

**AUDITOR-CONTROLLER/RECORDER  
TREASURER/TAX COLLECTOR  
COUNTY CLERK**



**COUNTY OF SAN BERNARDINO**

**LARRY WALKER**  
Auditor-Controller/Recorder  
Treasurer/Tax Collector  
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**May 25, 2010**

**Jeffrey Rigney, Director**

Special Districts Department  
157 W. Fifth Street, 2<sup>nd</sup> Floor  
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – BIG BEAR VALLEY PARK AND  
RECREATION DISTRICT FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

We have completed an audit of the Big Bear Valley Park and Recreation District (District) governmental funds for the fiscal year ended June 30, 2009 and have issued our report thereon dated March 26, 2010. In planning and performing our audit of the financial statements of the District's governmental 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 material weaknesses or significant deficiencies. However, as discussed below, we identified two deficiencies in internal control that we consider to be material weaknesses and another that we consider to be a control deficiency.

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 (GAAP) 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 constitute a material weakness:

**Material Weakness #1 - The overall accounting and internal controls related to the District's bank accounts are not adequate.**

The Internal Control and Cash Manual (January 2010), Chapter 9 – Bank Accounts, states that departments are to reconcile their records to the bank statements each month. Proper internal controls require that the district maintain an accounting of all revenues received. Proper segregation of duties is an essential part of the control environment. Strong internal controls require the segregation of authorizing transactions, recording financial information, and maintaining custody of assets. The County's Internal Control and Cash Manual further states the cash deposited into the County Treasury is used for investing purposes.

As of June 30, 2009 the District had 3 bank accounts, which include the Clearing Account, Special Activities Account, and the Petty Cash Account. The Special Activities account was closed on August 18, 2009 in response to the prior year's Management Letter recommendations. The observations made for the June 30, 2008 audit were still present during FY2009 due to the timing of the audits. However, since the Special Activities account was closed, we are only noting the controls that still need improvement over the remaining bank accounts. The following ongoing issues were still noted in the bank accounts:

- The accounting records for these accounts were not being reconciled to the bank statement as of June 30, 2009. Individual transactions from the bank statements were traced back to accounting records, but a reconciliation of the actual balance at year end per accounting records to the June 30, 2009 bank statement was not performed.
- Our review of deposits into bank accounts did not agree with the District's accounting records (Quicken). There were errors and plug figures used in Quicken in an attempt to make Quicken agree with the deposits shown on the bank statements. It was noted that accounting records could be changed by a single employee without any approval or review.
- The Assistant District Manager has full autonomy over all of the District's accounting functions, which include the following duties:
  - 1) recording transactions in the Quicken accounting system
  - 2) maintaining custody of the prenumbered, blanks checks
  - 3) issuing checks as an authorized check signer on the bank account
  - 4) preparing reconciliations of the bank accounts

- Since the District does not participate in the County's Consolidated Banking program, the District must transfer cash deposits by issuing checks to the County Treasury. However, during the current fiscal year, the District only made 14 transfers to the County Treasury on 8 separate dates. The amount of cash receipts that is generated on a weekly basis is substantial enough for the District to have made more deposits into the County Treasury.

The District considered the reconciliation summary produced by their Quicken system to be an appropriate bank reconciliation. However, the reconciliation summary did not show evidence that the check register was reconciled to the monthly bank statement. The lack of a proper segregation of duties allowed the records to be manipulated to agree to bank statements. Conflicting duties were not appropriately segregated; the District did not feel there was an adequate amount of staff to segregate the accounting duties over the bank accounts.

The bank reconciliation is a key element in providing assurance as to the integrity and accuracy of the financial records. By not properly performing the monthly bank reconciliations, the District's exposure to accounting errors and the misappropriation of cash assets is significantly increased. When any single employee is able to change accounting records without any tracking or approval controls, the integrity of the entire accounting system is compromised. When various job functions are not properly segregated, the risk of committing and concealing fraudulent financial activity increases. In addition, this weakness in the control environment also prevents errors from being detected in a timely manner. The cash deposited into the County Treasury is used for investment purposes. When departments do not make timely deposits, the County is losing interest on days the money is not in the Treasury pool.

### **Recommendation**

The District Manager needs to ensure that the administrative staff is consistently following the policies outlined in the County's Internal Control and Cash Manual when performing the duties related to the District's bank accounts, which include performing timely and accurate bank reconciliations. Furthermore, management should review the monthly bank reconciliations to ensure that all cash transactions are properly recorded in the accounting records.

The District should establish an appropriate segregation of duties among the staff. Ideally, the responsibilities of authorizing, recording, reconciling and custody should be delegated to individual staff members. However, if staffing limitations prevent segregating these functions, then management should implement mitigating controls to reduce the risk of unintentional errors and fraudulent financial reporting.

