AUDIT REPORT

401 (K) SALARY SAVINGS PLAN

AND

401 (a) DEFINED CONTRIBUTIONS PLAN

FOR THE COUNTY OF SAN BERNARDINO

CALIFORNIA

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
January 4, 2005

County of San Bernardino
401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

January 4, 2005

Mark Uffer, Chairperson
Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S 401 (k) SALARY SAVINGS PLAN AND 401 (a) DEFINED CONTRIBUTIONS PLAN FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's 401 (k) Salary Savings Plan and 401 (a) Defined Contributions Plan for the years ended December 31, 2002 and 2003.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's 401 (k) Salary Saving Plan and 401 (a) Defined Contribution Plans (Plans) and the related statement of changes in net assets available for benefits for the years then ended December 31, 2002 and 2003. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net assets available for benefits, and the changes in net assets available for benefits for the years then ended December 31, 2002 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

LDW:BKR:wds.2

Copies to:

Margaret Smith, Human Resources, Interim Director
Robin Ohama, Employee Benefits and Services, Division Chief
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County of San Bernardino
401 (k) Salary Savings Plan
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

ASSETS	**2003**	**2002**
Investments at contract value	$ 43,706,086	$ 32,352,373
Loans Receivable (Note 4)	1,322,439	1,329,836
Receivables:		
Employer contributions	151,947	129,992
Participant contributions	127,666	219,342
Total receivables	279,613	349,334
Total assets	45,308,138	34,031,543
LIABILITIES		
Accrued expenses (Note 5)	-	(14,322)
Total liabilities	-	(14,322)
Net assets available for benefits	$ 45,308,138	$ 34,045,865

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
401 (a) Defined Contributions Plan
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

ASSETS	2003	2002
Cash and cash equivalents (Note 3)	$ 183,565	$ 145,892
Receivables:		
Employer contributions	2,731	2,646
Total receivables	2,731	2,646
Total assets	186,296	148,538
LIABILITIES		
Total liabilities	-	-
Net assets available for benefits	$ 186,296	$ 148,538

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
401 (k) Salary Savings Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Investment income (loss)		
Net contract value of investments	$ 8,492,182	$ (6,616,037)
Interest	276,880	152,160
Contibutions:		
Participant	3,059,055	2,845,248
Employer	2,538,099	2,532,285
Plan to plan transfers	35,463,632	
Total contributions	41,060,786	5,377,533
Loan Re-Payments:		
Principal	544,135	493,806
Interest	80,244	96,615
	624,379	590,421
Total additions	50,454,227	(495,923)
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	2,918,848	1,789,870
Plan to plan transfers	35,718,446	
Loans Issued	536,739	563,502
Administrative expenses	17,921	59,502
Total deductions	39,191,954	2,412,874
Net assets available for benefits:		
Beginning of year	34,045,865	36,954,662
End of year	$ 45,308,138	$ 34,045,865

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
401 (a) Defined Contributions Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Interest	$ 6,838	$ 4,099
Contibutions:		
Participant	19,867	-
Employer	30,977	31,230
Plan to plan transfers	148,386	
Total additions	206,068	35,329
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	168,310	-
Total deductions	168,310	-
Net assets available for benefits:		
Beginning of year	148,538	113,209
End of year	$ 186,296	$ 148,538

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County of San Bernardino 401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Notes to the Financial Statements
December 31, 2003

NOTE 1: DESCRIPTION OF PLAN

The following description of the Plan's provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

A. The San Bernardino County 401 (k) Salary Savings Plan:

1. *General* – The Plan is a defined contribution plan covering employee's in the exempt occupational unit, elected officials, contract employees - whose contract authorizes participation in the Plan, or any other employee who is deemed an eligible employee by the County's Board of Supervisors. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Participants may contribute an amount not in excess of $12,000. Bi-weekly participant contributions are matched by an employer contribution on the basis of two times a participant's contributions up to three percent of the bi-weekly base salary with a maximum matching contribution of six percent of the participant's bi-weekly base salary. Participants direct the investment of their contributions into mutual funds and/or fixed investment options offered by the Plan.
3. *Participant Accounts* – Each participant's account is credited with the participant's contribution, employer match, Plan earnings and interest, and is charged with losses and administrative expenses.
4. *Vesting* – A participant's account in the Plan is immediately vested with initial deposit and non-forfeitable at all times.
5. *Participant Loans* – With the approval of the Plan administrator and 12 months of participation, a participant may elect to borrow a portion of their account. Participants may borrow a minimum of $1,000 up to a maximum that is equal to the lesser of $50,000 or 50 percent of their account balance, whichever is less. The loan is secured by the balance in the participant's account. Principal and interest is paid ratably through bi-weekly payroll deductions.
6. *Payment of Benefits* – Upon retirement, termination of employment, or attainment of age 70 ½, a participant may elect the following:

    - A single lump sum payment.
    - Installment payments.
    - Defer Benefits.

