SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED
JUNE 30, 2013

SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT
For the Year Ended June 30, 2013

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Nasif, Hicks, Harris & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS

William J. Nasif
Steven J. Hicks
Jeffery P. Harris
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Thomas W. Burk
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Robert Swayne Lyons
Lawrence W. Brown
Sarah E. Turner

April 29, 2014

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Santa Barbara County Air Pollution Control District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Santa Barbara County Air Pollution Control District (APCD) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise APCD's basic financial statements, and have issued our report thereon dated April 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered APCD's internal control over financial reporting (internal control) to determine the 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 APCD's internal control. Accordingly, we do not express an opinion on the effectiveness of APCD'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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See items 2013-001, 2013-002, and 2013-003.

APCD's Response to Findings

APCD's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. APCD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether APCD's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings 2013-002 and 2013-003.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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April 29, 2014

Independent Auditors' Report on Compliance for the Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
Santa Barbara County Air Pollution Control District

Report on Compliance for Major Federal Program

We have audited Santa Barbara County Air Pollution Control District (APCD) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of APCD's major federal programs for the year ended June 30, 2013. APCD's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of APCD's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about APCD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of APCD's compliance.

Basis for Qualified Opinion on Major Federal Programs (Identified on the Schedule of Findings and Questioned Cost)

As described in items 2013-002 and 2013-003 in the accompanying schedule of findings and questioned costs, APCD did not comply, in all instances, with requirements regarding eligibility that are applicable to its Environmental Protection Agency Air Pollution Control Program (CFDA No. 66.001). Compliance with such requirements is necessary, in our opinion, for APCD to comply with the requirements applicable to the program.

Qualified Opinion on Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraphs, APCD, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major program (identified in the Schedule of Findings and Questioned Costs) for the year ended June 30, 2013.

Other Matters

APCD's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. APCD's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of APCD is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered APCD's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of APCD's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002 and 2013-003 to be significant deficiencies.

APCD's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. APCD's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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April 29, 2014

Independent Auditors' Report on Supplementary Information –
Schedule of Expenditures of Federal

To the Board of Directors
Santa Barbara County Air Pollution Control District

We have audited the financial statements of the governmental activities, and the major fund of APCD, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise APCD's basic financial statements. We issued our report thereon dated April 29, 2014, which contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Nasif, Hicks, Harris & Co., LLP

Nasif, Hicks, Harris & Co., LLP

104 West Anapamu Street, Suite B, Santa Barbara, California 93101-3126
Telephone (805) 966-1521 | Fax (805) 963-1780 | www.nhhco.com

Santa Barbara County
Air Pollution Control District
Schedule of Expenditures of Federal Awards **For the Year Ended June 30, 2013**

Federal Grantor/Program Title	Federal CFDA Number	Grant Contract Number	Grant Year	Grant Period	Grant Award	Federal Expenditures
U.S. Environmental Protection Agency						
Air Pollution Control Program	66.001	A-00901912-1	FFY 2011 - 2012	10/01/11 - 9/30/12	$ 508,430	$ 174,131
Air Pollution Control Program	66.001	A-00901913-0	FFY 2012 - 2013	10/01/12 - 9/30/13	$ 490,838	$ 381,323
Total U.S. Environmental Protection Agency						**$ 555,454**

NOTE I. General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Santa Barbara County Air Pollution Control District (APCD). APCD's reporting entity is defined in Note I of the notes to the APCD'S basic financial statements included in APCD's separately issued Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. Financial assistance shown on the schedule was received directly from the Federal Environmental Protection Agency (EPA).

The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements discussed above.

NOTE II. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for the government-wide financial statements which is described in Note I of the notes to the APCD'S basic financial statements.

NOTE III. Relationship to Financial Statements

Federal financial assistance revenues are reported in APCD's basic financial statements in the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities as intergovernmental revenues. Expenditures are recorded in the general fund by department and in the respective service function in the statement noted above.

NOTE IV. Relationship to Federal Reports

The amounts presented in the accompanying schedule agree with the amounts reported in related federal financial reports.

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unqualified
Internal Control over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified?	Yes See finding 2013-001
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified?	Yes See findings 2013-002 & 2013-003
Type of Auditors' Report Issued on Compliance for Major Programs:	Qualified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with Circular A-133, Section .510(a)?	Yes See findings 2013-002 & 2013-003

Major Program:

CFDA Number	Name of Federal Program
66.001	Environmental Protection Agency Air Pollution Control Program

Dollar Threshold used to Distinguish Between Type A and Type B Programs:	$300,000
Auditee Qualified as Low-Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2013-001: Review of Journal Entries

Criteria:
All journal entries need to be properly reviewed and approved before they get posted to the financial systems.

Condition:
The journal entry review process is not consistent among the financial systems. Entries made to the FIN system by the Supervising Accountant are approved by the Santa Barbara Auditor-Controller's office, but the entries made by the Supervising Accountant to the UA software are not approved by someone else.

Cause:
APCD does not have a formal written policy regarding the review and approval process of journal entries uploaded to the UA system.

Effect:
Unauthorized or unsupported journal entries may get posted to the financial system which can result in a material misstatement in APCD's financial statements.

Recommendation:
We recommend that APCD develop a formal written policy for the review and approval of journal entries. APCD should ensure that the process designed will improve accuracy and ensure proper authorization of the journal entries.

View of Responsible Officials and Planned Corrective Action:
APCD will create a written policy to have the UA journal entries approved.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2013-002: Level of Effort

Program:
CFDA 66.001 Environmental Protection Agency Air Pollution Control Program

Criteria:
Per CFDA 66.001, the program has maintenance of effort (MOE) requirement which requires that a recipient's recurring expenditures must meet or exceed the level of the prior year's recurring expenditures.

Condition:
APCD can meet the maintenance of effort requirement (MOE) if the recurring expenditures meet or exceed the level of the prior year's recurring expenditures.

During our level of effort testing, we noted the MOE requirement was not met and that APCD was aware that they were not compliant for the year under audit.

Cause:
APCD's budget has decreased over the past few years due fewer full-time employees and decreased expenditures, causing APCD to spend less and not meet the MOE requirement. APCD does not expect their expenses to increase for the next year.

Effect:
The failure to meet the MOE requirements results in program noncompliance with federal grant requirements, which may result in reductions in future program funding.

Recommendation:
We recommend that APCD work with the EPA to change their MOE requirements. We also recommend APCD continue to monitor its progress towards meeting the MOE requirements throughout the fiscal year and that adjustments be made to activities to ensure expenditures levels are maintained in accordance with the grant's requirements.

Management Response and Corrective Action:
APCD is working with the EPA for a non-selective reduction of MOE.

Finding 2013-003: Single Audit Submission to the Federal Audit Clearinghouse

Program:
CFDA 66.001 Environmental Protection Agency Air Pollution Control Program

Criteria:
Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires APCD to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the federal oversight agency approves an extension of this deadline.

Condition:
The federal reporting deadline for APCD's Single Audit Reporting Package was March 31, 2014; however, APCD did not issue its Single Audit Reporting Package until May 2014.

Cause:
The single audit was not completed by March 31, 2014 because the Comprehensive Annual Financial Report was not ready until late March. APCD was also unaware of the filing deadline because they have not been required to file a Single Audit since 2008.

Effect:
The late submission affects the federal program. This finding is a significant deficiency in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320.

Recommendation:
APCD should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Management Response and Corrective Action:
Management will make note of the deadline and work to improve internal controls regarding this compliance requirement.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

None reported.