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The Board of Directors
Bay Area Air Quality Management District
San Francisco, California

Members of the Board:

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, 2021, in accordance with auditing standards generally accepted in the United States of America, 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 opinions 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.

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.

Although not considered to be significant deficiencies or material weaknesses, we also noted certain items during our audit, which we would like to bring to your attention. These comments are summarized in the following report to management on page 2. Our observations and recommendations have been discussed with appropriate members of management and are intended to strengthen internal controls and operating efficiency.

This communication is intended solely for the information and use of the Board of Directors, District management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Current Year Management Letter Comments

ML-2021-001 – Adequate Information Technology Policy

Condition

Fully documented and management approved information technology (IT) policies which considers risk, addresses general and application controls, provides guidance to help meet organizational objectives, and ensures that users can be held accountable for their actions at a District-wide level, were not provided.

Upon the request of an IT policy, the District submitted “Administrative Policy No. 6 - Use of Telecom Resources” for review. This policy details the District’s acceptable use over IT related resources. Additionally, the District submitted draft IT policies related to access controls, change management, password security, incident response, and security training reflecting progress in their effort to finalize their IT policies.

Recommendation

We recommend the District to strengthen its controls by fully documenting and approving an IT policy over key areas that include, but are not limited to, IT network security, disaster and contingency planning, third party IT management, user access and segregation of duties, IT awareness and training, and change management.

We also recommend that District management identify other policy areas that should be covered based on a risk assessment, create a timeline for release, and provide awareness or training over the policy to District personnel.

Management Response

The District is currently progressing through the IT security assessment conducted by the vendor that was engaged last year. As part of this effort, the District has finalized multiple new IT security policies and procedures with others under development. The vendor’s initial assessment will be concluded this year with follow on work to further enhance IT security next year.

Current Year Management Letter Comments

ML-2021-002 – Segregation of Duties

Payroll Processing Procedures

Condition

Segregation of duties issues were noted within the District's payroll (PR) processing procedures.

The Senior Human Resources Analyst (Senior Analyst) is responsible for processing payroll within Ceridian and is the only personnel within the District to be assigned this role. We identified that the Senior Analyst has also been given access to the following function which should only be assigned to Human Resources Department personnel:

- Update and edit employee pay rates capability.

Based on the recommendations made in the prior year Management Letter Comment (ML-2020-002), the District has assigned three (3) additional personnel to update and edit employee pay rates, while the Senior Analyst reviews the changes and processes payroll. However, the Senior Analyst's pay rate editing capability has not been removed.

Furthermore, two (2) user roles (Finance and PR Admin) in Ceridian were identified to have employee pay rate update and edit capabilities. The Finance and PR Admin user roles were provisioned to the following four (4) personnel in the Finance Department which should only be assigned to Human Resources Department personnel:

- Staff Specialist (provisioned the role of Finance)
- Senior Staff Specialist (provisioned the roles of Finance and PR Admin)
- Assistant Manager (provisioned the role of PR Admin)
- Manager (provisioned the role of PR Admin)

All four (4) personnel did not make pay rate updates or edits during the fiscal year 2021.

Recommendation

We recommend that the District strengthen its segregation of duties controls over the payroll processing and human resource functions by removing pay rate editing capabilities from the Senior Analyst who performs payroll processing procedures, including mass/batch cola adjustments, and to assign this function to other personnel who do not perform payroll processing procedures. We also recommend that the pay rate update and edit capabilities be removed from the Staff Specialist, Senior Staff Specialist, Assistant Manager, and Manager in Ceridian.

Finally, we recommend that the District strengthen its segregation of duties controls by reviewing all access authorizations for active Ceridian users to ensure that incompatible or unsegregated duties are properly addressed, that authorized access for users are necessary to accomplish their assigned organizational tasks, and that access/privilege levels are not higher or greater than required (or Least Privilege).