NOTE 1: DESCRIPTION OF PLAN - *Continued*

B. The San Bernardino County 401 (a) Defined Contributions Plan:

1. *General* – The Plan is a defined contribution plan that covers an elected County official serving on the Board of Supervisors, as a County Department Head, or a County contract employee who's Board approved contract specifies that the employee is eligible. It is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – The County contributes five percent of the participant salary.
3. Participant Accounts – Each participant's account is credited with the employer contribution and interest income.
4. *Vesting* – A participant's account in the Plan shall be vested and non-forfeitable at all times.
5. *Participant Loans* – With the approval of the Plan administrator and 12 months of participation, a participant may elect to borrow a portion of their account. Participants may borrow a minimum of $1,000 up to a maximum that is equal to the lesser of $50,000 or 50 percent of their account balance, whichever is less. The loan is secured by the balance in the participant's account. Principal and interest is paid ratably through bi-weekly payroll deductions.
6. *Payment of Benefits* – Upon retirement, termination of employment, the fifth anniversary of the year in which the participant commenced participation in the plan, or death, a participant or beneficiary may elect to receive the following:

    - A single lump sum payment.
    - Installment payments.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan's are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Investment Valuation and Income Recognition

The Plan's investments are stated at net contract value. Net contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Shares of mutual funds are valued at the net asset value of shares for the beginning and ending valuation period and the difference represent the net increase (decrease) in the earnings of the contract value of the mutual fund.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Plan's account based upon the Plan's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of December 31, 2002 and 2003.

NOTE 4: LOANS RECEIVABLE

At December 31, 2002 and 2003, loans receivable were composed of loans to participants.

NOTE 5: ACCRUED EXPENSES

At December 31, 2002, accrued expenses were composed of administrative fees.

NOTE 6: TAX STATUS

On March 17, 2000 and January 17, 2001, the Internal Revenue Service made a determination that the 401 (k) Salary Savings Plan and the 401 (a) Defined Contribution Plan, respectively, are designed in accordance with applicable sections of the Internal Revenue Code.

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County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 4, 2005

Mark Uffer, Chairperson
Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: MANAGEMENT LETTER REGARDING AUDIT OF THE COUNTY OF SAN BERNARDINO'S 401 (k) SALARY SAVINGS PLAN AND 401 (a) DEFINED CONTRIBUTIONS PLAN FOR THE YEAR ENDED DECEMBER 31, 2003

We have audited the County of San Bernardino's 401 (k) Salary Savings Plan and 401 (a) Defined Contributions Plan (Plans) as of December 31, 2003 and have issued our report thereon dated January 4, 2005.

In planning and performing our audit of the Plan's financial statements for the year then ended December 31, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be material weaknesses. In addition, because of inherent limitations in any internal control, errors or fraud may occur and not be detected by internal control. We noted that Prior Finding Three, dated March 1998, Findings One and Five, dated July 1999, Findings One and Two, dated May 2003, below involve matters of internal control and its operation that we consider to be material weaknesses as defined above.

ACTION TAKEN ON PRIOR RECOMMENDATIONS

The recommendations for Prior Finding Three, dated May 2003, were adopted. Further recommended action for Prior Findings Three, dated March 1998, Prior Findings One and Five, dated July 1999, and Prior Finding One, dated May 2003, are shown below.

Prior Finding Three (March 1998): **Records for the 401k Salary Savings Plan were not reconciled to ING Life Insurance and Annuity Company (ING) quarterly statements during the audit period.**

Prior Recommendation:

Develop and implement formal procedures to track and reconcile 401k transactions to ING statements each quarter. Transactions to be reconciled include:

- Contributions on payroll reports
- County match amounts on payroll reports
- Loan repayment totals on payroll reports
- Loans issued
- Balance of loans outstanding
- Termination/distributions totals

Current Status:

Management has not formally implemented this prior recommendation from our report dated March 31, 1998.

Human Resources are responsible for overseeing $5.5 million dollars in annual employee and County contributions and $45 million dollars in the Plan's net assets. This oversight responsibility includes insuring that each payroll deduction is credited by ING to the employee's account. Failure to formally reconcile these reports increases the risk that contributions are susceptible to errors or fraud that may not be detected timely.

Management's Response:

Human Resources does reconcile 401k transactions to ING statements each quarter. The Auditors believed that the current procedure for doing this reconciliation needed to be more formalized and suggested the development of a form or spreadsheet. Human Resources concurs with the finding and steps will be taken to adopt this recommendation.

