

BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

SINCE 1955

WEDNESDAY
OCTOBER 22, 2008
9:30 A.M.

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CHRIS DALY – CHAIRPERSON
HAROLD BROWN
YORIKO KISHIMOTO
TIM SMITH
GAYLE B. UILKEMA

MICHAEL SHIMANSKY - VICE CHAIRPERSON
SCOTT HAGGERTY
MARK ROSS
PAMELA TORLIATT

FOURTH FLOOR CONFERENCE ROOM
DISTRICT OFFICES

AGENDA

1. **CALL TO ORDER - ROLL CALL**
2. **PUBLIC COMMENT PERIOD** (*Public Comment on Non-Agenda Items Pursuant to Government Code § 54954.3*) Members of the public are afforded the opportunity to speak on any agenda item. All agendas for regular meetings are posted at District headquarters, 939 Ellis Street, San Francisco, CA, at least 72 hours in advance of a regular meeting. At the beginning of the regular meeting agenda, an opportunity is also provided for the public to speak on any subject within the Board's authority. Speakers will be limited to three (3) minutes each.
3. **APPROVAL OF MINUTES OF SEPTEMBER 24, 2008**
4. **STATUS OF SAN MATEO COUNTY INVESTMENT POOL AND RECENT ACTIONS** J. Broadbent/5052
jbroadbent@baaqmd.gov

Staff will provide to the Committee an update of the San Mateo County investment pool and recent actions undertaken by the Air District.
5. **STATUS OF COMMENTS CONTAINED IN 2006-2007 AUDIT MANAGEMENT LETTER**

J. Colbourn/5192
jcolbourn@baaqmd.gov

Staff will provide to the Committee the status of responses to the comments contained in the 2006-07 Report to the Board of Directors and District Management, presented by Caporicci & Larson, auditors.
6. **COMMITTEE MEMBER COMMENTS/OTHER BUSINESS**

Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2).
7. **TIME AND PLACE OF NEXT MEETING – 9:30 A.M. – WEDNESDAY, NOVEMBER 26, 2008 – 939 ELLIS STREET, SAN FRANCISCO, CA 94109**
8. **ADJOURNMENT**

Spare the Air

CONTACT EXECUTIVE OFFICE - 939 ELLIS STREET SF, CA 94109

(415) 749-5127
FAX: (415) 928-8560
BAAQMD homepage:
www.baaqmd.gov

- To submit written comments on an agenda item in advance of the meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- To request special accommodations for those persons with disabilities notification to the Clerk's Office should be given at least 3 working days prior to the date of the meeting, so that arrangements can be made accordingly.
- Any writing relating to an open session item on this Agenda that is distributed to all, or a majority of all, members of the body to which this Agenda relates shall be made available at the District's offices at 939 Ellis Street, San Francisco, CA 94109, at the time such writing is made available to all, or a majority of all, members of that body. Such writing(s) may also be posted on the District's website (www.baaqmd.gov) at that time.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
939 ELLIS STREET, SAN FRANCISCO, CALIFORNIA 94109
(415) 771-6000

EXECUTIVE OFFICE:
MONTHLY CALENDAR OF DISTRICT MEETINGS

OCTOBER 2008

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Advisory Council Air Quality Planning Committee <i>(Meets 1st Thursday Even Month)</i> - CANCELLED	Thursday	16	9:30 a.m.	Board Room
Special Advisory Council Regular Meeting	Tuesday	21	9:30 a.m.	Board Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	22	9:30 a.m.	4 th Floor Conf. Room
Advisory Council Technical Committee and Board of Directors Climate Protection Committee <i>(AC Technical Cme. Meets 1st Monday of every even Month and BD Climate Protection Cme. Meets 3rd Thursday every other Month)</i> - CANCELLED	Wednesday	22	1:00 p.m.	Board Room
Advisory Council Technical Committee <i>(Meets 1st Monday of every even Month)</i>	Wednesday	22	1:00 p.m.	Board Room
Board of Directors Mobile Source Committee - <i>(Meets 4th Thursday of each Month)</i>	Thursday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i> - CANCELLED	Monday	27	9:30 a.m.	4 th Floor Conf. Room

