

BOARD MEETING DATE: December 4, 2015

AGENDA NO. 16

REPORT: Audit Reports of AB 2766 Fee Revenue Recipients for Fiscal Years Ending June 30, 2012 and 2013

SYNOPSIS: Health and Safety Code Section 44244.1 requires any agency that receives fee revenues subvended from the Department of Motor Vehicles to be audited once every two years. This audit of SCAQMD's share, MSRC's share, and local governments' share of such subvended funds, performed by independent Certified Public Accountants, has been completed.

COMMITTEE: Administrative, November 13, 2015; Recommended for Approval

RECOMMENDED ACTION:  
Receive and file report.

Barry R. Wallerstein, D.Env.  
Executive Officer

MBO:SJ:lg

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### **Background**

AB 2766 was chaptered into law as Health and Safety Code Sections 44220-44247 which were enacted to authorize air pollution control districts to impose fees on motor vehicles. These fees are to be expended specifically for the purpose of mobile source air pollution reduction measures pursuant to the California Clean Air Act of 1988 or the SCAQMD's AQMP pursuant to Article 5 of Chapter 5.5 of Part 3 of the Health and Safety Code.

The fee revenue is collected by the Department of Motor Vehicles (\$4.00 per vehicle registration) and subvended to the SCAQMD for distribution as follows: thirty percent (\$1.20) goes to support SCAQMD-approved programs for the reduction of emissions from mobile sources; forty percent (\$1.60) is placed in the Air Quality Improvement Trust Fund for quarterly disbursement to local governments; and thirty percent (\$1.20) is placed in the Mobile Source Air Pollution Reduction Trust Fund for projects awarded by the Mobile Source Air Pollution Reduction Review Committee (MSRC) under a work program approved by the SCAQMD's Board.

## **Audit Summary**

### *SCAQMD's Use of AB 2766 Fee Revenues – Segment 1*

The audit of the SCAQMD's use of the motor vehicle registration revenues resulted in no findings. The audit report is included in Attachment I. The cost of auditing the SCAQMD's use of the AB 2766 revenues was \$4,460, paid from the SCAQMD's portion of the fee revenues.

### *Local Governments' Use of AB 2766 Fee Revenues – Segment 2*

The audit of local governments' use of AB 2766 funds resulted in 60 findings from 20 agencies, out of 162 recipients. All of the findings have been resolved in accordance with AB 2766 program guidelines. A summary of the audit findings is included in Attachment II, along with the audit reports in Attachments III and IV.

The total cost to audit the local government recipients was \$75,288. The cost of the audit is allocated and paid from the local governments' portion of the fee revenues in accordance with AB 2766 program guidelines.

### *MSRC's Use of AB 2766 Fee Revenues – Segment 3*

The audit of projects from the MSRC Work Program resulted in no findings and the audit of the MSRC fund noted that the MSRC-TAC committee had two vacant positions. The audit reports are included in Attachments V and VI. The MSRC reviewed the summary audit reports at its November 19, 2015 meeting. The cost of auditing the MSRC and their use of program revenues was \$7,000 and will be deducted from the fee revenues subvented to the MSRC.

## **Attachments**

- I. SCAQMD's Use of AB 2766 Fee Revenues – Segment 1
- II. Summary of Audit Findings for Local Governments and Council of Governments
- III. Local Governments' Use of AB 2766 Fee Revenues Summary of Audit Reports - Segment 2.
- IV. Local Governments' Use of AB 2766 Fee Revenues Summary of Audit Reports - Segment 2, Subgroup 1
- V. MSRC's Use of AB 2766 Fee Revenues Summary Audit Report - Segment 3
- VI. MSRC Projects Audit – Segment 3, Projects

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***AIR QUALITY IMPROVEMENT FUND  
(SEGMENT 1)***

***INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES***

***FOR THE YEARS ENDED JUNE 30, 2013 AND 2012***





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## Independent Accountant's Report on Applying Agreed-Upon Procedures

The Governing Board of  
The South Coast Air Quality Management District

We have performed the procedures enumerated below, which were agreed to by the management of the South Coast Air Quality Management District (SCAQMD), solely to assist you in determining whether automobile registration fee revenues (AB 2766 funds) received by the SCAQMD during fiscal years 2011-12 and 2012-13 were spent on the reduction of air pollution from motor vehicles pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). The SCAQMD's management is responsible for the use of AB 2766 funds in accordance with the cited criteria. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or any other purpose.