Prior Finding One (July 1999): **Reports are not being generated for the 401k Salary Savings Plan that would provide information needed by Human Resource's personnel in order to reconcile transactions and administer changes efficiently.**

Prior Recommendation:

Compile Employee Management and Compensation System (EMACS) data on a spreadsheet to reconcile contributions, loan repayments, loans issued, balance of loans outstanding, and termination totals to ING quarterly statements.

Current Status:

Management has developed EMACS queries to verify deduction changes entered on the payroll system. However, contributions, loan repayment, loans issued, loans outstanding, and termination totals from EMACS were not compiled in order to reconcile to ING's statements. This finding is a recurring material weakness from our report dated March 31, 1998. (See also Prior Finding Three dated March 1998 above and Prior Finding One dated May 2003 below.)

Management's Response:

Reports are being generated for the 401k Salary Savings Plan and Human Resource's personnel are using these reports to reconcile transactions. Again, a more formalized procedure was requested by the Auditor. Human Resources concurs with the finding and steps will be taken to adopt this recommendation.

Prior Finding Five (July 1999): **Human Resources did not verify the value of the investments in participants' accounts.**

Prior Recommendation:

Compare the Plan's total net assets to the sum of participant's accounts and select a sample of participants' accounts and verify for accuracy of fees, contributions, and distributions.

Current Status:

Comply with prior recommendations to compare the Plan's total net assets to the sum of participant's accounts. Then select a sample of Participants' to compare detail payroll records to ING's participant statements.

Prior Finding Five (July 1999): - ***Continued***

Management's Response:

Human Resources does compare the Plan total net assets to the sum of the participant's account. The Auditors believed that the current procedure for making this comparison needed to be more formalized and suggested the development of a form or spreadsheet. Human Resources concurs with the finding and steps will be taken to adopt this recommendation.

Human Resources will also begin to select a random sample of accounts to verify the accuracy of fees, contributions, and distributions.

Prior Finding One (May 2003): Records for the 401k Salary Savings Plan were not reconciled to ING's quarterly statements during the audit period.

Contributions, loan transactions, and employee termination totals from EMACS were not compiled in order to reconcile to ING's quarterly statements. One aspect of an effective internal control structure is based upon periodic reconciliations. Errors and/or fraud may occur and not be detected on a timely basis if records are not verified and reconciled periodically.

Recommendations

Develop and implement formal procedures to summarize, monitor, and reconcile the Plan's transactions to the ING statements each quarter.

Management's Response:

Human Resources does reconcile 401k transactions to ING statements each quarter. The Auditors believed that the current procedure for doing this reconciliation needed to be more formalized and suggested the development of a form or spreadsheet. Human Resources concurs with the finding and steps will be taken to adopt this recommendation

Prior Finding Two (May 2003): There were no written accounting policies or procedures in place for administering the Plans.

The foundation of an effective internal control structure is the existence of written policies and procedures. For example, if an employee transfers to another position or leaves the County, written policies and procedures would direct the accounting for this

Prior Finding Two (May 2003): - ***Continued***

transaction and minimize the chance of errors. When placed with the responsibility of managing the Plans, written policies and procedures help to eliminate errors and/or fraud in the accounting for the Plans.

Recommendations

Develop and implement written accounting policies and procedures for the Plans.

Management's Response:

The implementation of the ING contract has provided new written administrative policies and procedures via the contract guidelines, eliminating the need for Human Resources to develop some written policies and procedures. There are two specific areas that Human Resources has prepared written procedures for the Salary Savings Plans, 1) how to prepare the wire transfer, and 2) the hardship appeals process. Any remaining processes i.e. payment document processing procedures, are general enough that if an employee transfers to another position or leaves the County, there are other Human Resource employees that are aware of the processing method.

Overall, the material weaknesses do not reduce the risk of errors or fraud to an acceptable level due to a lack of properly designed internal controls combined with the lack of understanding of the accounting for the Plans.