NOVEMBER 2008

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Nominating Committee <i>(At the Call of the Chair)</i>	Wednesday	5	9:15 a.m.	Room 716
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	5	9:45 a.m.	Board Room
Board of Directors Public Outreach Committee <i>(Meets 1st Thursday every other Month)</i>	Thursday	6	9:30 a.m.	4 th Floor Conf. Room
Advisory Council Executive Committee Meeting <i>(Meets 2nd Wednesday Every Other Month)</i>	Wednesday	12	9:00 a.m.	Room 716
Advisory Council Regular Meeting <i>(Meets 2nd Wednesday Every Other Month)</i>	Wednesday	12	10:00 a.m.	Board Room

NOVEMBER 2008

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Personnel Committee <i>(At the Call of the Chair)</i>	Thursday	13	10:45 a.m.	4 th Floor Conf. Room
Joint Policy Committee	Friday	14	10:00 a.m. – 12:00 p.m.	MTC 101 - 8 th Street Oakland, CA 94607
Board of Directors Ad Hoc Cme. on Port Emissions <i>(At the Call of the Chair)</i>	Monday	17	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	19	9:45 a.m.	Board Room
Board of Directors Climate Protection Committee Meeting <i>(Meets 3rd Thursday Every Other Month)</i>	Thursday	20	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	24	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	26	9:30 a.m.	4 th Floor Conf. Room

DECEMBER 2008

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Advisory Council Technical Committee <i>(Meets 1st Monday of every even Month)</i>	Monday	1	9:30 a.m.	Board Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	3	9:45 a.m.	Board Room
Advisory Council Air Quality Planning Committee <i>(Meets 1st Thursday Even Month)</i>	Thursday	4	9:30 a.m.	Board Room
Advisory Council Public Health Committee <i>– (Meets 2nd Wednesday Even Month)</i>	Wednesday	10	1:30 p.m.	Board Room
Board of Directors Stationary Source Committee <i>(Meets 3rd Monday Quarterly)</i>	Monday	15	9:30 a.m.	Board Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	17	9:45 a.m.	Board Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	22	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	24	9:30 a.m.	4 th Floor Conf. Room

HL

10/15/08 (3:00 p.m.)

P/Library/Forms/Calendar/Calendar/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: October 13, 2008

Re: Budget and Finance Committee Draft Meeting Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Budget and Finance Committee meeting of September 24, 2008.

DISCUSSION

Attached for your review and approval are the draft minutes of the September 24, 2008 Budget and Finance Committee meeting.

Respectfully submitted,


Jack P. Broadbent
Executive Officer/APCO

**Bay Area Air Quality Management District
939 Ellis Street
San Francisco, California 94109
(415) 749-5000**

DRAFT MINUTES

Summary of Board of Directors
Budget & Finance Committee Meeting
9:30 a.m., Wednesday, September 24, 2008

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 9:33 a.m.
Roll Call: Chairperson, Chris Daly, Harold Brown, Mark Ross, Michael Shimansky, Tim Smith, Pamela Torliatt, Gayle B. Uilkema
Absent: Scott Haggerty, Yoriko Kishimoto
2. **Public Comment Period:** There was no public comment.
3. **Approval of Minutes of April 23, 2008:** Director Shimansky moved approval of the minutes; seconded by Director Brown; carried unanimously without objection.
5. **Consideration of Recommendation for an Additional Air Quality Program Manager Position:** *The Committee considered recommending Board of Directors' approval for an additional Air Quality Program Manager position in the Administration and Incentives Division.*

Director of Administration and Incentives, Jack Colbourn, provided a background of the request, stating that in 2007 the Carl Moyer Program Audit recommended an increase in Incentives Program staffing levels. Staffing was increased from 12 to 17 FTE's; 3 inspectors and 6 contractors were added. Currently, there is only one Manager and he noted that the typical span of control is one Manager to every 10 FTE.

