

**Antelope Valley Air Quality  
Management District**

**Management Report**

**June 30, 2017**



**Fedak & Brown LLP**

Certified Public Accountants

**Antelope Valley Air Quality Management District**

**Management Report**

**Table of Contents**

<u>Item</u>	<u>Page No.</u>
General Introduction	1
Summary of Current Year Observations, Comments, and Recommendations	1-2
<b>Appendix:</b>	
Audit/Finance Committee Letter	1-3
Schedule of Audit Adjusting and Reclassifying Journal Entries	4-6



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### **CONFIDENTIAL**

Governing Board  
Antelope Valley Air Quality Management District  
Lancaster, California

#### **Dear Members of the Governing Board:**

In planning and performing our audit of the financial statements of the Antelope Valley Air Quality Management District (District) as of and for the year ended June 30, 2017, 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 auditing procedures that are appropriate in the circumstances 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 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and may not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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 deficiencies in internal control to be a material weakness:

#### **Summary of Current Year Observations, Comments, and Recommendations**

##### **Material Weakness**

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 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 deficiencies in internal control to be a material weakness:

## **Summary of Current Year Observations, Comments, and Recommendations, continued**

### **Material Weakness, continued**

#### ***Carl Moyer Unearned Revenue***

The grant funding for the Carl Moyer program is received before the District spends the grant funding. Based on the nature and timing of the awards received and spent, grant funding for the Carl Moyer program should maintain a relationship where unspent grant funding at the beginning of the year plus current year's new award less grant expenditures equal unspent grant funding at the end of the year. Since the grant revenues are not earned until the funding is spent, the revenues from the grant should equal the expenses of the grant. The accounting records provided by the District did not provide these relationships and a journal entry was proposed.

We recommend that the District implement a process to ensure the accuracy of the Carl Moyer grant funding by reconciling the beginning and ending unearned grant revenues, and recognized Carl Moyer grant revenues and expenses.

#### **Management's Response**

Going forward, the District plans to program its accounting software to recognize grant revenues for the Carl Moyer program as expenses are incurred. This process will ensure grant revenues and grant expenses to be equivalent; and will assist in the reconciliation process of beginning unearned grant revenues and ending unearned grant revenues.

### **Other Comment**

Our other observation, comment, and recommendation, all of which have been discussed with the appropriate members of management, are summarized below.

#### ***Disclosure of Audit Adjustments and Reclassifications***

As your external auditor, we assume that the books and records of the District are properly adjusted before the audit begins. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Governing Board to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Governing Board with a better understanding of the scope of the audit.

#### **Management's Response**

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance at June 30, 2017.

\* \* \* \* \*

### **Restriction on Use**

This communication is intended solely for the information and use of management, the audit committee, the Governing Board, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

**Restriction on Use, continued**

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

*Fedak & Brown LLP*

**Fedak & Brown, LLP**  
Cypress, California  
March 20, 2018

**APPENDIX**

**Antelope Valley Air Quality  
Management District**

**Audit/Finance Committee Letter**

**June 30, 2017**



Charles Z. Fedak, CPA, MBA  
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Governing Board  
Antelope Valley Air Quality Management District  
Lancaster, California

We have audited the basic financial statements of the Antelope Valley Air Quality Management District (District) for the year ended June 30, 2017, and have issued our report thereon dated March 20, 2018. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the position in the basic financial statements were:

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the basic financial statements were:

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 3 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosures in the basic financial statements are neutral, consistent and clear.

### **Significant Audit Findings, continued**

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### **Disagreements with Management**

For the purpose of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representational letter dated March 20, 2018.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the District's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **Other Matters**

We applied certain limited procedures to the management discussion and analysis and budget comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### **Restriction on Use**

We appreciate the cooperation extended us by management and the staff of the District in the performance of our audit testwork. We will be pleased to respond to any question you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.



**Restriction on Use, continued**

This information is intended solely for the information and use of the Governing Board and management of the District and is not intended to be, and should not be, used by anyone other than the specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