Current Year Management Letter Comments

ML-2021-002 – Segregation of Duties (Continued)

Payroll Processing Procedures (Continued)

Management Response

The District concurs with the recommendation to strengthen its segregation of duties over payroll processing and human resources functions. Over the past few years, the District has hired additional personnel and made progress to segregate the work. The District will continue to train its personnel to fully perform the functions that would further allow segregation of work. The District has removed the editing capability for the 4 personnel in the Finance Office. The District will conduct a full review of all the user roles and responsibilities and ensure access level is provisioned appropriately to accomplish their tasks.

Current Year Management Letter Comments

ML-2021-002 – Segregation of Duties (Continued)

Access Control Management

Condition

Segregation of duties issues were noted within the District's access control functions within Ceridian.

The Senior Human Resources Analyst (Senior Analyst) is responsible for processing payroll and is also provisioned the ability to update and edit employee pay rates within Ceridian (see ML-2021-002 *Payroll Processing Procedures*). We identified that the Senior Analyst is also responsible for access control/account management activities, which include creating, removing, and updating the level of role-based access/functionality that users are authorized in Ceridian. As a result, mission or business functions were not adequately segregated from support or security functions.

Recommendation

We recommend that the District strengthen its segregation of duties controls over access control management in Ceridian by assigning the access control/account management activity to a security officer (or equivalent) who does not perform mission or business functions within the Human Resource Department. We also recommend that the District review all privileged roles within Ceridian (i.e. Client Administrator, Systems Administrator, etc.) to ensure that the access control/account management activity is appropriately provisioned and abides by the principle of Least Privilege.

Management Response

The District concurs with the recommendation to strengthen its segregation of duties over access control management in Ceridian. The District will be assigning a designated personnel, who does not perform the payroll functions, to manage access control. The District will conduct a full review of all the user roles and responsibilities and ensure access level is provisioned appropriately to accomplish their tasks.

Status of Prior Year Management Letter Comments

ML-2020-001 – Adequate Information Technology Policies

Recommendation

We recommend the District to strengthen its controls by documenting and approving additional IT policies over key areas that may include, but are not limited to, IT network security, disaster and contingency planning, user access and segregation of duties, IT security awareness and training, and change management.

We also recommend that District management identify other policy areas that should be covered based on a risk assessment, create a timeline for release, and include training over the new policies to District personnel.

Current Status

Partially implemented.

The District is currently progressing through the IT security assessment conducted by the Vendor that was engaged last year. As part of this effort, the District has finalized multiple new IT security policies and procedures with others under development. The vendor's initial assessment will be concluded this year with follow on work to further enhance IT security next year.

Status of Prior Year Management Letter Comments

ML-2020-002 – Segregation of Duties

ML-2019-002 – Segregation of Duties

Payroll Processing Procedures

Recommendation

We recommend that the District strengthen its segregation of duties controls over the payroll processing and human resource functions by removing pay rate editing capabilities from the Senior Analyst who performs payroll processing procedures, and to assign this function to other personnel who do not perform payroll processing procedures.

Current Status

Partially implemented.

The District has hired a HR Technician to update and edit employee pay rates, while the Analyst reviews the changes and processes payroll. However, the Analyst's pay rate editing capability has not been removed.

See *ML-2021-002* under Payroll Processing Procedures for further details.

Accounts Payable Function

Recommendation

We recommend the District strengthen its segregation of duties controls within JDE's assigned roles by removing the new vendor creation function and/or the process vendor invoice function from the Assistant Manager and Accountant and reassign those functions in a manner which upholds strong segregation of duties controls.

Current Status

Implemented.

Status of Prior Year Management Letter Comments

ML-2020-003 – Procurement Policies and Procedures

Recommendation

We recommend that the District strengthen its internal controls over procurement actions by updating their Purchasing Policy to reflect policies and procedures being practiced and to provide clearer guidelines as to the procurement process as stated in the criteria.

Current Status

Partially implemented.

The District has prepared a Tracking Report spreadsheet that the Business Office intends to use for tracking blanket board procurement delegations. The Business Office is currently in the process of updating the Purchasing and Procedures manual and will engage in discussions with executive management to establish a directive for all Program Managers to submit updates to the Air District Board.