

Antelope Valley Air Quality Management District

Management Report

June 30, 2020



Fedak & Brown LLP
Certified Public Accountants

Antelope Valley Air Quality Management District

Management Report

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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 governmental activities and each major fund of the Antelope Valley Air Quality Management District (District) as of and for the year ended June 30, 2020, 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 audit 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 the District's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Current Year Observation, Comment, and Recommendation

We identified certain observation, comment, and recommendation for the current year. However, material weaknesses may exist that have not been identified.

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.

Current Year Observation, Comment, and Recommendation, continued

Disclosure of Audit Adjustments and Reclassifications, continued

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.

Prior Year Observation, Comment, and Recommendation

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.

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.

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
February 16, 2021

APPENDIX

Antelope Valley Air Quality Management District

Audit/Finance Committee Letter

June 30, 2020



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Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

We have audited the financial statements of the Antelope Valley Air Quality Management District (District) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 11, 2020. Professional standards also require that we communicate to you the following information related to our audit of the governmental activities and each major fund.

Significant Audit Matters

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 2020. 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 District's financial statements were:

Management's estimate of the fair value of cash and cash 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 they are 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 they are 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 financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Matters, 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 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 February 16, 2021.

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 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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown, LLP
Cypress, California
February 16, 2021

Antelope Valley Air Quality Management District
Schedule of Adjusting and Reclassifying Journal Entries
June 30, 2020

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries			
Adjusting Journal Entries JE # 1			
To reconcile net position and book depreciation expense.			
10-3700-00-0000	Investment in Capital Assets	21,164.83	
10-3700-00-0000	Investment in Capital Assets	724.87	
10-7685-00-0000	Depr Exp Other	52,673.45	
10-1730-00-0000	Furniture & Fixtures		724.87
10-3700-00-0000	Investment in Capital Assets		52,673.45
10-8840-00-0000	Capital Exp Equipment		21,164.83
Total		<u><u>74,563.15</u></u>	<u><u>74,563.15</u></u>
Adjusting Journal Entries JE # 2			
To remove asset disposed of in prior year from books			
10-1755-00-0000	Acc Dep Vehicles	17,618.51	
10-1750-00-0000	Vehicles		17,618.51
Total		<u><u>17,618.51</u></u>	<u><u>17,618.51</u></u>
Adjusting Journal Entries JE # 3			
To adjust prepaids balance.			
10-1310-00-0000	Pre Paid Insurance	3,906.35	
10-7220-00-0000	Vehicle Insurance		3,906.35
Total		<u><u>3,906.35</u></u>	<u><u>3,906.35</u></u>
Reclassifying Journal Entries JE # 4			
To reclass AR/AP as due to/due from			
10-1100-30-0000	Cash Held For Other Fund	57,193.38	
30-2000-00-0000	Accounts Payable System	57,193.38	
10-1200-00-0000	Accounts Receivable System		57,193.38
30-1100-10-0000	Cash Held For Other Fund		57,193.38
Total		<u><u>114,386.76</u></u>	<u><u>114,386.76</u></u>
Reclassifying Journal Entries JE # 5			
To separate WF Operating and WF Special Revenue accounts			
10-FB1010	Wells Fargo Special Revenue	1,223,331.25	
10-1010-00-0000	Wells Fargo Operating		1,223,331.25
Total		<u><u>1,223,331.25</u></u>	<u><u>1,223,331.25</u></u>