

**SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2005**

**SANTA BARBARA COUNTY
AIR POLLUTION CONTROL DISTRICT
June 30, 2005**

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REPORTS SECTION

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February 17, 2006

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, 2005, which collectively comprise APCD's basic financial statements and have issued our report thereon dated February 17, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance that the APCD'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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February 17, 2006

Report on Compliance with Requirements
Applicable to Each 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, 2005. 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, 2005.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

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, 2005, and have issued our report thereon dated February 17, 2006. Our audit was performed for the purpose of forming opinions 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, 2005

<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 009019-04-0	\$ 840,933	\$ 181,376
Air Pollution Control Program	66.001	A 009019-05-0	482,884	<u>373,458</u>
Total U.S. Environmental Protection Agency				<u><u>\$ 554,834</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

For the Year Ended June 30, 2005

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, 2005. 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 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

1. The Independent Auditors' Report expresses an unqualified opinion on the basic financial statements of the Santa Barbara County Air Pollution Control District.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards for the APCD.
3. No instances of noncompliance material to the financial statements of the APCD were disclosed during the audit.
4. The auditors' report on compliance for the major federal program (U.S. Environmental Protection Agency (EPA) Air Pollution Control Program) for the APCD expresses an unqualified opinion.
5. Audit findings required to be reported under Section 510(a) of OMB Circular A-133 are reported in this schedule.
6. The program tested as a major program was:

U.S. Environmental Protection Agency
Air Pollution Control Program CFDA No. 66.001
7. The threshold used for distinguishing between Types A and B programs was \$500,000.
8. The APCD was determined to be a low-risk auditee.

B. AUDIT FINDINGS FOR FINANCIAL STATEMENT AUDIT

None.

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

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Finding Number 1

Condition: For the grant year ended September 30, 2004, Federal EPA grant officials award APCD funds based on submission of and approval of APCD's cost budget. All program expenditures throughout the year are charged to either grant reimbursable or non-reimbursable cost facilities. APCD uses a sub-ledger internal accounting system to record all costs under the cost facilities. Reimbursable cost facility amounts are summarized quarterly and support the costs reported as eligible for reimbursement from EPA. Cost facilities previously deemed non-reimbursable were re-classified as reimbursable. EPA officials apparently were aware of this change, but the APCD was unable to document the EPA's approval.

Criteria: The approved EPA Air Pollution Control program budget established allowable grant costs. All costs subsequently charged to reimbursable cost facilities should be consistent with those approved in the grant budget. All changes to approved grant budgets relating to cost facilities and costs assigned to cost facilities may require review and approval by EPA officials.

Cause: The types of costs and program activities related to grant reimbursable and non-reimbursable cost facilities have not been updated for several years. As a result, activities and costs that could otherwise qualify as reimbursable must be excluded from grant reimbursement requests due to outdated designation as a non-reimbursable cost facility.

Effect: Support for grant reimbursable costs do not consistently match reimbursement requests and reimbursable cost facility assignments. Also, comparison of budgeted grant costs to actual costs is difficult due to inconsistent charging of costs between reimbursable and non-reimbursable cost facilities.

Current year follow-up: APCD consistently matched reimbursement requests and reimbursable cost facility assignments for the grant year ended September 30, 2005.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (continued)

Prior Finding Number 2

Condition: For the grant year ended September 30, 2004, supporting manual spreadsheets, cost accounting reports, and general ledger control accounts reports do not reconcile by immaterial amounts. Documentation explaining immaterial reconciling items and reasons behind significant timing differences that reverse from quarter-to-quarter is insufficient.

Criteria: EPA grant requires sufficient financial record keeping and documentation to support reimbursements for grant expenditures.

Cause: Use of manual spreadsheets and cost accounting reports that are not integrated with the general ledger system generates the necessity for manual reconciliations.

Perspective Information: APCD plans on developing a comprehensive reconciliation of the above three reports and spreadsheets with detailed explanations for all reconciling differences.

Effect: Support for grant reimbursement requests cannot be easily reconciled to final posted general ledger account balances.

Recommendation: Management should perform a comprehensive reconciliation between these three reports quarterly. All significant reconciliation differences should be supported by an explanation (clerical error, timing difference, etc.). Reconciliations should be reviewed by the Business Manager for accuracy and completeness. In the alternative, management should acquire an integrated grant based general ledger system.

Current year follow-up: Supporting manual spreadsheets, cost accounting reports, and general ledger control accounts reports continue to not reconcile by immaterial amounts. However, documentation explaining immaterial reconciling items and reasons behind significant timing differences that reverse from quarter-to-quarter is sufficient.