



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Bighorn-Desert View Water Agency
Yucca Valley, California

RECOMMENDATIONS FOR CONSIDERATION

In planning and performing our audit of the financial statements of the **Bighorn-Desert View Water Agency** (the "Organization") 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 Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 defined to be a control deficiency, or combination of control deficiencies, that adversely affects the Organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. Matters conforming to this definition are those matters set forth below.

A material weakness is a significant deficiency, or 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. Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.**

The items below are not deemed to be significant deficiencies or material weaknesses that are required to be reported to you. However, as a by-product of our audit testing and as an extension of our service to you, we offer the matters below for your consideration:

(1) Positive Pay

The Agency does not use positive pay. Positive pay is a process by which an organization's bank would be electronically provided a list of check numbers and check amounts that the bank would be authorized to allow to process for payment. The bank's software would not permit any other disbursements to be charged to the Organization's bank account. This

BIGHORN-DESERT VIEW WATER AGENCY

Yucca Valley, California

Page 2

process significantly reduces the risk of check fraud performed by an outside party or by a Agency employee acting beyond the scope of his or her authority.

Recommendation

We recommend that the Agency consider the use of positive pay for its bank accounts. In evaluating this option, the Agency should weigh the cost of this additional bank service to the benefits derived from its use.

Management's Comments Regarding Corrective Actions Planned

Management will explore this option and provide the Finance Standing Committee an opportunity to evaluate and make recommendation to the full Board.

(2) Lock Box

The Agency does not use a "lock box" service for collecting its revenues. A lock box service significantly reduces the risk of theft of funds by employees of the Agency. Under a lock box service, all customers would be instructed to remit payment to a P.O. box under the control of the Agency's bank. The bank would immediately deposit the collected funds into the Agency's checking account and electronically remit to the Agency for down-loading into its accounts receivable software an electronic posting of all customer payments (with customer account number identification, etc.). This control virtually eliminates the risk of theft by Agency employees with respect to Agency revenues and significantly reduces the cost of data entry for customer payments.

Recommendation

We recommend that the Agency consider the use of a lock box service with a bank.

Management's Comments Regarding Corrective Actions Planned

Management will explore this option and provide the Finance Standing Committee an opportunity to evaluate and make recommendation to the full Board.

(3) Customer Account Adjustments

Currently data entry for customer account adjustments is performed by individuals that are also involved in handling customer payments. Best practice is for these duties to be segregated. When it is not practical to segregate these duties due to limited personnel, a compensating control would be for an individual without access to customer checks to compare the bank deposit to the billing system posting report (for customer payment postings).

Recommendation

We recommend that an individual without access to customer checks compare the bank deposit to the billing system posting report (for customer payment postings).

BIGHORN-DESERT VIEW WATER AGENCY

Yucca Valley, California

Page 3

Management's Comments Regarding Corrective Actions Planned

The General Manager will execute the recommendation and since the General Manager does not have access to customer checks he/she will be the employee assigned to review the bank deposit to the billing system posting report on a monthly basis.

(4) Off-site Storage

The Agency backs up its data files on a daily basis. This is an important internal control that can significantly assist in the reconstruction of data in the event of a system failure. This on-site daily process should continue. These controls could be further enhanced if they were augmented by a procedure to also retain at an off-site location a copy of backed-up data files on a weekly or monthly basis. This would provide an additional measure of protection in the event of damage by fire (or other causes) of the facility at which the daily back-up files are retained.

Recommendation

We recommend that the Agency consider augmenting its on-site data back up procedures with a weekly or monthly off-site back up.

Management's Comments Regarding Corrective Actions Planned

The General Manager will execute the recommendation by instituting a procedure to retain an off-site location of backed-up data files for the DataStream Accounting Software.

(5) Inventory Controls

The inventory custodian currently has system access rights to make adjustments to inventory records. Theft of inventory can be concealed by the recording of such adjustments. Internal control is maximized when those persons that have physical access to inventory do not also have the ability to adjust the inventory data recorded in the system.

Recommendation

We recommend that the inventory custodian not be provided the ability to adjust inventory data recorded in the system.

Management's Comments Regarding Corrective Actions Planned

The inventory procedure will be evaluated to determine methods for minimizing theft of inventory.

(6) Bank Reconciliations

Bank reconciliations of the Agency are performed by the individual that performs data entry for cash disbursements. Bank reconciliations should be performed by individuals that are not involved in the creation of cash disbursements and that do not have direct or indirect access to the funds in the bank account.

BIGHORN-DESERT VIEW WATER AGENCY

Yucca Valley, California

Page 4

Recommendation

We recommend that the Agency consider assigning the bank reconciliation (including its agreement to the general ledger cash balance) to an individual that is not involved in the creation of cash disbursements and that does not have direct or indirect access to the funds in the bank account. Alternatively, the Agency may want to consider out-sourcing this task to an independent local bookkeeper or accountant.

Management's Comments Regarding Corrective Actions Planned

Management will explore this option and provide the Finance Standing Committee an opportunity to evaluate and make recommendation to the full Board.

(7) Bank Transfers

Due to limited personnel, the persons involved in the bank reconciliation process are also significantly involved in maintaining the accounting records. In order to partially mitigate this risk, we recommend that the General Manager on a monthly basis review bank transfers reflected on the monthly bank statement to ensure that these transfers were made to other accounts recognized to be owned by the Agency.

Recommendation

We recommend that on a monthly basis, the General Manager review bank transfers reflected on the bank statement to ensure that they were made to authorized Agency bank accounts.

Management's Comments Regarding Corrective Actions Planned

Bighorn Desert View Water Agency has two bank accounts, Union Bank and LAIF. Transfers occur between these two accounts. At this time, transfers to or from LAIF require authorization and signature of one Director and either the General Manager or the Board Secretary on the LAIF Transfer Record form which also documents the bank issued authorization number. Each month the General Manager reviews and approves the Union Bank month end "source and use of funds" reconciliation report, the monthly Disbursements from Union Bank report as well as the LAIF balance timeline which relate to the original LAIF Transfer Record form.

(8) Ethical Culture

New auditing standards recommend that organizations consider certain best practices to reinforce a strong ethical culture. Accordingly, we recommend that the Agency consider the following:

1. Consider communicating to all employees the process to be followed (who to report to, when to report, etc.) when an employee observes violations of Agency policy or other unethical conduct

BIGHORN-DESERT VIEW WATER AGENCY

Yucca Valley, California

Page 5

2. Consider development of an ethics/fraud policy (code of conduct). Consider giving to employees when hired. Consider having employees sign.
3. New employee orientation to include emphasis on ethical conduct
4. Consideration of ethical conduct during employee evaluations
5. Annual message from General Manager stressing importance of ethical conduct

Management's Comments Regarding Corrective Actions Planned

Management will proceed with implementation of the recommendation including involvement of the Personnel Standing Committee with respect to any updates to the Employee Handbook concerning Ethics Code of Conduct.

* * * * *

This communication is intended solely for the information and use of management, the governing board, others within the organization, and various funding agencies and is not intended to be used by other parties. The Organization's written response to the matters identified herein have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Corrective actions taken to resolve the matters identified above are addressed during the following year's audit.

Mayer Hoffman Malen P.C.

September 29, 2009
Irvine, California