Mr. Colbourn said projected grant funds for FY 2007/08 total \$49 million and FY 2009/10 is predicted to be \$93 million. He explained that 5% in administrative funds are sufficient to cover the salary of the Manager position and therefore, staff requests the Committee consider recommending to the Board of Directors one Air Quality Program Manager position be added to the budget for the current Fiscal Year.

Committee members questioned the duration of the Goods Movement Program, position reporting protocols, staff ratios, future funding and growth of programs.

Committee Action: Director Brown made a motion to recommend to the Board of Directors that one Air Quality Program Manager position be added to the budget for the current Fiscal Year; Director Smith seconded the motion; carried unanimously without objection.

4. Presentation of New State Audit Standards from Air District Auditors Maze and Associates: *The Committee received a presentation of the new State audit standards from Air District's auditors Maze and Associates.*

Katherine Yuen, Maze and Associates, discussed the new audit standard SAS #99, which requires auditors to hold meetings to discuss the audit process. She described the audit scope as including risk assessment brainstorming and planning, creation of an audit plan tailored to the District and sector; transactions cycles subject to control testing and sampling, transactions cycles testing; testing of transactions and balances, evaluation of overall duty assignments, information systems controls tests, performance of compliance tests, and financial statement preparation assistance.

Ms. Yuen said auditors have met with staff and have agreed to the following schedule:

- Interim fieldwork: Completed in July 2008
- Final and single audit fieldwork: To last two weeks starting January 12, 2009
- Report Presentation: February 2009

She said management representations will be requested to confirm data and assertions provided by the Air District are complete and accurate. She defined fraud, fraudulent financial reporting, misappropriations of assets, and said fraud risk assessment and monitoring programs will be developed. Ms. Yuen further reported Maze and Associates was also engaged with the District separately for audit requirements associated with TFCA funds per the Health and Safety Code.

Committee members discussed detection of fraud, the District's petty cash system, and requested the consultant also to discuss audit processes with the District Employees Association.

Committee Action: None; informational report only.

6. Committee Member Comments/Other Business:

Committee member Shimansky questioned whether items on the Mobile Source Committee agenda should have first been heard by the Budget and Finance Committee. Mr. Bungler said certain items have already been approved in the budget process and to the extent there will be new funds, those will return to the Budget and Finance Committee and to the full Board of Directors.

7. Time and Place of Next Meeting: 9:30 a.m., Wednesday, October 22, 2008 – 939 Ellis Street, San Francisco, CA 94109

8. Adjournment: The meeting adjourned at 10:03 a.m.

Lisa Harper
Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: October 9, 2008

Re: Status of San Mateo County Investment Pool and Recent Actions

RECOMMENDED ACTION:

None. This is an informational item only.

DISCUSSION:

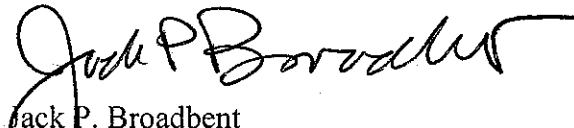
Staff will provide to the Committee an update of the San Mateo County investment pool and recent actions undertaken by the Air District.

Attached is a letter dated October 9, 2008, to the Air District's Board of Directors outlining precautionary measures in response to information received from the San Mateo County Treasurer. Also, attached is a copy of the letter sent to the California Air Resources Board, notifying them of grant funds deposited with San Mateo County.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

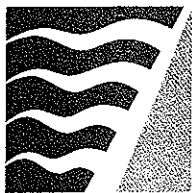
No impact on Fiscal Year 2008/2009 budget.

Respectfully submitted,



Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl, CPA, CFE
Reviewed by: Jack M. Colbourn



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT
SINCE 1955

October 9, 2008

Chairperson Jerry Hill
Board of Directors
Bay Area Air Quality Management District

Re: Precautionary Measures in Response to Economic Uncertainty

Dear Chairperson Hill,

I want to take this opportunity to inform you of a recent communication from San Mateo County (County) concerning a projected short term loss in the San Mateo County Investment Pool fund (Investment Pool). I also wish to provide general information on steps that District staff is taking in response to current economic conditions. The District's finances, including reserves, remain sound at this time. Nevertheless, staff feels that it is prudent to take certain precautions to protect the District from further impacts of the economic downturn.

