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STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

June 27, 1988

F-774

Honorable Bruce Bronzan, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 448  
Sacramento, California 95814

Dear Mr. Chairman and Members:

On July 1, 1983, based on voter-approved initiatives, the San Bernardino County Lake Arrowhead Sanitation District (district) consolidated with the Lake Arrowhead Community Services District (LACSD). The purpose of our audit was to review the identification, valuation, and transfer of the assets and resources of the district as of June 30, 1983, to the consolidated LACSD. However, we are unable to determine whether all of the district's fixed assets and resources were identified by the San Bernardino County internal auditors at the time of the consolidation because of the lack of a physical inventory, because of an indication by the San Bernardino County internal auditors that the fixed assets were not correctly valued, and because of the passage of time between the transfer of the assets and our audit. Further, we are unable to conclude whether the fixed assets that were transferred to the consolidated LACSD were correctly valued. As a result, we are unable to conclude that the assets and resources were properly transferred.

#### Background

The consolidation required that the assets and resources of the district be transferred to the LACSD. The San Bernardino County internal auditors identified and valued the assets and resources of the district as of June 30, 1983. Moreover, independent auditors performed an audit of San Bernardino County, which included the district, as of June 30, 1983. Further, independent auditors performed an audit of the consolidated LACSD for the year ended June 30, 1984, that included a review of the amount of assets and resources as presented by the internal auditors as of June 30, 1983. However, members of the community raised questions as to whether all the appropriate assets and resources of the district were identified, properly valued, and transferred to the consolidated LACSD.

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### Scope and Methodology

The purpose of our review was to analyze and evaluate the methods used to identify, to value, and to transfer the assets and resources of the former district to the LACSD. We interviewed officials from the LACSD, the independent auditors who audited the LACSD, the independent auditors who audited San Bernardino County, and staff from the internal audit unit of San Bernardino County. Further, we reviewed the audit reports completed by the internal auditors of San Bernardino County for the period ended June 30, 1983, by the independent auditors who audited San Bernardino County for the period ended June 30, 1983, and by the independent auditors who audited the LACSD for the period ended June 30, 1984. In addition, we reviewed the audit workpapers supporting the audit reports issued by the independent auditors who audited the LACSD and the internal auditors of San Bernardino County and reviewed files that the LACSD had maintained on the consolidation.

### Internal Auditors Indicated That the Identified Assets Were Not Correctly Valued

From the district's account balances as of June 30, 1983, the San Bernardino County internal auditors identified the assets and resources, including fixed assets, of the district. However, neither the San Bernardino County internal auditors nor independent auditors performed a physical inventory of the fixed assets as of June 30, 1983. Consequently, we were unable to determine whether all of the district's assets were identified. The fixed assets, which include land, buildings, sewer lines, pump stations, and other equipment, were valued at approximately \$10.8 million as of June 30, 1983, and represent approximately 74 percent of the total assets of the former district.

Further, the San Bernardino County internal auditors reported that the fixed assets, which they identified as of June 30, 1983, were overvalued. Their audit report as of June 30, 1983, stated that "The full value of betterments and/or replacement of existing assets has been added to the fixed asset records of the district with no allowance made for the removal of the value carried for the improved or replaced assets. This results in a compounding of the true value of district assets." Further, the internal auditors concluded that the district had not depreciated the district's property, plant, and equipment acquired before fiscal year 1980-81. The audit report and the supporting workpapers did not express the total effect of the compounding of the assets or the effect of not depreciating the fixed assets.

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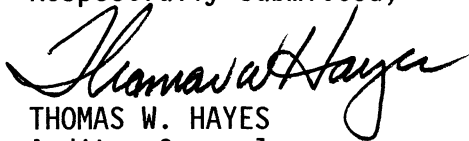
Nevertheless, the independent auditors who performed an audit of San Bernardino County, which included the district, as of June 30, 1983, relied upon the fixed asset values from the internal auditor's report. As a result of the compounding of the true value of the district's assets and the length of time since the consolidation, we are unable to conclude that the fixed assets were correctly valued at June 30, 1983.

#### Conclusion

We are unable to determine whether all the fixed assets and resources of the San Bernardino County Lake Arrowhead Sanitation District were identified by the San Bernardino County internal auditors at the time of the consolidation. Further, we are unable to conclude whether the fixed assets that were transferred to the consolidated Lake Arrowhead Community Services District were correctly valued. As a result, we are unable to conclude that the assets and resources were properly transferred.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,



THOMAS W. HAYES  
Auditor General

Lake Arrowhead Community Services District's response to this report

Lake Arrowhead Community Services District  
Water and Wastewater Systems  
Post Office Box 789 • Lake Arrowhead, CA 92352 • (714) 337-8555

June 22, 1988

State of California  
Office of the Auditor General  
600 J Street, Suite 300  
Sacramento, CA 95814

Attn: Thomas W. Hayes  
Auditor General

Dear Mr. Hayes,

This is to advise you that the District has reviewed the enclosed draft of the analysis of the method used to identify, value and transfer of assets and resources of the former Lake Arrowhead Sanitation District to the Lake Arrowhead Community Services District.

The District was aware that no depreciation had been taken on depreciable assets prior to the 1980 - 1981 fiscal year. Further, the District found that there were no adequate records available to determine the value of depreciable assets as of 7/1/83, the date of merger.

Should you have any questions, please do not hesitate to contact me at the telephone number listed above.

Sincerely,

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT



DON M. MAUK  
General Manager

DMM:klg

cc: file

Enclosures