

**SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED
JUNE 30, 2008**

**SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT
June 30, 2008**

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REPORTS SECTION

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March 25, 2009

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 of the Santa Barbara County
Air Pollution Control District

We have audited 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, 2008, which collectively comprise APCD's basic financial statements and have issued our report thereon dated March 25, 2009. We conducted our audits in accordance with 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.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the APCD's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the APCD's financial statements that is more than inconsequential will not be prevented or detected by the APCD's internal control.

Material Weakness

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the ACPD's internal control. We believe that the following deficiency constitutes a material weakness.

Management Oversight over Financial Reporting and Disclosures

Observations and Findings: Generally accepted auditing standards require us to determine whether insufficient oversight of the District's financial reporting and internal control exists by those charged with governance. As auditors we must assess whether management is capable of complying with GAAP without our assistance, as we are not a part of the District's internal control system. During our audit, we proposed additional adjustments which, in the aggregate, were material to the financial statements as a whole, and were subsequently posted by management. Such adjustments are part of the financial reporting internal control process and are the responsibility of management. In our opinion, these adjustments would not have been measured and posted by management without our assistance.

Recommendations: We suggest that management become more active in the financial closing process to ensure that all closing entries and accruals are being properly posted.

Compliance and Other Matters

As part of obtaining reasonable assurance that the ACPD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.


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March 25, 2009

Report on Compliance with Requirements
Applicable to Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Santa Barbara County Air Pollution Control District (APCD) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. APCD's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the APCD's management. Our responsibility is to express an opinion on the APCD's compliance based on our audit.

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. Our audit does not provide a legal determination of the APCD's compliance with those requirements.

In our opinion, APCD complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control over Compliance

The management of the APCD is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the APCD's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the APCD's internal control over compliance.

A control deficiency in APCD's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects APCD's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by APCD's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by APCD's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.


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March 25, 2009

Report on Supplementary Information - Schedule of Expenditures of Federal Awards

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

We have audited 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, 2008, and have issued our report thereon dated March 25, 2009.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise APCD's basic financial statements. The accompanying schedule of expenditures of federal financial 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.


Nasif, Hicks, Harris & Co., LLP

SUPPLEMENTAL INFORMATION SECTION

**Santa Barbara County
 Air Pollution Control District
 Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Contract Number</u>	<u>Grant Award</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>				
Air Pollution Control Program	66.001	A-00901907-1	\$ 455,842	\$ 71,215
Air Pollution Control Program	66.001	A-00901908-1	\$ 494,737	\$ 440,865
Total U.S. Environmental Protection Agency				<u>\$ 512,080</u>

**Santa Barbara County
Air Pollution Control District
Notes to Schedule of Expenditures
of Federal Awards**

For the Year Ended June 30, 2008

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, 2008. 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.

FINDINGS AND QUESTIONED COSTS SECTION

A. SUMMARY OF AUDIT RESULTS

Financial Statements

1. The type of report issued on the financial statements: **Unqualified opinion.**
2. Significant deficiencies or material weaknesses in internal control that were disclosed by the audit of the financial statements: **Yes. See part D.**
3. Noncompliance, which is material to the financial statements: **None.**

Federal Awards

4. Significant deficiencies or material weaknesses in internal control over major programs: **No.**
5. The type of report issued on compliance for major programs: **Unqualified opinion.**
6. Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **No.**
7. Major program:

U.S. Environmental Protection Agency
Air Pollution Control Program CFDA No. 66.001

The threshold used for distinguishing between Types A and B programs: **\$500,000.**
8. Low-risk auditee determination under Section 530 of OMB Circular A-133: **No. The APCD was considered a high-risk auditee.**

B. FINDINGS RELATING TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

See finding in part D.

C. FINDINGS AND QUESTIONED COSTS — MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF AUDIT FINDINGS

Finding 08-1: Accrued Payroll
Reporting Requirement: Material weakness

Criteria

During its year-end closing process, the APCD should establish and enforce policies and procedures to ensure that year-end accruals are properly identified, reviewed and recorded for all account balances, including payroll.

Condition and Context

During the audit, we noted a material difference between amount of accrued payroll expected and what was actually recorded. Further investigation revealed that the APCD materially miscalculated their payroll accrual.

Cause

During the year-end closing process, the APCD management failed to sufficiently review the payroll accrual.

Effect of Condition

By not reviewing the year-end payroll accrual, the APCD materially understated its payroll liability and expense.

Recommendation

We recommend that the APCD Business Manager closely monitor all year end accruals, especially the payroll accrual.

Corrective Action Plan

The Business Manager will provide a second review of the payroll accrual, as well as a review of all other revenue and expenditure accruals, until he can satisfy himself that basic errors such as this will not take place.