383-9900 • Fax (909) 383-9901
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: OCTOBER 7, 2013

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8 – Status Report on Rim of the World Recreation and Park District Compliance with LAFCO Conditions on Service Review

RECOMMENDATION:

Staff recommends that the Commission:

1. Direct staff to continue to monitor the District's compliance with conditions outlined in Resolution No. 3095;
2. Set another status report for presentation at the February 19, 2014 hearing or later if completion of the District's mid-year financial review is delivered after its January meeting; and,
3. Note receipt of the Status Report and file.

BACKGROUND:

At the July 2010 hearing the Commission completed its service review for the Rim of the World Recreation and Park District ("District") through adoption of Resolution No. 3095. The Commission identified a number of financial issues which prompted it to question the District's financial solvency at that time. The Commission, in adopting its resolution making determinations on the service review, included four conditions that required ongoing monitoring of the District. Those conditions are:

1. For the next five years the District is required to provide the Commission annually with a copy of its adopted proposed and final budget, its mid-year budget review and financial reports and copies of the audits presented to the District;
2. The District is required to provide the Commission with an outline for completion of its outstanding audits within the next two years;

3. The District is required to provide the County Auditor with copies of all audits and current budgets and the State Controller with copies of all audits as required by law; and,
4. The District is to provide an outline of how it anticipates providing for management of the District according to the requirements of State and Recreation and Park District law.

At the August 6, 2012 hearing the Commission was updated on progress made by the District. It was identified that Condition No. 2 had not been completed but the engagement letter with the audit firm of Rogers Anderson Malody and Scott (RAMS) to complete the Audits 2010-11 and 2011-12 had been signed. Staff was directed to continue to monitor the District and return at the July 2013 hearing with an update on progress.

At the July 17, 2013 hearing, the Commission authorized a continuance of the status report due to a number of issues that had arisen for the District which were identified as:

1. The audits for 2011 and 2012 had not been presented to the District Board of Directors;
2. Financial management staff at the District had changed and needed time to respond to questions of LAFCO staff; and,
3. LAFCO staff identified issues and questions related to the proposed budget for Fiscal Year 2013-14.

Since the July hearing the District Board of Directors has been presented with both audits and LAFCO staff has worked with the District staff on budget and other financial questions. The ongoing compliance review responsibilities as outlined in Resolution No. 3095 related to the budgets, annual financial reports, and audits for the District remain.

In reference to Condition No. 2 imposed by the Commission, the District has completed the outstanding audits identified in the 2010 review: Fiscal Years 2006-07, 2007-08, 2008-09 by June of 2012, the audit for 2009-10 was completed in August 2012 and the audits for Fiscal Years 2010-11 and 2011-12 were presented to the Board of Directors in June and August of 2013 respectively. Copies of the previously outstanding audits are attached to this report as Attachment #1 FY 2010-11 Audit and Attachment #2 FY 2011-12 Audit. The engagement letter for the audit for Fiscal Year 2012-13 was signed in June of 2013 for an anticipated completion by January 2014, copy included as Attachment #3.

LAFCO staff has reviewed the new audits submitted noting that as a function of completing its independent audits for Fiscal Years 2010-11 and 2011-12, RAMS identified both significant and material weaknesses in the District's internal controls.

Reconciliation of accounts was identified as a material weakness which was one of the issues prompting the deferral of the July 2013 Status Report to the Commission. Other issues identified by RAMS are being addressed by the District.

The following outlines the status of the District's compliance with conditions imposed by the Commission:

1. Condition No. 1 requires the District to provide the Commission with copies of its proposed and final budget, its mid-year budget review and financial reports and audits. Upon request made to the District these materials are provided but it has not been a routine distribution. Conditions No. 2, 3, and 4 have been completed previously and LAFCO staff understands that the District is complying with the required filings for copies of its audits with the County Auditor and the State Controller.
2. District staff has engaged the services of RAMS to assist in the reconciliation of its accounts to develop a more accurate chart of accounts for moving forward. LAFCO staff understands that as of September 2013 the District and RAMS staff have completed this task, which will allow District staff to accurately record expenditures and revenues.

In addition, it was identified by LAFCO staff to the District that the reporting of expenditure requirements for prior years in the budget documents did not accurately reflect payments. Specifically, the loan payments made to the County for the bridge loan were reflected in financial statements in the audits but were not reflected in the budget with authority for expenditure. This omission, in LAFCO staff's opinion, did not provide the Board of Directors of the District nor its constituents with an accurate reflection of District obligations. LAFCO staff met with District staff and members of the District's Board subcommittee on the budget to review these concerns in July 2013. In August the Final Budget approval for Fiscal Year 2013-14 also reflected a revised 2012-13 budget acknowledging the payments made, increasing revenues to reflect actual income, and audit adjustments necessary. A copy of the Final Budget is included in Attachment #4 to this report.

LAFCO staff retains some questions on the budget as presented such as the Fund Balance carried forward into FY 2013-14 is reflected as \$195,127 while the estimated Bank Balance as of June 30, 2013 is reflected as \$253,800. As of the date of this report this question remains unresolved. Therefore, staff is recommending that the Commission establish February 19, 2014 as the next update to answer this question and review mid-year financial documents.

