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December 14, 2009

Peter H. Wulfman, Division Manager

Solid Waste Management Division

222 W. Hospitality Lane, 2nd Floor

San Bernardino, CA 92415-0017

**Subject: MANAGEMENT LETTER – SOLID WASTE MANAGEMENT DIVISION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

We have completed an audit of the Solid Waste Management Division (SWMD) Enterprise Fund, for the fiscal year ended June 30, 2009 and have issued our report thereon dated December 14, 2009. In planning and performing our audit of the financial statements of the SWMD 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 SWMD'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of SWMD'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 certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies 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. We did not identify any deficiencies in internal control that we consider to be a significant deficiency, as defined above.

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 constitute material weaknesses.

Material Weakness #1 – GASB 49 adjustment

Governmental Accounting Standards Board (GASB) Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations," was implemented for the fiscal year ending June 30, 2009. In accordance with the requirements of GASB 49, current and future cash outlays for pollution remediation events are estimated and accrued as an adjustment to beginning net assets.

During our review of the restatement amount, it was discovered that there had been a Construction in Progress balance at June 30, 2008 related to SWMD's Pollution Remediation Obligation. This Construction in Progress balance of \$11,293,101 should have been recorded as part of the GASB 49 restatement of net assets, but instead it was capitalized. The GASB indicated that the pollution remediation outlays previously capitalized should be included in the restatement of beginning net assets. It should be noted that SWMD properly disclosed all pollution remediation costs for consideration. An adjustment was made to move the \$11,293,101 from capital assets to a restatement of beginning net assets.

In preparation of the financial statements, the American Institute of Certified Public Accountants (AICPA) had been contacted for guidance on the implementation of GASB 49. The AICPA had given guidance not to include the pollution remediation outlays previously capitalized in the restatement to beginning net assets, which was contrary to the advice of the GASB.

This is a GASB implementation issue only, and will not be a recurring issue in the future.

Recommendation:

In the future, when looking for guidance related to an implementation of a GASB it is recommended contacting GASB directly.

Material Weakness #2 – Closure/Post-closure miscalculation

During the current year's audit, an inflation factor was not properly used which resulted in an audit adjustment to increase the closure/postclosure liability by approximately \$507,000.

Recommendation:

Continue efforts to improve the process of calculating the closure/postclosure liability at year-end. It is also recommended that the closure/postclosure calculation spreadsheet be reviewed in detail by another staff person not directly responsible for calculation of the closure/postclosure expense before the director and chief engineers approve the Solid Waste Management Division's Master Closure/Postclosure Liability Report.

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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