The District needs to deposit their cash receipts into the County Treasury on a weekly basis. Increasing the frequency of the deposits into the County Treasury provides for an opportunity to use a larger cash base for investing purposes.

### **Management's Response**

The General Manager will begin immediately reconciling the bank account in Quicken. Staff has read and become familiar with the Bank Reconciliation section of the Internal Controls and Cash Manual and will begin completing the paperwork correctly.

Policy has been implemented forbidding any changes made to financial documents or records without the General Managers approval.

The District Staff consists of a General Manager, Assistant Regional Manager, Office Assistant II, 2 Recreation Superintendents, a Maintenance Superintendent and a seasonal office PSE. Fiscal accountability and participant/employee safety are our highest priorities. In the General Manager's opinion, fiscal accountability can be best obtained in our geographically isolated District through limiting the number of persons in the process. The GM and Assistant Regional Manager are the only local staff qualified to review and oversee.

After reviewing the Auditor's suggestions, duties have been segregated as follows:

Cashiers will prepare and deposit their daily deposits into Union Bank on a daily basis.

A seasonal PSE employee will verify deposits are deposited into the bank.

The Assistant Regional Manager will record the deposits into the Quicken accounting system.

The Assistant Regional Manager will maintain control and prepare the pre numbered checks for payment, but will no longer sign checks. She will remain as an authorized signer on the account, which allows inquiries to be performed with the local bank.

As there are three different departments making deposits to the same account on a daily basis, the District has tried to reconcile the bank accounts before clearing funds to assure accuracy. Should there be a shortage or overage in a deposit, we would be made aware of it before issuing a check to the County for deposit. The District will clear funds on a weekly basis, stipulating that there may be exceptions due to unforeseen circumstances.

The General Manager will require to Assistant Regional Manager, the Office Assistant II and all cashiers to reread the Cash Handling Manual.

### **Auditor's Response**

The District's response addresses planned action to prevent reoccurrence of this finding.

**Material Weakness #2 – Necessary-year-end entry was not recorded.**

Generally Accepted Accounting Principles require the recording of liabilities as of fiscal year-end. During our audit an adjustment of \$200,000 was made to record money owed to Special District Administration at June 30, 2009. This money was borrowed by the District to cover expenses until the District received its grant reimbursement. The money was subsequently returned to Special District Administration, but the liability was not properly recorded as of June 30, 2009. Not preparing necessary year-end entries can potentially have a material effect on the financial statements.

**Recommendations:**

Become more familiar with the year-end closing manual provided by the General Accounting Section of the Auditor-Controller to ensure all possible year-end entries 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.

**Management's Response:**

The General Manager will meet with the SDD Fiscal Department head to either become familiar with the responsibilities and process associated with the finding, or determine that SDD fiscal personnel will address this issue when repayments are necessary.

**Auditor's Response**

The District's response addresses planned action to prevent reoccurrence of this finding.

**Control Deficiency #1 - Internal controls over fixed assets could be improved.**

Tracking and securing fixed assets provides internal control to safeguard the assets from impairment or misappropriation. During our field visit test of fixed assets, we noted the following conditions:

- One asset, an all-terrain vehicle, could not be observed as the district noted that it was buried under snow.
- One trailer did not have a County issued tag.

The District was not prepared for the snowstorm and did not have a chance to secure the all-terrain vehicle. The District had not yet gotten around to requesting a tag for the trailer. Assets may be impaired by being exposed to harsh physical elements. They also cannot be secured against theft if they are not accessible by District staff. Without County issued tags, it may be difficult to track, identify and account for assets.

**Recommendation**

Management needs to ensure that all assets are tagged and secured from impairment and misappropriation. In order to accomplish this, we recommend that the all-terrain vehicle be parked under cover at all times throughout the winter.

**Management's Response**

The District has an excellent track record of managing winter weather events. The storm that buried the Zoo ATV was a record storm that accumulated over seven feet of snow at the zoo location. The ATV does not need to be parked under the extremely limited cover available at the Zoo, as it is tarped and easily accessible excepting the 50 year snow storm that occurred this past winter. The District would literally have to build a cover to accommodate, which would cost more than the ATV is worth.

When the District purchased the Big Bear Sports Ranch in August of 2007, the previous owner donated the trailer in question to the District as an afterthought. The District acknowledges that the trailer should have been registered with a County tag and has no response other than the Parks Maintenance Superintendent is now aware of the importance of tagging assets should this situation arise in the future.

**Auditor's Response**

The District's response addresses planned action to prevent reoccurrence of this 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/Recorder/Treasurer/Tax Collector

By:

**MARK COUSINEAU**  
Chief Deputy Auditor

Quarterly copies to:

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