Our procedures and results are as follows.

1. We obtained an understanding of how the SCAQMD accounts for AB 2766 funds – Segment 1, including whether the AB 2766 funds are maintained in a separate fund or if there is a separate accounting of the AB 2766 funds maintained by another means.

### ***Result***

We noted that the AB 2766 funds - Segment 1 (District Funds) are recorded under the General Fund of the SCAQMD.



2. We conducted interviews and tested significant controls to identify significant deficiencies in the design or operation of the SCAQMD's internal control procedures over the receipt and use of AB 2766 funds.

***Result***

We noted no exceptions in performing this procedure.

3. We obtained the California Department of Motor Vehicle's (DMV) fee distribution record for AB 2766 revenues and agree them to the SCAQMD's AB 2766 revenues recorded in the general ledger.

***Result***

We noted no exceptions to recorded revenues.

4. We recalculated the SCAQMD's allocation of AB 2766 revenue fees to recipients to verify that the allocation was in accordance with CHSC Section 44243, after deducting administrative costs pursuant to Section 44229, and any audit costs pursuant to Section 44244.1(a).

***Result***

We noted no exceptions on the allocation of AB 2766 revenue fees to the recipients.

5. We conducted interviews in order to obtain an understanding of how the SCAQMD allocates interest earned and determined the reasonableness of the interest allocation and that interest was used for the same purposes for which AB 2766 funds were allocated to the SCAQMD.

***Result***

We noted no exceptions to interest allocation earned or use of interest earned.



6. We verified that the SCAQMD's governing board adopted a resolution to document the intent and use of AB 2766 funds exclusively for the reduction of air pollution from motor vehicles in accordance with the California Clean Air Act of 1988.

***Result***

We noted no exceptions in performing this procedure.

7. We obtained the SCAQMD's cost allocation schedule. We conducted interviews and recalculated allocations on a test basis to determine the reasonableness and mathematical accuracy of the cost allocation method.

***Result***

We noted no exceptions on the cost allocation schedule.

8. We tested AB 2766 direct and indirect non-labor project expenditures for each year to determine:
  - a) allowability, reasonableness, adequacy of supporting documentation, proper approval, clearly identified the project, and were incurred during the fiscal year;
  - b) that the funds were spent in accordance with CHSC Section 44220(b), which requires that AB 2766 fund expenditures were incurred solely to reduce air pollution from motor vehicles and for related planning, monitoring, enforcement and technical studies necessary for implementation of the California Clean Air Act of 1988; and
  - c) in accordance with CHSC Section 44235, the SCAQMD did not use AB 2766 fees for the purpose of establishing or maintaining the district as a direct provider of the car pool, van pool, or other ridesharing or transit services.

***Result***

We noted no exceptions in performing this procedure.



9. We tested AB 2766 direct payroll expenditures, reviewed related payroll registers and employee records to verify hours worked, mathematical accuracy, and salary rates.

***Result***

We noted no exceptions to the AB 2766 direct payroll expenditures.

10. We analyzed AB 2766 administrative expenditures to verify, in accordance with CHSC Section 44233, that the SCAQMD did not use more than 5% of the AB 2766 fees distributed for administrative expenditures.

***Result***

We noted no exceptions in performing this procedure.

11. We obtained the SCAQMD expenditures to verify, in accordance with CHSC Section 44244.1(d), that the SCAQMD expended AB 2766 fees within one year of the program or project completion date.

***Result***

We noted no exceptions in performing this procedure.

12. We obtained the SCAQMD reports to verify that the SCAQMD submitted a report to the State Board on the use of the fees and results of the programs funded, and to verify that the SCAQMD's control measures were in compliance with Title 42 of the United States Code control measures.

***Result***

We noted no exceptions in performing this procedure.