This report is intended solely for the information and use of the Plan's Defined Contribution Committee members, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Copies to:

Margaret Smith, Human Resources, Interim Director
Robin Ohama, Employee Benefits and Services, Division Chief
Rafael Viteri, Supervisor of Administrative Services II

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AUDIT REPORT

DEFERRED COMPENSATION PLANS

FOR THE COUNTY OF SAN BERNARDINO

CALIFORNIA

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
January 4, 2005

County of San Bernardino
Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan

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Independent Auditor's Report

January 4, 2005

Mark Uffer, Chairperson
Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S DEFERRED COMPENSATION PLAN, DEFERRED PST COMPENSATION RETIREMENT PLAN, AND SECTION 457 (f) DEFERRED COMPENSATION PLAN FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan (Plans) for the years ended December 31, 2002 and 2003.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan (the Plans) as of December 31, 2002 and 2003, and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plans management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plans net assets available for benefits and the changes in net assets available for benefits for the years ended December 31, 2002 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

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Manager, Internal Audit Section

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County of San Bernardino
Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan
Statement of Net Assets Available for Benefits
December 31, 2003

	Deferred Compensation Plan	Deferred PST Compensation Retirement Plan	Section 457 (f) Deferred Compensation Plan	Total
ASSETS				
Investments at contract value (Note 3)	$ 227,592,441	$ 23,547,564	$ 402,958	$ 251,542,963
Loans receivable (Note 5)	2,692,132			2,692,132
Receivables:				
Employer contributions	-	245,419	597	246,016
Participant contributions	1,279,013	-	-	1,279,013
Total assets	231,563,586	23,792,983	403,555	255,760,124
LIABILITIES				
Total liabilities	-	-	-	-
Net assets available for benefits	$ 231,563,586	$ 23,792,983	$ 403,555	$ 255,760,124

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred Compensation Plan
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

	2003	2002
ASSETS		
Investments at contract value (Note 3)	$ 227,592,441	$ 186,311,041
Loans receivable (Note 5)	2,692,132	
Receivables:		
Participant contributions	1,279,013	1,081,922
Total assets	231,563,586	187,392,963
LIABILITIES		
Accrued expenses (Note 4)	-	(702)
Total liabilities	-	(702)
Net assets available for benefits	$ 231,563,586	$ 187,393,665

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred PST Compensation Retirement Plan
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

	2003	2002
ASSETS		
Investments at contract value (Note 3)	$ 23,547,564	$ 21,294,757
Receivables:		
Employer contributions	245,419	215,491
Total assets	23,792,983	21,510,248
LIABILITIES		
Accrued expenses (Note 4)	-	(19,390)
Total liabilities	-	(19,390)
Net assets available for benefits	$ 23,792,983	$ 21,529,638

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Section 457 (f) Deferred Compensation Plan
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

	2003	2002
ASSETS		
Investments at contract value (Note 3)	$ 402,958	$ 404,881
Receivables:		
Employer contributions	597	1,863
Total assets	403,555	406,744
LIABILITIES		
Total liabilities	-	-
Net assets available for benefits	$ 403,555	$ 406,744

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2003

	Deferred Compensation Plan	Deferred PST Compensation Retirement Plan	Section 457 (f) Deferred Compensation Plan	Total
Additions				
Additions to net assets attributed to:				
Investment income (loss)				
Net contract value of investments	$ 24,277,532	$ 869,173	$ 57,880	$ 25,204,585
Dividends	10,349,416		22,471	10,371,887
Contibutions:				
Participant	26,467,224	4,566,426	19,272	31,052,922
Employer	-	-	3,017	3,017
Plan to plan transfers	196,451,775	21,929,495	349,216	218,730,486
Loan Re-Payments:				
Principal	202,571	-	-	202,571
Interest	25,127	-	-	25,127
Total additions	257,773,645	27,365,094	451,856	285,590,595
Deductions				
Deductions from net assets attributed to:				
Benefits paid to participants	19,729,090	1,636,079	93,892	21,459,061
Plan to plan transfers	190,909,045	23,465,670	361,101	214,735,816
Loans Issued	2,894,703		-	2,894,703
Administrative expenses	70,886	-	52	70,938
Total deductions	213,603,724	25,101,749	455,045	239,160,518
Net assets available for benefits:				
Beginning of year	187,393,665	21,529,638	406,744	209,330,047
End of year	$ 231,563,586	$ 23,792,983	$ 403,555	$ 255,760,124

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred Compensation Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Investment income (loss)		
Net contract value of investments	$ 24,277,532	$ (22,588,740)
Dividends	10,349,416	
Contibutions:		
Participant	26,467,224	23,040,874
Plan to plan transfers	196,451,775	844,766
Loan Re-Payment		
Principal	202,571	
Interest	25,127	
Total additions	257,773,645	1,296,900
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	19,729,090	9,312,694
Plan to plan transfers	190,909,045	2,538,697
Loans Issued	2,894,703	
Administrative expenses	70,886	130,041
Total deductions	213,603,724	11,981,432
Net assets available for benefits:		
Beginning of year	187,393,665	198,078,197
End of year	$ 231,563,586	$ 187,393,665