Investment Pool Loss

As you know, the District is required by California law to deposit its funds with a County Treasurer. The District currently deposits its funds with the County. The Investment Pool employs conservative investment vehicles and has historically returned a relatively steady yearly gain. However, the County informed staff last week that certain assets invested with Lehman Brothers will be written off as a loss. These assets comprise approximately 5% of the Investment Pool. The losses will be proportionately allocated pursuant to the County's investment policy. This will result in approximately \$1.7 million in losses to the District's General Fund and an additional \$5 million in losses to Grant Funds, which equates to 5% of the District's total deposits.

It is important to note that the County has not indicated that it expects to see reductions in gains from the remaining 95% of its Investment Pool vehicles over the course of the year. While losses are to be expected from time to time and are offset by gains, this instance is noteworthy because it was sudden, significant, unexpected and occurred in the context of general deterioration in the economy. For this reason staff concluded it was important to advise the Board of these losses. Staff will retain outside legal counsel and financial advisors to confirm the legal and financial aspects of the recent investment losses, and to help staff evaluate risk to the remaining deposits.

ALAMEDA COUNTY
Tom Bates
Scott Haggerty
Janet Lockhart
Nate Miley

CONTRA COSTA COUNTY
John Gioia
Mark Ross
Michael Shimansky
Gayle B. Uilkema

MARIN COUNTY
Harold C. Brown, Jr.

NAPA COUNTY
Brad Wagenknecht
(Secretary)

SAN FRANCISCO COUNTY
Chris Daly
Jake McGoldrick
Gavin Newsom

SAN MATEO COUNTY
Jerry Hill
(Chair)
Carol Klatt

SANTA CLARA COUNTY
Erin Garner
Yoriko Kishimoto
Liz Kniss
Ken Yeager

SOLANO COUNTY
John F. Silva

SONOMA COUNTY
Tim Smith
Pamela Torliatt
(Vice-Chair)

Jack P. Broadbent
EXECUTIVE OFFICER/APCO

Spare the Air

Impacts Resulting from Investment Pool Loss

The District carries reserves sufficient to cover potential losses to the General Fund from the write down reported by the County. Remaining reserves will be consistent with District goals and Board direction. The potential loss of grant funds may result in fewer grant dollars to fund projects. Staff has concluded preliminarily that the District has sufficient grant funds remaining to cover all of the projects for which the District has entered into contracts.

Staff Actions to Address Economic Conditions

Staff is in the process of taking the following actions in response to the economic climate:

- hold hiring of new employees until further notice;
- review discretionary spending, including all professional services contracts, to control costs.

Notification to California Air Resources Board (CARB)

Finally, we have written a letter to the California Air Resources Board notifying them of the losses to the grant funds that were on deposit. A copy of that letter is attached.

Staff will prepare to brief the Budget and Finance Committee on October 22 and the full Board on November 5.

Please feel free to contact me if you have questions regarding this letter.

Sincerely,



Jack P. Broadbent
Executive Officer/APCO

cc: Board of Directors



**BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT**

October 9, 2008

James Goldstene
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Status of Carl Moyer Program (CMP) Funds

ALAMEDA COUNTY

Tom Bates
Scott Haggerty
Janet Lockhart
Nate Miley

Dear Mr. Goldstene,

**CONTRA COSTA
COUNTY**

John Gioia
Mark Ross
Michael Shimansky
Gayle B. Uilkema

This letter is to inform you about the status of the Bay Area Air Quality Management District's (District) CMP Funds for Program Year 9 and the interest earned on CMP Funds for Program Years 8 and 9.

MARIN COUNTY

Harold C. Brown, Jr.

On January 29, 2007, the District received a check for \$12,572,003 in CMP Funds for Program Year 9 from the California Air Resources Board (ARB). In accordance with usual process this funding was subsequently deposited in the District's cash account with the Treasurer of the County of San Mateo, awaiting expenditures from the program.