*Fedak & Brown LLP*

**Fedak & Brown, LLP**  
Cypress, California  
March 20, 2018

**Antelope Valley Air Quality Management District  
Schedule of Adjusting and Reclassifying Journal Entries  
June 30, 2017**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries</b>			
<b>Adjusting Journal Entries JE # 1</b>			
To reconcile prior year ending net position to current year beginning net position.			
10-1290-00-0000	Bank Transfers	5,026.00	
10-1725-00-0000	Acc Dep Improvements Not Bldgs	1,720.00	
10-1730-00-0000	Furniture & Fixtures	725.00	
10-1735-00-0000	Acc Dep Furniture & Fixtures	4,439.00	
10-1745-00-0000	Acc Dep Machinery & Equipment	6,670.00	
10-1755-00-0000	Acc Dep Vehicles	2,445.00	
10-1775-00-0000	Acc Amort Software	32,269.00	
10-4290-00-0000	Unidentified Income	564.15	
25-3000-00-0000	Restricted Fund Balance	5,495.85	
30-4120-00-3040	Carl Moyer Revenue Round 18	284,749.03	
30-7300-00-3040	Program Expenditures Round 18	12,476.20	
10-3300-00-0000	Unassigned Fund Balance		5,026.00
10-3300-00-0000	Unassigned Fund Balance		564.15
10-3700-00-0000	Investment in Capital Assets		48,268.00
25-7300-00-2000	Program Expenditures Grants		5,495.85
30-3000-00-0000	Restricted Fund Balance		297,225.23
<b>Total</b>		<b><u>356,579.23</u></b>	<b><u>356,579.23</u></b>
<b>Adjusting Journal Entries JE # 2</b>			
To record depreciation expense.			
10-7685-00-0000	Depr Exp Other	44,718.77	
10-1725-00-0000	Acc Dep Improvements Not Bldgs		1,587.48
10-1735-00-0000	Acc Dep Furniture & Fixtures		4,097.28
10-1745-00-0000	Acc Dep Machinery & Equipment		6,109.71
10-1755-00-0000	Acc Dep Vehicles		2,256.78
10-1765-00-0000	Acc Dep Computers		881.00
10-1775-00-0000	Acc Amort Software		29,786.52
<b>Total</b>		<b><u>44,718.77</u></b>	<b><u>44,718.77</u></b>
<b>Adjusting Journal Entries JE # 3</b>			
To record July 2017 rent paid on June 2017 for as prepaid expense.			
10-1300-00-0000	Pre Paid Expenses	4,447.69	
10-7015-00-0000	Facility Leases		4,447.69
<b>Total</b>		<b><u>4,447.69</u></b>	<b><u>4,447.69</u></b>

**Antelope Valley Air Quality Management District  
Schedule of Adjusting and Reclassifying Journal Entries  
June 30, 2017**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 4</b>			
To reconcile to new trial balance.			
10-6000-10-1040	Program Staff PERP	292.86	
10-6000-10-1900	Program Staff MDAQMD	80,715.36	
10-6000-10-2000	Program Staff Grants	5,846.92	
10-6000-10-3040	Round 18	3,836.25	
10-7405-10-1900	Travel MDAQMD	24.84	
10-7505-10-1900	Payroll Contract MDAQMD	167.22	
10-7510-10-0000	Financial Services	12,992.81	
25-6000-10-2000	Program Staff Grants	1,922.36	
30-1032-00-0000	Carl Moyer Trust	78,686.82	
30-2600-00-3020	Deferred Revenue Moyer Rnd 16	317,696.48	
30-2600-00-3050	Deferred Revenue Round 19	15,774.95	
30-7300-00-3030	Program Expenditures Moyer Rnd 17	1,482.25	
30-7300-00-3040	Program Expenditures Round 18	121,966.80	
30-7300-00-3050	Program Expenditures Round 19	15,774.95	
10-2000-00-0000	Accounts Payable System		103,876.26
25-2000-00-0000	Accounts Payable System		1,922.36
30-2000-00-0000	Accounts Payable System		78,686.82
30-2600-00-3040	Deferred Revenue Round 18		194,247.43
30-4120-00-3040	Carl Moyer Revenue Round 18		123,449.05
30-4120-00-3050	Carl Moyer Revenue Round 19		15,774.95
30-7300-00-3020	Program Expenditures Moyer Rnd 16		139,224.00
<b>Total</b>		<b><u>657,180.87</u></b>	<b><u>657,180.87</u></b>
<b>Adjusting Journal Entries JE # 5</b>			
To reverse Moyer Admin reimbursement recorded expensed twice.			
30-2000-00-0000	Accounts Payable System	58,537.82	
30-7310-00-3030	Program Expenditures - Administrative Moyer Rnd 17		51,499.00
30-7310-00-3040	Program Expenditures - Administrative Round 18		7,038.82
<b>Total</b>		<b><u>58,537.82</u></b>	<b><u>58,537.82</u></b>
<b>Adjusting Journal Entries JE # 6</b>			
To recognize revenue for expenses incurred for the Carl Moyer fund.			
30-2600-00-3050	Deferred Revenue Round 19	24,256.00	
30-2610-00-3040	Deferred Admn Rev Round 18	76.00	
30-4120-00-3050	Carl Moyer Revenue Round 19		24,332.00
<b>Total</b>		<b><u>24,332.00</u></b>	<b><u>24,332.00</u></b>

**Antelope Valley Air Quality Management District**  
**Schedule of Adjusting and Reclassifying Journal Entries**  
**June 30, 2017**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Reclassifying Journal Entries</b>			
<b>Reclassifying Journal Entries JE # 7</b>			
To reclassify indirect cost from the Carl Moyer fund to the General fund.			
10-1100-25-0000	Cash Held For Other Fund	20,149.00	
10-4100-00-3040	Administrative Funding Round 18	20,149.00	
30-2000-00-0000	Accounts Payable System	20,149.00	
30-FB9999	Transfer in/out	20,149.00	
10-1200-00-0000	Accounts Receivable System		20,149.00
10-FB9999	Transfer in/out		20,149.00
30-1100-10-0000	Cash Held For Other Fund		20,149.00
30-7310-00-3040	Program Expenditures - Administrative Round 18		20,149.00
<b>Total</b>		<b><u>80,596.00</u></b>	<b><u>80,596.00</u></b>