3. At the August 2012 hearing, LAFCO staff identified a concern that the District had exceeded its expenditure authority for the audit years presented at that hearing. LAFCO staff and the District's Auditors have made the same observation and expression of concern for the new audit years of 2010-11 and

2011-12 presented. LAFCO staff again questioned District staff during the final weeks of Fiscal Year 2012-13 regarding its expenditures exceeding expenditure authority. These discussions resulted in the adoption of Revised Resolution 06122012-4A on August 26, 2013, increasing expenditure authority by \$189,056. A copy of this resolution is included in Attachment #4. District staff has indicated that for the future it will monitor its financial activities and provide for better reconciliation.

Questions have been posed to District staff as to the identification in the audits of the District's Special Tax as "special assessment" revenue in the audits. To date, the District has not provided an answer to this question.

4. Over the past year, the District has begun to update its policies and has adopted an appropriation limit and reserve policy to address questions and concerns presented by LAFCO (Attachment #5). It is LAFCO staff's understanding that District Management is reviewing all policies and procedures of the District to bring them up-to-date. This is a positive undertaking for the District to more clearly delineate responsibilities for District staff and its Board of Directors.
5. LAFCO staff is requesting that the status report for the District be continued to the February hearing to allow for further discussions with District staff on the costs for service. The following chart identifies that the District has expended more than it has received in revenue for the two most current audit years provided.

	For the year ended June 30,	
	2012	2011
REVENUE		
Special Tax Proceeds	736,369	731,394
Delinquent tax and interest	9,762	8,058
Rents and concessions	74,695	86,945
Intergovernmental	39,950	-
Charges for services:		
Recreation	128,892	86,477
Childcare	179,111	148,491
Contributions and donations	470	16,871
Other	<u>24,162</u>	<u>28,022</u>
Total revenues	<u>1,193,411</u>	<u>1,106,258</u>
EXPENDITURES		
Administration:		
Salaries and benefits	264,961	183,231
Services and supplies	282,508	233,957
Utilities	74,540	81,204
Recreation:		
Salaries and benefits	100,047	55,730
Services and supplies	50,081	39,338
Child care:		
Salaries and benefits	149,828	153,806
Services and supplies	31,426	66,062
Utilities	1,826	2,339
Debt service:		
Principal	214,679	213,779
Interest	34,894	79,351
Total expenditures	1,204,790	1,108,797
Difference between Revenues to Expenditures	-11,379	-2,539

It is anticipated that the Fiscal Year 2012-13 Audit for the District should be completed by February 2014 to allow for further clarification on the financial condition of the District.

6. A concern has been previously expressed that the District has not included a Management Discussion and Analysis (MD&A) within its audits. LAFCO staff had requested the inclusion of an MD&A for the audits prepared for at least the last two years. It has become clear to LAFCO staff that the District for all the prior year audits presented cannot provide a comprehensive MD&A to explain the issues identified in the Audits without the requirement to expend significant additional amounts of money for professional services. These are expenses the District can ill-afford at this time and LAFCO staff does not believe it will provide an assistance to the District in resolving its issues.

That being said, over the past two years payments for auditing services have totaled \$67,475 (\$38,725 for FY 2012-13 and \$28,750 for FY 2011-12) versus \$0 in 2010-11 and \$13,000 for FY 2009-10. The services retained have been to reconcile accounts and develop a better chart of accounts to allow District staff to more accurately reflect payment categories. This in turn will enable the District to provide a clearer representation of its financial activities. In addition, the District has retained Legal Counsel to assist in complying with the requirements of its parent act as well as contract and budgeting provisions of State statutes. All of these are positive steps toward the District becoming more transparent and accountable to its constituents, which was the ultimate desire of the Commission in its service review conducted in 2010.

In concluding this status report on compliance, the District continues to work toward a resolution of its financial reporting and management issues as identified by LAFCO. This operation was stalled, to a degree, due to a change in staffing during Fiscal Year 2012-13. However, new staff has worked with the District's Audit and Legal teams to address ongoing concerns. LAFCO staff believes that many of the questions and concerns identified by the Commission over the last three years are being taken seriously by District staff and a resolution is on the horizon. However, attention needs to be paid to complying with Condition No. 1 which requires the submission of financial reports related to the annual operations of the District.

LAFCO staff recommends that a further status report on compliance be scheduled for the February 19, 2014 hearing to allow staff to review the mid-year financial reports for the District as well as its audit for Fiscal Year 2012-13. Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM

Attachments:

- 1 -- [Audit for Fiscal Year 2010-11](#)
- 2 -- [Audit for Fiscal Year 2011-12](#)
- 3 -- [Engagement Letter with Rogers Anderson Malody and Scott \(RAMS\) for Fiscal Year 2012-13 Audit](#)
- 4 -- [District Final Budget Adopted in August 2013; Budget Resolution 06132013-4A Amending Fiscal Year 2012-13; and Appropriation Limit Resolution No. 20062013-2](#)
- 5 -- [Policies Adopted for Appropriation Limit and Reserves](#)