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Date: March 6, 2014
TO: Karen Michel, Interim Chief Financial Officer
FROM: Mari Jo Hughes, Accounting Manager
RE: Prop O IRS Audit Closing Document

Edna Diaz, the IRS Auditor who performed the audit on Prop O sent a closing document on December 23, 2013 that mentions that during her examination it was determined that our accounting method for gross proceeds in the commingled general fund was not reasonable and she also mentioned that we did not allocate bond proceeds consistent with the requirements.

When I spoke with Ms. Diaz on the phone for clarification she said that she put this in the closing letter because the company, SDFA whom we use to prepare the rebate report gave her an incorrect report to work from and she felt that the rebate report was a document she should have been able to rely on so she requested a new one and it was correct.

Our response to Ms. Diaz's finding is that the comingling of funds that she mentions are the monies that come into our Building Fund at the county. County State Facilities Funds are put in this fund and is a perfectly acceptable practice. That is how we reimburse the Building Fund for expenditures that are in the state matching program. When she mentioned that we did not allocate the bond proceeds correctly, she was referring to the rebate report received from our consultant SDFA and she received a corrected rebate report once she clarified what she needed from the rebate report.

Also in Ms. Diaz's closing document she states that adequate record retention policies or complete written procedures were not in place to monitor and verify post-issuance compliance of the federal laws applicable to the bonds.

When I asked for clarification on this item she stated that there were two things that caused her to write this in the closing document. One was that the temporary loans were not documented with approval from the CFO's office and the journal vouchers were just processed by an accountant with no approval attached. The second reason was when she wanted to verify the general fund side of the repayment of the loans the finance department had to request this documentation from the county treasurer and it was not readily available to her for reviewing.

Our response to Ms. Diaz's finding in this case is that the CFO had met with the accountant before every temporary loan transfer was prepared and processed and that is what triggered the accountant to process the journal voucher for the temporary loan. The CFO is initialing all transfers now. The documentation that Ms. Diaz was looking for when she stated that it was not readily available was because she was asking for a document that we do not normally receive the way she wanted it and it was a special request from the county treasurer to get this. Any documentation from the time period she was asking for would not have been onsite any way because the time period was too far back for that documentation to be kept onsite.