NAPA COUNTY

Brad Wagenknecht
(Secretary)

Additionally, because the District held a joint call for projects for CMP Program Year's 8 and 9, funding from those two years accrued approximately \$1.7 million in interest through September 30 of this year, which was held in the same account to be expended as part of the District's CMP in Program Year 10. This brought the total balance in that account to approximately \$14.3 million.

**SAN FRANCISCO
COUNTY**

Chris Daly
Jake McGoldrick
Gavin Newsom

On October 2, 2008, the District was informed by the Treasurer of the County of San Mateo that due to a loss in some of the investments held in the investment pool, an estimated \$13.6 million (95% of the deposit amount) remained in the account. The District therefore proposes to meet its entire Program Year 9 obligation from the funds available and to reprogram the remainder of the funds in the account (\$1.0 million) as part of the District's CMP in Program Year 10.

SAN MATEO COUNTY

Jerry Hill
(Chair)
Carol Klatt

SANTA CLARA COUNTY

Erin Garner
Yoriko Kishimoto
Liz Kniss

If you have any questions regarding this communication please contact me. In addition, the District Finance Director Jack Colbourn is available at (415) 749-5192.

SOLANO COUNTY


John F. Silva

SONOMA COUNTY

Tim Smith
Pamela Torliatt
(Vice-Chair)

Sincerely,

Jack P. Broadbent
EXECUTIVE
OFFICER/APCO


Jack P. Broadbent
Executive Officer/APCO

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: October 9, 2008

Re: Status of 2006-07 Audit Management Letter Comments

RECOMMENDED ACTION:

Informational report. Receive and file.

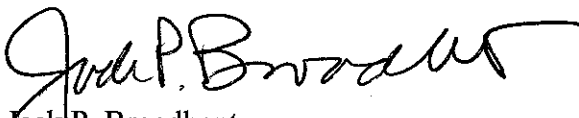
DISCUSSION:

Staff will provide to the Committee an update on actions in response to the comments contained in the 2006-07 Report to the Board of Directors and Air District Management, as presented by the firm of Caporicci & Larson, the Air District's prior auditors.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

No impact on Fiscal Year 2008/2009 budget.

Respectfully submitted,


Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl, CPA, CFE
Reviewed by: Jack M. Colbourn

Attachment

Bay Area Air Quality Management District

San Francisco, California

*Report to the Board of Directors and District
Management*

For the year ended June 30, 2007

C&L
Caporicci & Larson
Certified Public Accountants



February 19, 2008

To the Board of Directors and District Management
of the Bay Area Air Quality Management District
San Francisco, California

In planning and performing our audit of the financial statements of the Bay Area Air Quality Management District (the District) as of and for the year ended June 30, 2007, in accordance with generally accepted auditing standards in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other recommendations for improving internal control are discussed on pages 1 thru 6 of this report.

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

Caporicci & Larson

Caporicci & Larson, CPAs
Oakland, California

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management
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**Bay Area Air Quality Management District
Report to the Board of Directors and District Management
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS

DUE TO OTHER SPONSORED PROGRAM

Observation:

The District reported a liability of \$41,110 as of June 30, 2007 for the Lower Emissions School Bus Program (LESBP) Admin Fees. During performance of the audit, it was noted that there have not been any activities in this account since FY2004, which appears unusual considering the nature of administrative fees that are normally allocated every year.

Recommendation:

We recommend the District review the specific program for the liability to determine if there were anticipated activities in the future that will hold the District liable for these fees. Otherwise, the District should reallocate the liability per funding agreement.

District Response:

The District reviewed the project associated with the LESBP liability of \$41,110, and noted that is not yet completed. The District has determined that the project funds will be spent within the allotted timeframe, and fully intends to recognize the administrative fees when earned.

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management, Continued
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS, Continued

CAPITAL ASSET POLICIES AND PROCEDURES

Observation:

The Capital Asset Policies and Procedures do not reflect the current practice of capitalization threshold and construction in progress transfer procedures upon completion. Without adequate documentation of existing procedures, changes in personnel may jeopardize the efficient processing of daily activities.

Recommendation:

We recommend that the District update the Capital Asset Policy to reflect the current practices.