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred PST Compensation Retirement Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Investment income (loss)		
Net contract value of investments	$ 869,173	$ 783,259
Contibutions:		
Participant	4,566,426	4,686,513
Plan to plan transfers	21,929,495	-
Total additions	27,365,094	5,469,772
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	1,636,079	1,942,816
Plan to plan transfers	23,465,670	860,208
Administrative expenses	-	73,939
Total deductions	25,101,749	2,876,963
Net assets available for benefits:		
Beginning of year	21,529,638	18,936,829
End of year	$ 23,792,983	$ 21,529,638

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Section 457 (f) Deferred Compensation Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Investment income (loss)		
Net contract value of investments	$ 57,880	$ (79,914)
Dividends	22,471	
Contibutions:		
Participant	19,272	59,240
Employer	3,017	
Plan to plan transfers	349,216	-
Total additions	451,856	(20,674)
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	93,892	72,427
Plan to plan transfers	361,101	-
Administrative expenses	52	240
Total deductions	455,045	72,667
Net assets available for benefits:		
Beginning of year	406,744	500,085
End of year	$ 403,555	$ 406,744

The notes to the financial statements are an integral part of this statement.

NOTE 1: DESCRIPTION OF PLAN

The following description of the Deferred Compensation Plans (Plans) provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

A. San Bernardino County Deferred Compensation Plan:

1. *General* – The Plan is a defined contribution plan covering all full-time and part-time regular employees, elected officials, Board Governed Special District employees, or all full-time or part-time "regular" employees of the Superior Court. The primary purpose of the Plan is to permit employees of the County of San Bernardino and certain other persons to enter into an agreement which will provide the deferral of a portion of their current compensation until retirement, termination of employment, death, or other event in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986. It is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – For calendar year 2002, participants may defer the lesser of up to $12,000 or 100% of the participant's net compensation. Participants direct the investment of their contributions into various investment options offered by the Plan.
3. Participant Accounts – Each participant's account is credited with contributions, Plan earnings, and interest, and is charged with losses and administrative expenses.
4. *Vesting* – Participants are vested immediately in their contributions plus actual earnings thereon.
5. *Plan-To-Plan Transfers* – The Plan will accept funds from other eligible Plans and amounts deferred by a former participant may be transferred to another eligible plan.
6. *Payment of Benefits* – Upon retirement, termination of employment, or attainment of age 70 ½ (whether or not still employed) a participant may elect to receive the following:

    - A lump sum payment.
    - Installment payments.
    - An annuity.
    - A specific amount monthly until funds are depleted.
    - Defer benefits.

NOTE 1: DESCRIPTION OF PLAN - *Continued*

In the event of the participant's death, the full amount credited to their account, shall be distributed based on one of the following:

- If distribution has commenced prior to the death of the participant, the balance of their account shall be paid to the beneficiary in accordance with the payment option already selected by the participant.
- If the distribution has not commenced prior to the death of the participant, a spousal beneficiary may elect a single-sum payment or a distribution payable over a period not extending beyond the life expectancy of the spousal beneficiary.

B. County of San Bernardino Deferred PST Compensation Retirement Plan:

1. *General* – The Plan is a defined contribution plan that covers all employees who are not regular employees and who are not members of the San Bernardino County Employees' Retirement Associations or a participant of the County's 401 (k) Salary Savings Plan. Effective July 1, 1991, the Omnibus Budget Reconciliation Act of 1990 subjects service performed by state and local government employees who are not members of a retirement system to Social Security taxes. The Treasury Department issued regulations that permit participation in a Deferred Compensation Program as an alternative to Social Security taxes. To qualify, the Plan is required to allocate at least 7.5 percent of a participant's annual compensation into the participant's account. The Plan provides a fixed interest rate investment fund. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – The County contributes 2 1/2 percent of the employee's salary and the employee contributes 5 percent of their salary, up to the Social Security Maximum.
3. *Participant Accounts* – Each participant's account is credited with the contributions, earnings and gains, and is charged with losses and administrative expenses.
4. *Vesting* – Participants are vested immediately with initial contributions.
5. Termination of Employment – Upon termination of a participant's employment, any agreement to defer compensation will be deemed to have been revoked.
6. *Plan-To-Plan Transfers* – The Plan will accept funds from other eligible Deferred Compensation Plans and amounts deferred by a former participant may be transferred to another eligible plan.

NOTE 1: DESCRIPTION OF PLAN - *Continued*

7. *Payment of Benefits* – Upon termination of employment, a participant may elect to receive the following when the participant's account is $3,500 or more:

   - A single lump sum payment.
   - Installment payments.

Participant's account less than $3,500 will be distributed in a lump sum.