We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the SCAQMD's compliance with the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the governing board and management of the SCAQMD, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
August 19, 2015

## Summary of Audit Findings for Local Governments and Council of Governments

Finding Description	Fiscal Year(s)	City/County/COG	Status
AB 2766 Funds Not Accounted for Separately	FYs 2011-12 & 2012-13	Western Riverside Council of Governments	Resolved- WRCOG was able to demonstrate that it does maintain a separate fund
Administrative Costs in Excess of 5% Cap	FY 2012-13	Bell	Resolved-city requested to have funds withheld from future disbursements
Administrative Costs in Excess of 5% Cap	FY 2012-13	San Bernardino	Resolved-city provided documentation demonstrating that it has replaced the funds
Advances Monies to Other Funds	FYs 2011-12 & 2012-13	Compton	Resolved-city provided documentation demonstrating that it has replaced the funds
Documentation for Administrative Expenditures	FY 2011-12	Beaumont	Resolved-city provided documentation demonstrating that it has replaced the funds
Documentation for Administrative Expenditures	FY 2011-12	Wildomar	Resolved-city provided documentation demonstrating that it has replaced the funds
Expenditures without Supporting Documentation (3 findings - each fiscal year)	FYs 2011-12 & 2012-13	San Bernardino	Resolved-city provided documentation demonstrating that it has replaced the funds
Expenditures without Supporting Documentation (1 findings - FY 11-12; 2 findings - FY 12-13)	FYs 2011-12 & 2012-13	San Gabriel Valley Council of Governments	Resolved-Withhold from Future Disbursements to SGV COG Member Cities that gave AB 2766 Funds
Expenditures without Supporting Documentation	FY 2011-12	Santa Ana	Resolved-city provided documentation demonstrating that it has replaced the funds
Insufficient Detail on Timesheets	FY 2011-12 & FY 2012-13	Los Angeles	Resolved-city provided detail for timesheets
Interest Income on Accumulate AB 2766 Funds	FYs 2011-12 & 2012-13	Compton	Resolved-city provided documentation demonstrating that it has replaced the funds
Interest Income on Accumulate AB 2766 Funds	FYs 2011-12 & 2012-13	San Gabriel Valley Council of Governments	Resolved-Withhold from Future Disbursements to SGV COG Member Cities that gave AB 2766 Funds
Interest Income on Accumulate AB 2766 Funds	FY 2011-12	Wildomar	Resolved-city provided documentation demonstrating that it has replaced the funds
Late Submission of Annual Progress Report	FY 2011-12	Fontana	Resolved-reports received
Material Weakness in Internal Controls	FY 2011-12 & 2012-13	Costa Mesa	Resolved-Independent Audit of AB 2766 had no findings
Short-Term Interfund Borrowings	FY 2011-12	San Bernardino	Resolved-City replaced funds
Significant Deficiencies in Internal Controls	FYs 2011-12 & 2012-13	Santa Monica	Resolved-Independent Audit of AB 2766 had no findings
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	Beaumont	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FY 2012-13	Bell	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FY 2012-13	Calimesa	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	Compton	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	Cudahy	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FY 2012-13	Grand Terrace	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	Huntington Park	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FY 2012-13	La Habra Heights	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	Maywood	Resolved-City was Audited
Submission of Annual Audited Financial Statements	FYs 2011-12 & 2012-13	San Bernardino	Resolved-City was Audited
Unallowable Expenditures	FY 2011-12	Anaheim	Resolved-city provided documentation demonstrating that it has replaced the funds
Unallowable Expenditures	FY 2012-13	Bell	Resolved-city requested to have funds withheld from future disbursements
Unallowable Expenditures	FYs 2011-12 & 2012-13	Cudahy	Resolved- city requested to have funds withheld from future disbursements
Unallowable Expenditures	FY 2012-13	Maywood	Resolved- city requested to have funds withheld from future disbursements
Unallowable Expenditures (2 findings - each fiscal year)	FYs 2011-12 & 2012-13	Rialto	Resolved- city requested to have funds withheld from future disbursements
Unallowable Expenditures	FYs 2011-12 & 2012-13	Santa Ana	Resolved-city provided documentation demonstrating that it has replaced the funds
Unavailable Bank Reconciliations	FY 2011-12	Cudahy	Resolved-Bank Reconciliations are now up-to date
Untimely Preparation of Bank Reconciliations	FY 2012-13	Cudahy	Resolved-Bank Reconciliations are now up-to date