Status:

In progress. The District is currently in process of updating the policies and procedures for the areas addressed above.

District Response:

The District concurs with the recommendation, and intends to bring forward for Board approval, a revised Capital Asset Policy within the 2007-08 fiscal year. The revised policy will include a capitalization threshold of \$5,000 rather than the current \$3,500, and will include the Construction In Progress disposition.

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management, Continued
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS, Continued

PURCHASING AND ACCOUNTS PAYABLE

Observation:

Business Manager's access to the purchasing module is not limited to his normal duties. Occasionally, when any of the authorized personnel is out of the office, his approval can be delegated to other personnel. The Business Manager is responsible for changing the approval set-up in the module upon receiving email confirmation requesting the delegation. The Business Manager, who also has the authority to approve purchase requisition up to certain limit, has the access to change the approval set-up as anytime. The full access that Business Manager has indicates a weakness in the internal control, which provides opportunity for unauthorized purchases.

Recommendation:

We recommend that the District establish procedures to ensure the proper segregation of duties and review process in the purchasing process to prevent unauthorized purchases.

Status:

In progress. The District is currently reviewing the procedures and will make changes as necessary.

District Response:

The District concurs with the recommendation, and will limit purchase order approval for the Business Manager to purchase orders related to the Business Office. The District will determine which personnel should be authorized to change approval levels for those employees who will not be available to approve purchase orders.

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management, Continued
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS, Continued

WORKERS COMPENSATION

Observation:

There was no regular reconciliation performed between workers compensation loss run report received from the Third Party Administrator and the District's claim log in the system. Such reconciliation will ensure that all claims against the District are properly reflected on the Loss Run Reports provided by the Third Party Administrator.

Recommendation:

We recommend the District establish procedures to reconcile the claims log to the workers compensation Loss Run Report to assure that the information in the Loss Run Report reflects all claims against the District. This would assure that information in the Loss Run Report is accurate, since this information is relied upon by the actuarial study to determine the amount the District should record for claims liability.

Status:

In progress. The District is in process of reviewing the procedure to establish a review process between the claim log and the loss run report.

District Response:

The District concurs with the recommendation. A monthly report to reconcile the Loss Run Report to the District's claim log will be prepared in the Human Resources Office, and reviewed by the Finance staff.

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management, Continued
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS, Continued

PAYROLL PROCESS

Observation:

The Payroll technician processes the payroll and uploads the payroll information to third party payroll processing company (Ceredian). No independent review is performed of the payroll register to ensure the accuracy.

Recommendation:

We recommend the District review and evaluate their internal control structure for the payroll processing to ensure procedures are in place for proper management oversight.

Status:

In progress. The District is currently evaluating their procedure to establish the review process needed in the payroll process.

District Response:

The District concurs with the recommendation, and Finance Personnel will receive a copy of the payroll register directly from the third party payroll processing company, and review for accuracy.

**Bay Area Air Quality Management District
Report to the Board of Directors and District Management, Continued
For the year ended June 30, 2007**

OTHER RECOMMENDATIONS, Continued

COMPUTER CONTROLS

1. Observation:

The Disaster Recovery Plan does not offer a solution if the computer equipment of the District was damaged as a result of fire or any other disaster. The District has back-up tapes but will not have the equipment necessary to run the tapes in case of disaster.

Recommendation:

We recommend that the District expand its disaster preparedness to address the issue by either getting into an agreement with other agencies who are using the same software and/or equipment. Or, the District could establish an agreement with a company in the disaster recovery business such as Sunguard.

Status:

In progress.

District Response:

The District concurs with the recommendation, and is in the process of completing the Disaster Preparedness Plan, which is anticipated to be completed by the end of summer, 2008.

2. Observation:

The District does not require employees to change password periodically. The regular password changes will increase the security level over District's computer control.

Recommendation:

We recommend that the District establish procedures to ensure that passwords to the computer control are changed periodically.

Status:

In progress.

District Response:

The District concurs with the recommendation, and is in the process of implementing a security enhancement program, which will ensure that passwords are changed periodically, based on a schedule which the District will determine to provide the highest level of security.