

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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LARRY WALKER
Auditor-Controller/
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August 26, 2011

Jeffrey O. Rigney, Director

Special Districts

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**Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA 64 – SPRING
VALLEY LAKE FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

We have completed an audit of the County Service Area 64 – Spring Valley Lake (District) for the fiscal year ended June 30, 2010 and have issued our report thereon dated June 30, 2011. In planning and performing our audit of the financial statements of the District 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 District's internal control over financial reporting 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be significant deficiency.

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 consider the following deficiency in the District's internal control to be a material weakness.

Material Weakness – Delinquent user fees for the water activity were recorded in the sewer activity.

Management is responsible for the correct classification of transactions. The District provides sewer and water services, and accounts for these activities separately. During the audit, District personnel brought up the issue of delinquent user fees being apportioned only to the sewer activity even though the fees pertained to both the sewer and water activities. Delinquent user fees in the amount of \$8,074 for the water activity were recorded in the sewer activity. In the past, the District gave the Auditor-Controller/Treasurer/Tax Collector's Property Tax Division inadequate instruction on how to apportion delinquent user fee collections. The recognition of revenue in the wrong activity overstated and understated operating revenue in the accounting records of the sewer and water activities, respectively.

Recommendation:

We recommend that the District instruct the Auditor-Controller/Treasurer/Tax Collector's Property Tax Division on the proper fund coding of delinquent user fees to ensure they are properly classified in the correct activity.

Prior Year Significant Deficiency # 1 (February 24, 2010) – Necessary year-end accrual was not recorded.

Current Status:

The Special District Department has implemented new procedures to improve its year-end closing process for each District. It was noted that there were improvements from the prior year as construction expenses up to June 30, 2011 and retentions were properly accrued. However, adjustments of \$16,592 and \$16,523 were made to the water and sewer activities, respectively, to record penalties owed by customers as of June 30, 2011.

Further Recommendation:

Continue efforts to become more familiar with the year-end closing manual provided by the General Accounting Section of the Auditor-Controller/Treasurer/Tax Collector to ensure all appropriate year-end closing 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. 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.

Prior Year Material Weakness # 1 (February 24, 2010) – Fund reporting Sewer activity was incorrectly captured under Water activity in prior year.

The prior year recommendation indicated that when the District adds a new fund that all funds be reviewed to ensure that they are properly classified in the correct fund class, as the District is ultimately responsible for ensuring that funds are properly coded to the correct fund class and achieve proper financial statement presentation.

Current Status:

Funds are properly classified under the correct fund class. No new funds were added during the fiscal year.

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: _____
Mary Ethel Barber, CPA
Internal Audits Manager

Quarterly copies to:

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