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***  
***SUMMARY REPORT ON***  
***AB 2766 FEE REVENUES***  
***FOR LOCAL GOVERNMENT RECIPIENTS***  
***UNDER HEALTH AND SAFETY CODE SECTION 44243(b)***  
***(Segment 2)***  
***FOR THE YEARS ENDED JUNE 30, 2013 AND 2012***



***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***AB 2766 FEE REVENUES FOR LOCAL GOVERNMENT RECIPIENTS  
UNDER HEALTH AND SAFETY CODE SECTION 44243(b)  
(Segment 2)***

**TABLE OF CONTENTS**

	<u>Page</u>
AB 2766 Air Quality Improvement Fund Summary of Segment 2 Reports for The Years Ended June 30, 2013 and 2012	3
Attachment A - Summary of Findings	5
Attachment B - List of Government Recipients Audited	15



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## AB 2766 Air Quality Improvement Fund Summary of Segment 2 Reports

The Governing Board of  
The South Coast Air Quality Management District

This report provides a summary of the findings and questioned costs contained in the audit reports and reports on applying agreed-upon procedures completed for Segment 2 for the Biennial Audit of Fee Revenues under AB 2766 for fiscal years ended June 30, 2013 and 2012. See Attachment B for a list of the reports included in this summary.

For the purpose of determining whether motor vehicle registration fees (AB 2766 funds) subvented to the South Coast Air Quality Management District (SCAQMD) were expended for air pollution measures pursuant to the Clean Air Act Amendments of 1990, the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC), the SCAQMD requested that we perform audits or agreed-upon procedures reviews for six subgroups of local governments receiving Segment 2 funds. Segment 2 funds are the 40% of motor vehicle fee revenues subvented to the SCAQMD that are distributed to local governments on a quarterly basis. The SCAQMD placed local governments into subgroups based on the amount of Segment 2 funds received and whether the entity had provided Air Quality Improvement Fund audited financial statements and progress reports to the SCAQMD. Local governments in Segment 2 include cities, counties and consortiums of local governments. These consortiums are legal entities created through joint power agreements entered into by cities and counties in a common geographical area. Local governments are permitted to pool their resources for implementing the requirements for the use of AB 2766 funds and to undertake regional projects to reduce air pollution from motor vehicles.

For local governments in Subgroup 1, we reviewed audit reports prepared by other auditors and summarized audit findings included in the reports. The Subgroup 1 summary was provided in a separate report dated August 19, 2015.



For the purpose of this report, we have summarized audit findings and questioned costs for local government entities in Subgroups 2, 3, 4, 5 and 6 into eleven categories, as described on the following:

<b>CATEGORY</b>	<b>DESCRIPTION OF FINDING</b>
1	Unallowable Expenditures
2	Expenditures Without Supporting Documentation
3	Administrative Costs in Excess of 5% Cap
4	Documentation for Administrative Expenditures Allocation
5	Interest Income on Accumulate AB 2766 Funds
6	Short-Term Interfund Borrowings
7	Advances Monies to Other Funds
8	AB 2766 Funds Not Accounted for Separately
9	Untimely Preparation of Bank Reconciliation
10	Unavailable Bank Reconciliations
11	Submission of Annual Audited Financial Statements

The audit findings are described in the Summary of Findings in Attachment A.

This report is intended solely for the information and use of the governing board and management of the SCAQMD, and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California  
September 17, 2015

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012

## 1. Unallowable Expenditures

California Health and Safety Code Section 44243 require that AB 2766 funds be used for programs to reduce air pollution from mobile sources. We noted the following cities charged unallowable expenditures to AB 2766 funds.