C. County of San Bernardino Section 457 (f) Deferred Compensation Plan:

1. *General* – The Plan is a defined contribution plan covering any employee in the exempt occupational unit, elected officials, or Board Governed Special District employees entitled to exempt benefits. The Plan provides participants the opportunity to contribute an unlimited portion of their annual compensation before State and Federal taxes are withheld, provided the deferred amounts are subject to a substantial risk of forfeiture. Substantial risk of forfeiture requires that the participant continue to provide employment services to the County and the participant would forfeit the deferred compensation amounts if they terminated employment prior to the completion of their requisite period of service. The Plan not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Each year the participant may defer an unlimited amount of their annual compensation. In addition, each Plan year at the sole and absolute discretion of the Board of Supervisors, the County may determine to make a contribution to the Plan on behalf of any participant.
3. *Participant Accounts* – Each participant's account consists of an employee subaccount and a County contribution subaccount. Each subaccount is credited with earnings and gains (or losses) and charged for any administrative expenses.
4. *Payment of Benefits* – The distribution of benefits for the employee deferral subaccount is as follows:

   - A lump sum payment.
   - Defer benefits.

NOTE 1: DESCRIPTION OF PLAN - *Continued*

In the event of a participant's voluntary termination of service with the County, or a termination for cause by the County, prior to the expiration of the applicable deferral period, employee compensation credited to the participant's employee subaccount shall be forfeited.

In the event of death, disability, retirement or termination of employment by the County (other than a termination for cause), all amounts in the participant's employee subaccount shall be distributed to the participant or beneficiary.

Distribution of benefits for the County Contribution subaccount for retirement, death, or termination of employment by reason of disability is paid in a lump sum.

In the event of a participant's termination of employment for any reason other than retirement, death, or disability, all amounts in the participant's County Contribution Subaccount shall be forfeited.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at net contract value. Net contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Shares of mutual funds are valued at the net asset value of shares for the beginning and ending valuation period and the difference represent the net increase (decrease) in the earnings of the contract value of the mutual fund.

Payment of Benefits

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

NOTE 3: INVESTMENT CONTRACT WITH INSURANCE COMPANY

A. San Bernardino County Deferred Compensation Plan:

In July 2001, the Plan entered into two investment contracts (contract numbers (V) K 2044 and (V) K 2051) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains contributions in a pooled separate account and a general account. The pooled separate account represents a special account established by ALIAC solely for the purpose of investing the assets of one or more plans in mutual funds. Funds in the separate account are not commingled with other assets for investment purposes and the assets cannot be used to satisfy ALIAC debts.

The general account represents a fixed account maintained by ALIAC that commingles Plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 3%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

A new investment contract came into effect in May 2003 between ING Life Insurance and Annuity Company (ILIAC), which eliminated contracts (v) k2044 and (v) k2051. The new ING Plan contract number is VFZ785.

B. County of San Bernardino Deferred PST Compensation Retirement Plan:

In July 2001, the Plan entered into an investment contract (contract number (V) K 2045) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains the Contract's contributions in a general account. The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 4%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

NOTE 3: INVESTMENT CONTRACT WITH INSURANCE COMPANY - *Continued*

A new investment contract came into effect in May 2003 between ING Life Insurance and Annuity Company (ILIAC), which eliminated contract (v) k2045. The new ING Plan contract number is VFZ788.

C. County of San Bernardino Section 457 (f) Deferred Compensation Plan:

In December 1993, the Plan entered into an investment contract (contract number (V) K 2047) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains contributions in a pooled separate account and a general account. The pooled separate account represents a special account established by ALIAC solely for the purpose of investing the assets of one or more plans in mutual funds. Funds in the separate account are not commingled with other assets for investment purposes and the assets cannot be used to satisfy ALIAC debts.

The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 3%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

A new investment contract came into effect in May 2003 between ING Life Insurance and Annuity Company (ILIAC), which eliminated contract (v) k2047. The new ING Plan contract number is VFZ787.

NOTE 4: ACCRUED EXPENSES

At December 31, 2002, accrued expenses were composed of administrative fees.

NOTE 5: LOANS RECEIVABLE

At December 31, 2003, loans receivable were composed of loans to participants.

AUDITOR/CONTROLLER-RECORDER
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COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 4, 2005

Mark Uffer, Chairperson
Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: MANAGEMENT LETTER REGARDING AUDIT OF THE COUNTY OF SAN BERNARDINO'S DEFERRED COMPENSATION PLAN, DEFERRED PST COMPENSATION RETIREMENT PLAN, AND SECTION 457 (f) DEFERRED COMPENSATION PLAN FOR THE YEAR ENDED DECEMBER 31, 2003

We have audited the County of San Bernardino's Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan (Plans) as of December 31, 2003 and have issued our report thereon dated January 4, 2005.

