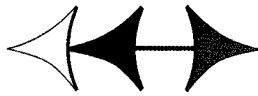


The following list identifies the deficiencies noted by the District's auditors in its letter dated May 15, 2010 (received by management Sep 16, 2010), and preliminary thoughts on correcting the deficiencies.

1. Separation – We can remove Sharry as one of the co-signers of the checks. We no longer operate Bistro and collect cash – we now have a direct subsidy to Bistro and let them take care of the operations and cash.
2. Fund Accounting – Training for Sharry should be an easy one. We should be able to incorporate “fund accounting” with assistance from the auditor.
3. Fire Association's Books – our new auditor is also the CPA for the fire association. I think we will be able to get things in order and combined.
4. Fund Accounting – same solution as #2
5. Method of Allocation of Expenses – Settle on the allocation percentages and document them.
6. Water Security Deposits – Prepare a one or two paragraph policy.
7. Firehouse Lease – Not really applicable anymore – will be moving. Have commitment from NPS allowing our use until new station.
8. Cash – We no longer handle or accept cash.
9. Financial Policies – Have me develop appropriate policies in a form acceptable to auditors.
10. Approval of Invoices, Timesheets, Pay Rates, Reconciliations – Have Sharry prepare a bills to be paid report prior to checks. Have timesheets signed. Pay rates can be easily documented. I will have Sharry submit reconciliation statements for my review and approval.
11. Investment Policy – We only invest in bank deposit and money market instruments. Developing a policy should be no problem. There is a recently prepared policy in our records that should be reviewed by our auditors for sufficiency.
12. Financial Procedures – Have me develop financial procedures along with #9, Financial Policies, with input from auditors.

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Leighton Hills
District Manager
Muir Beach Community Services District



Kevin W. Harper CPA & Associates

May 15, 2010

To the Board of Directors
Muir Beach Community Services District:

In planning and performing our audits of the financial statements of the Muir Beach Community Services District (the "District") as of and for the years ended June 30, 2007 and 2006, 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 our auditing procedures 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies we identified during our audits are described in the attachment to this letter.

This communication is intended solely for the information and use of management and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesies and cooperation extended to us by District staff during the course of the audits. We would be pleased to discuss these recommendations in greater detail or to assist in their implementation.

Yours very truly,

Kevin W. Haysler CPA & Associates

SIGNIFICANT DEFICIENCIES

1. SEGREGATION OF DUTIES

The District's small number of personnel makes it impossible to fully segregate incompatible duties. The primary goal of segregation of duties is to assure that the same person does not have both access to assets and access to related accounting records. Any individual having access to both assets and records exposes the District to the risk that assets could be stolen and the records manipulated to hide the theft. The District's Secretary/Treasurer maintains the accounting records and also has access to assets as follows:

- Receipts – She receives cash from tai chi classes and checks from grants and water payments. She prepares bank deposits and reconciles bank accounts.
- Disbursements – She has access to the District's blank checks. She generates checks and signs as one signer along with the District Manager.

Recommendation

The District Manager and the Board should segregate duties so that the District's Secretary/Treasurer does not have access to assets. If, for cost benefit reasons, it is decided that the Secretary/Treasurer continues to have access to assets, such decision should be documented and shared with the Board annually to assure there is a common understanding of the exposure related to duties not segregated.

2. STAFF TRAINING

The District's Secretary/Treasurer is experienced and knowledgeable. However, because she lacks training related to governmental accounting, the District's accounting records are not maintained in accordance with governmental generally accepted accounting principles (GAAP). For example, fund accounting is not used, the modified accrual basis of accounting is not used, interfund transactions are not properly recorded, and restrictions on use of assets are not reflected in the accounting records. The impact on the District of new accounting pronouncements by the Governmental Accounting Standards Board is not being adequately considered.

Recommendation

The District's Secretary/Treasurer should take continuing education courses related to governmental GAAP.

OTHER FINDINGS AND RECOMMENDATIONS

3. VOLUNTEER FIREMAN'S ASSOCIATION

The Muir Beach Volunteer Fireman's Association (the "Association") is included in the District's financial statements because, under GAAP, the District is entitled to the assets of the Association. The District did not provide audit information for the Volunteer Fireman's Fund in a similar format or level of detail as its other funds. The District was unable to explain significant variances in Volunteer Fireman's Fund revenues and expenses compared to budgeted amounts.

Recommendation

Although the Volunteer Fireman's Fund's accounting records are maintained separately from the General and Water Fund, the District should provide financial information for the Volunteer Fireman's Fund in the same format as its other funds. District management should gain an understanding of significant variances between revenues and expenses compared to the prior year or to the budget for the Volunteer Fireman's Fund.

4. FUND ACCOUNTING AND BUDGETING

The District adopts an annual budget for the District as a whole and maintains its accounting records for the District as a whole. GAAP requires the District to report budget and actual financial information separately for its General Fund and Water Fund.

Recommendation

The District should maintain its accounting records by fund. The District should also prepare an annual budget for each fund. The District-wide budget may continue to be adopted but it is not required.