<u>Fiscal Year 2013</u>	<u>Description</u>	<u>Amount</u>
<u>Los Angeles County</u>		
City of Bell	City's share for the Los Angeles River and Tributaries Metals TMDL. City's police force equipment installed in the alternative fuel vehicles.	\$ 11,330
City of Cudahy	Late fees on vehicle lease payments	\$ 144
City of Maywood	City's share for the Los Angeles River and Tributaries Metals TMDL.	\$ 2,052
<u>Orange County</u>		
City of Santa Ana	Retiree health subsidies for an employee who has retired since 2010 and did not work on the AB 2766 projects	\$ 6,171
<u>San Bernardino County</u>		
City of Rialto	Gift cards purchased as an employee incentive for completing the annual rideshare survey	\$ 4,700
City of Rialto	Payments for rideshare luncheon and raffle prizes for all the City's employees	\$ 9,204

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)

## 1. Unallowable Expenditures (Continued)

<u>Fiscal Year 2012</u>	<u>Description</u>	<u>Amount</u>
<u>Los Angeles County</u>		
City of Cudahy	Overcharged lease payments of three hybrid vehicles	\$ 5,232
<u>Orange County</u>		
City of Anaheim	Duplicated billing for shuttle services	\$ 7,035
City of Santa Ana	Retiree health subsidies for an employee who has retired since 2010 and did not work on the AB 2766 projects	\$ 5,797
<u>San Bernardino County</u>		
City of Rialto	Gift cards purchased as an employee incentive for completing the annual rideshare survey	\$ 5,250
City of Rialto	Payments for rideshare luncheon and raffle prizes for all the City's employees	\$ 6,368

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)

2. Expenditures Without Supporting Documentation

According to Chapter 17 of the SCAQMD Resource Guide, “Expenditures on equipment, materials, and subcontractor services must be supported by a warrant and other source document clearly showing that the payment was for an expenditure charged against the fund and included in the annual program report to the AQMD. It is also important that the source document (invoice, requisition, equipment rental charge, and other pertinent data) clearly identify the project to establish a readily discernible audit trail.” Also, according to Chapter 17 of the SCAQMD Resource Guide, “Direct labor must be documented on timesheets. If timesheets do not permit the level of detail required to document direct labor hours to be charged to AB 2766 projects specifically, then a detailed log of time spent on projects, the activities performed and the outcome or product generated must be maintained. Direct labor costs must identify the project to establish a clear audit trail. Allocating a fixed or budgeted amount of staff time and associated salary expense each pay period will not meet the requirements for the audit.” The following cities/consortium did not provide supporting documentation to validate the expenditures charged to the Air Quality Improvement Fund.

Fiscal Year 2013	Description	Amount
<u>San Bernardino County</u>		
City of San Bernardino	Traffic engineering costs	\$ 40,000
City of San Bernardino	Alternative vehicle fuel costs and usage	\$ 30,000
City of San Bernardino	Timesheets or time study for direct labor	\$ 31,600
<u>Council of Governments</u>		
San Gabriel Valley Council of Governments	Management services fees	\$ 2,361
San Gabriel Valley Council of Governments	Timesheets or time study for direct labor	\$ 3,350

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)

2. Expenditures Without Supporting Documentation (Continued)

<u>Fiscal Year 2012</u>	<u>Description</u>	<u>Amount</u>
<u>Orange County</u>		
City of Santa Ana	Timesheets or time study for direct labor	\$ 17,662
<u>San Bernardino County</u>		
City of San Bernardino	Traffic engineering costs	\$ 40,000
City of San Bernardino	Alternative vehicle fuel costs and usage	\$ 30,000
City of San Bernardino	Timesheets or time study for direct labor	\$ 35,640
<u>Council of Governments</u>		
San Gabriel Valley Council of Governments	Management services fees	\$ 2,646

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

**SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)**

3. Administrative Costs in Excess of 5% Cap

California Health and Safety Code Section 44233 require that the City may not use more than 5% of the AB 2766 fees distributed for administrative expenditures. We noted that the following cities did not comply with this requirement and exceeded the 5% limit.