In planning and performing our audit of the Plan's financial statements for the year then ended December 31, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be material weaknesses. In addition, because of inherent limitations in any internal control, errors or fraud may occur and not be detected by internal control. We noted that Prior Finding Four, dated July 1999, and Prior Findings One and Two, dated May 2003, below involve matters of internal control and its operation that we consider to be a material weakness as defined above.

ACTION TAKEN ON PRIOR RECOMMENDATIONS

The recommendations for Prior Findings One and Three, dated July 1999, were adopted. Further recommended actions for Prior Findings Four, dated July 1999, and Prior Findings One and Two, dated May 2003, are shown below.

Prior Finding 4 (July 1999): **Human Resources did not verify the value of the investments in participants' accounts**

Prior Recommendation:

Compare the Plan's total net assets to the sum of participant's accounts and select a sample of participants' accounts and verify for accuracy of fees, contributions, and distributions.

Current Status:

Comply with prior recommendations by comparing the Plan's total net assets to the sum of participant's accounts. Then select a sample of Participants' to compare detail payroll records to ING participant statements.

Management's Response:

Human Resources does compare the Plan total net assets to the sum of the participant's account. The Auditors believed that the current procedure for making this comparison needed to be more formalized and suggested the development of a form or spreadsheet. Human Resources concurs with the finding and steps will be taken to adopt this recommendation.

Human Resources will also begin to select a random sample of accounts to verify the accuracy of fees, contributions, and distributions.

Prior Finding 1 (May 2003): **Records for the Plans were not reconciled to ING monthly statements during the audit period.**

Contributions and termination totals from EMACS were not compiled in order to reconcile to ING's monthly statements. One aspect of an effective internal control structure is based on periodic reconciliations. Errors and/or fraud may occur and not be detected on a timely basis if records are not verified and reconciled periodically.

Recommendations

Develop and implement formal procedures to summarize, monitor, and reconcile the Plan's transactions to the ING statements each month.

Management's Response:

Human Resources does reconcile ING monthly statements. Again, the Auditors believed that the current procedure for doing this reconciliation needed to be more formalized and suggested the development of a form or spreadsheet. Human Resources concurs with the finding and steps will be taken to adopt this recommendation.

Prior Finding 2 (May 2003): **There were no written accounting policies or procedures in place for administering the Plans.**

The foundation of an effective internal control structure is the existence of written policies and procedures. For example, if an employee transfers to another position or leaves the County, written policies and procedures would direct the accounting for this transaction and minimize the chance of errors. When placed with the responsibility of managing the Plans, written policies and procedures help to eliminate inconsistencies and errors in the accounting for the Plans.

Recommendations

Develop and implement written accounting policies and procedures for the Plans.

Management's Response:

The implementation of the ING contract has provided new written administrative policies and procedures via the contract guidelines, eliminating the need for Human Resources to develop some written policies and procedures. There are two specific areas that Human Resources has prepared written procedures for the Salary Savings Plans, 1) how to prepare the wire transfer, and 2) the hardship appeal process. Any remaining processes, i.e. payment document

Prior Finding 2*: - Continued*

processing procedures, are general enough that if an employee transfers to another position or leaves the County, there are other Human Resource employees that are aware of the processing method.

Overall, the material weaknesses do not reduce the risk of errors and/or fraud to an acceptable level due to a lack of properly designed internal controls combined with the lack of understanding of the accounting for the Plans.

This report is intended solely for the information and use of the Plan's Defined Contribution Committee members, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:
Barbara K. Redding, CPA, CGFM
Internal Audits Section Manager

Copies to:

Margaret Smith, Human Resources, Interim Director
Robin Ohama, Employee Benefits and Services, Division Chief
Rafael Viteri, Supervisor of Administrative Services II,

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)
Date Report Distributed: 2-15-05

LDW:BKR:wds.2

AUDIT REPORT

RETIREMENT MEDICAL TRUST

FOR THE COUNTY OF SAN BERNARDINO

CALIFORNIA

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

County of San Bernardino
Retirement Medical Trust

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

January 4, 2005

Robin Ohama, Plan Administrator
Retirement Medical Trust
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S RETIREMENT MEDICAL TRUST FOR THE YEAR ENDED DECEMBER 31, 2002 AND 2003

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's Retirement Medical Trust for the years ended December 31, 2002 and 2003.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's Retirement Medical Trust (Trust) as of December 31, 2002 and 2003, and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Trust's net assets available for benefits and the changes in net assets available for benefits for the years ended December 31, 2002 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Respectfully Submitted,