5. ALLOCATION PROCEDURES

Certain administrative and operating costs are shared by the General Fund and Water Fund, resulting in the need to allocate certain revenues and expenses (e.g., District Manager payroll, employee health benefits, professional services, and interest revenue). Allocation procedures are not fully documented nor approved by the Board. Documentation of procedures allows review of procedures by District management and the Board and assures consistent application.

Recommendation

The District should document its allocation procedures to assure that the allocations are reasonable, appropriate and timely.

6. WATER FUND DEPOSITS

The District has no written policies and procedures related to water deposits. Deposits are collected and retained for each water customer. When service is discontinued, the deposits must be refunded. The District held \$9,200 of water deposits as of June 30, 2007.

Recommendation

The District should prepare written procedures to insure that the appropriate deposits are collected and accounted for, and that when services are changed or abandoned the monies refunded or written off in a timely manner.

7. FIREHOUSE LEASE AGREEMENT

The firehouse used by the District is owned by the California Department of Forestry. There is no written agreement that specifies which agency is responsible for repairs maintenance nor rebuilding in the event of disaster. Since the District has no signed agreement, there is risk that it could be evicted with little notice.

Recommendation

The District should negotiate with the California Department of Forestry a written lease agreement for the firehouse. The lease should address who has rights and obligations of ownership and should specify a minimum eviction notification period.

8. CONTROLS OVER CASH RECEIPTS

Cash collected from various Community Center activities is given to the District's Secretary/Treasurer. This cash is not deposited intact nor in a timely manner. Instead, miscellaneous expenses are paid from these cash receipts as if from a petty cash fund. When sufficient funds are accumulated, the Secretary/Treasurer writes a personal check for the cash, takes the cash, and deposits her check to the District bank account. No review by District management is made of the cash collections or the recorded expenses and deposits.

Recommendation

Cash collected should be deposited in a timely manner, and should be deposited intact. Intact means the exact amount recorded in the accounting records as cash receipts equals the amount of cash deposited in the bank. This is an important control to provide an audit trail showing that all District cash is being deposited. No miscellaneous payments should be paid from cash receipts. Personal cash of employees should never be commingled for any reason with cash of the District.

9. FINANCIAL POLICIES MANUAL

The District has no financial policies manual. Policies are important to assure that there is common understanding of the primary objectives and priorities of the District's financial activities.

Recommendation

The District should develop and the Board should adopt a financial policies manual. Policies to be considered should include delegation of authority, reserves, budget, financial reporting/audit, indirect costs, grants management and employee benefits. They should also include approvals and investments as discussed below.

10. AUTHORIZATIONS AND APPROVALS

Several types of financial transactions are not adequately reviewed, authorized or approved, or there is inadequate documentation thereof. Specifically:

Payment of Invoices – Invoices are received and reviewed by the District's Secretary/Treasurer. Invoices are not consistently reviewed and approved prior to payment by the Secretary/Treasurer.

Recommendation

Each invoice should be reviewed by someone other than the District's Secretary/Treasurer prior to the check being prepared. Such review should be documented with the initials of the reviewer and the date reviewed.

Timesheets are prepared by the District's Water Manager for all employees except two who work a set amount of hours per week. The timesheets are not signed by the employee nor the Water Manager.

Recommendation

All timesheets should be signed by both the employee and the reviewer.

Employee Pay Rates - There is inadequate documentation demonstrating review and approval by the Board or senior management of gross pay changes made to the payroll records.

Recommendation

The District Manager or Board's approval of all changes to an employee's gross pay should be documented before pay rate changes are entered into the payroll system. Each employee's file should contain documentation showing all approved salary increases.

Bank Reconciliations – In addition to preparing cash receipts for deposit and preparing checks for payment, the District's Secretary/Treasurer is solely responsible for the bank reconciliation. The bank reconciliation is a key internal control because it can highlight shortages in cash. It is therefore critical to segregate the responsibility for reconciling the bank account from the person handling the cash.

Recommendation

Someone other than the Secretary/Treasurer should prepare the bank reconciliations. If the District considers this impractical, the next best alternative is to have the bank reconciliations reviewed by a member of District management to assure that they are consistent with the bank statement information and that any adjustments to cash are researched. The reviewer should initial the bank reconciliation to document the review.

11. INVESTMENT POLICY

The District had \$1,107,066 of cash and investments as of June 30, 2007. This included \$986,634 invested by the County of Marin and \$98,378 invested in U.S. Treasury bills. The District has no investment policy.

Recommendation

In accordance with section 53646 of the California Government Code and GASB Statement No. 40, the Board should adopt an investment policy. The policy should include investment objectives, staff responsibilities and authorizations, allowable investment types, maximum amounts invested in certain types of securities, maximum amounts invested in a single counterparty's securities, and minimum acceptable credit ratings of purchased securities.

12. FINANCIAL PROCEDURES MANUAL

The District has no financial procedures manual. Procedures are important to assure that the District's financial policies are executed in a consistent manner, to train new employees and to allow senior management to understand and oversee the daily activities of staff.

Recommendation

The District should develop a financial procedures manual. The ongoing tasks related to the District's primary financial activities should be considered, including billing, cash receipts, purchasing, disbursements, cash management/investing, payroll and journal entries.