<u>Fiscal Year 2013</u>	<u>Amount in Excess of CAP</u>	<u>Fiscal Year 2012</u>	<u>Amount in Excess of CAP</u>
<u>Los Angeles County</u> City of Bell	\$ 12,299		
<u>San Bernardino County</u> City of San Bernardino	\$ 15,956	<u>San Bernardino County</u> City of San Bernardino	\$ 5,944

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)

4. Documentation for Administrative Expenditures Allocation

According to Chapter 16 of the SCAQMD Resource Guide, “A reasonable definition of administrative costs would be those direct and indirect costs necessary and attributable to accounting, administrative, providing legal assistance and managing the entire fund as opposed to those costs directly attributable to individual project implementation. Staff hours relating to administrative costs must be readily identifiable and preferably documented separately from project costs. Documentation of the hourly charges may be provided either in the form of time sheets or any other generally accepted mechanism to allocate and document staff time.” We noted that the following cities did not comply with the documentation requirement for administrative expenditures allocation.

<u>Fiscal Year 2012</u>	<u>Description</u>	<u>Amount</u>
<u>Riverside County</u>		
City of Beaumont	Overhead allocation plan was based on a 1993 time study and was not available for review	\$ 900
City of Wildomar	Applying a predetermined indirect cost rate to the AB 2766 revenues instead of the direct cost base	\$ 2,041

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

**SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)**

5. Interest Income on Accumulate AB 2766 Funds

According to Chapter 15 of the SCAQMD Resource Guide, “Often local governments accumulate funds over an extended period for costly projects. Depending on the amount of annual AB 2766 receipts and the timeliness of project expenditures, cities/counties may have large cash balances in the AB 2766 Special Revenue Fund. Interest earned on these cash balances could amount to a significant sum of money. If AB 2766 fees are invested with cash balances from other general fund revenues, an equitable proration of interest earned on the total funds invested must be made to the AB 2766 Special Revenue Fund.” We noted that the following cities/consortium did not comply with this requirement and interest was not credited to the Air Quality Improvement Fund.

<u>Fiscal Year 2013</u>	<u>Amount</u>	<u>Fiscal Year 2012</u>	<u>Amount</u>
<u>Los Angeles County</u> City of Compton	\$ 1,462	<u>Los Angeles County</u> City of Compton	\$ 220
<u>Council of Governments</u> San Gabriel Valley Council of Governments	\$ 20	<u>Council of Governments</u> San Gabriel Valley Council of Governments	\$ 25
		<u>Riverside County</u> City of Wildomar	\$ 467

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)

6. Short-Term Interfund Borrowings

City of San Bernardino

According to Chapter 14 of the SCAQMD Resource Guide, “AB 2766 fee revenues are legislatively mandated to be spent for projects to achieve motor vehicle emission reduction only. If these fee revenues are not immediately spent and are accumulated to fund higher cost or larger projects, the accumulating balance earns interest which is then credited back to the fund for use on projects with the same objective.” We noted that the City of San Bernardino’s Air Quality Improvement Fund has zero cash and investments balance and \$2,742 in due from other funds as of June 30, 2012. Amount due from other funds represent interfund borrowings to cover short-term operating deficits and cash overdrafts. This short-term borrowings is a violation of the AB 2766 legislative requirements.

7. Advances Monies to Other Funds

City of Compton

According to Chapter 14 of the SCAQMD Resource Guide, “AB 2766 fee revenues are legislatively mandated to be spent for projects to achieve motor vehicle emission reduction only. If these fee revenues are not immediately spent and are accumulated to fund higher cost or larger projects, the accumulating balance earns interest which is then credited back to the fund for use on projects with the same objective.” We noted that as of June 30, 2012, the City of Compton advanced Air Quality Improvement Fund in the amount of \$295,322 to the General Fund. This borrowing is in violation of the AB 2766 legislative requirements. The City Council took action on June 17, 2014 and adopted Resolution 23970 approving a repayment schedule of the General Fund internal borrowings. The Resolution calls for the internal borrowings to be repaid over a fifteen-year period with accrued interest at a rate of 0.495% annually. For fiscal year 2013, interest in the amount of \$1,462 was accreted to the Fund’s advance to other funds balance. For fiscal year 2012, no interest was credited to the Fund. Questioned costs were \$1,462 and \$295,322 for fiscal year 2013 and 2012, respectively.