Larry Walker
Auditor/Controller-Recorder

By:
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Copies to:

Margaret Smith, Human Resources
Interim Director
Rafael Viteri, Supervisor of
Administrative Services II

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County of San Bernardino
Retirement Medical Trust
Statement of Net Assets Available for Benefits
December 31, 2002 and 2003

ASSETS	**2003**	**2002**
Cash and cash equivalents (Note 3)	$ 3,071,464	$ 1,850,063
Receivables:		
Interest	13,449	14,547
Employer contributions	7,715	6,685
Total receivables	21,164	21,232
Total assets	3,092,628	1,871,295
LIABILITIES		
Total liabilities	-	-
Net assets available for benefits	$ 3,092,628	$ 1,871,295

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Retirement Medical Trust
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002 and 2003

	2003	2002
Additions		
Additions to net assets attributed to		
Interest	$ 65,518	$ 66,284
Employer contributions	164,744	140,304
Sick leave contributions	1,331,531	334,987
Total additions	1,561,793	541,575
Deductions		
Deductions from net assets attributed to:		
Benefits paid to participants	319,228	313,295
Plan to plan transfers	21,232	-
Total deductions	340,460	313,295
Net assets available for benefits:		
Beginning of year	1,871,295	1,643,015
End of year	$ 3,092,628	$ 1,871,295

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Retirement Medical Trust
Notes to the Financial Statements
December 31, 2003

NOTE 1: DESCRIPTION OF PLAN

The following description of the County of San Bernardino's Retirement Medical Plan (the Plan) provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

1. *General* – The Plan is a defined contribution plan covering employees with ten or more years of participation in the San Bernardino County Employees' Retirement Association in the following occupational units: Safety Management, Supervisory, Exempt, and elected officials. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Biweekly, the County contributes one-half of one percent of an eligible employee's salary and one percent of an elected official's salary to the Plan. At retirement, all eligible employees are required to contribute their unused sick leave balances to the Plan. On the employee's behalf, the County contributes the cash value based on a cash value formula that is determined by the balance of the employee's sick leave.
3. *Participant Accounts* – Each participant's account is credited with the County's contribution, interest and charged with qualified medical expenses.
4. *Vesting* – A participant's account in the Plan shall be vested upon initial deposit and non-forfeitable at all times.
5. *Payment of Benefits* – Each participant's account is used to pay for health care expenses as defined in Internal Revenue Code Section 213(d)(1). The Plan's obligations are limited to the value of the participant's contributions and earnings.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Plan's account based upon the Plan's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of December 31, 2003.

NOTE 4: TAX STATUS

The Trust established under the Plan is qualified pursuant to Section 501 (c) 9 of the Internal Revenue Code, and, accordingly, the Trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service dated April 2, 2002.

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ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 4, 2005

Robin Ohama, Plan Administrator
Retirement Medical Trust
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

SUBJECT: MANAGEMENT LETTER REGARDING AUDIT OF THE COUNTY OF SAN BERNARDINO'S RETIREMENT MEDICAL TRUST FOR THE YEAR ENDED DECEMBER 31, 2003

We have audited the County of San Bernardino's Retirement Medical Trust (Trust) as of December 31, 2003 and have issued our report thereon dated January 4, 2005.

In planning and performing our audit of the Trust's financial statements for the year then ended December 31, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be material weaknesses. In addition, because of inherent limitations in any internal control, errors or fraud may occur and not be detected by internal control. We noted that Prior Finding One, dated May 2003, below involves a matter of internal control and its operation that we consider to be a material weakness as defined above.

ACTION TAKEN ON PRIOR RECOMMENDATIONS

The recommendations for Prior Findings Two, dated May 2003, were adopted. Further recommended actions for Prior Findings One, dated May 2003, are shown below.

Prior Finding One (May 2003): There are no written policies or procedures in place for administering the Plan.

The foundation of an effective internal control structure is based on written policies and procedures. For example, if an employee transfers to another position or leaves the County, written policies and procedures would direct the accounting for this transaction and minimize the chance of errors. When placed with the responsibility of managing the Plan, written policies and procedures help to eliminate inconsistencies and errors in the accounting for the Plans.

Recommendations

Develop and implement written policies and procedures for the administering the Plan.

Management's Response:

Effective April 2004, those functions were taken over by the Human Resources Department. Written accounting policies and procedures are currently in the process of being completed.

This report is intended solely for the information and use of the Plan's Defined Contribution Committee members, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Section Manager

Copies to:

Margaret Smith, Human Resources, Interim Director
Rafael Viteri, Supervisor of Administrative Services II

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