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

**SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)**

8. AB 2766 Funds Not Accounted for Separately

Western Riverside Council for Governments

California Health and Safety Code Section 44243 (b)(1)(C) requires local governments to account for and separately track AB 2766 funds within their accounting records. We noted Western Riverside Council for Governments (WRCOG) used AB 2766 funds to partly finance the expenditures of its Clean Cities Program (an outreach program to promote clean air quality). As such, disbursements of AB 2766 funds are included in the expenditures report of the Clean Cities program. However, the WRCOG's accounting system did not separately identify and track assets, liabilities, and fund balance of the AB 2766 funds for fiscal years 2013 and 2012.

9. Untimely Preparation of Bank Reconciliations

City of Cudahy

For fiscal year 2013, we noted that the City of Cudahy's bank reconciliations were not prepared timely for three out of the four months selected for testing. In addition, we noted that the bank reconciliations were not being reviewed and approved.

10. Unavailable Bank Reconciliations

City of Cudahy

For fiscal year 2012, the City of Cudahy was unable to provide us with bank reconciliations. As a result, we could not ascertain that bank reconciliations were performed.

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

**SUMMARY OF FINDINGS  
For the Years Ended June 30, 2013 and 2012  
(Continued)**

11. Submission of Annual Audited Financial Statements

The Audit Guidelines prepared by the SCAQMD describe the financial and program reporting requirements for local governments. The AB 2766 program legislation requires that each agency receiving motor vehicle registration fee revenues must submit an annual program progress report and annual audited financial statements of AB 2766 funds by the first Friday in February of each year. For fiscal years 2013 and 2012, the following cities did not submit its annual audited financial statements to the SCAQMD in a timely manner.

<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>
<u>Los Angeles County</u>	<u>Los Angeles County</u>
City of Bell	City of Compton
City of Compton	City of Cudahy
City of Cudahy	City of Huntington Park
City of Huntington Park	City of Maywood
City of La Habra Heights	
City of Maywood	
 <u>Riverside County</u>	 <u>Riverside County</u>
City of Beaumont	City of Beaumont
City of Calimesa	
 <u>San Bernardino County</u>	 <u>San Bernardino County</u>
City of Grand Terrace	City of San Bernardino
City of San Bernardino	

**ATTACHMENT B**

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

**LIST OF LOCAL GOVERNMENT RECIPIENTS AUDITED  
For the Years Ended June 30, 2013 and 2012**

	<b>City</b>	<b>Type of Audit</b>	<b>Fiscal Year (s)</b>
	<b>Los Angeles County</b>		
1	City of Alhambra	Financial & Compliance	2013 & 2012
2	City of Arcadia	Agreed Upon Procedures	2013
3	City of Bell	Financial & Compliance	2013
4	City of Compton	Financial & Compliance	2013 & 2012
5	City of Cudahy	Financial & Compliance	2013 & 2012
6	City of El Monte	Financial & Compliance	2013 & 2012
7	City of El Segundo	Agreed Upon Procedures	2013
8	City of Glendale	Financial & Compliance	2013 & 2012
9	City of Hawaiian Gardens	Agreed Upon Procedures	2012
10	City of Huntington Park	Agreed Upon Procedures	2013 & 2012
11	City of Inglewood	Financial & Compliance	2013 & 2012
12	City of Irwindale	Agreed Upon Procedures	2012
13	City of La Habra Heights	Financial & Compliance	2013
14	City of Lakewood	Financial & Compliance	2012
15	City of Lawndale	Agreed Upon Procedures	2012
16	City of Long Beach	Financial & Compliance	2013 & 2012
17	City of Maywood	Financial & Compliance	2013 & 2012
18	City of Palos Verdes Estates	Agreed Upon Procedures	2013
19	City of Rolling Hills Estates	Agreed Upon Procedures	2013
20	City of Santa Fe Springs	Agreed Upon Procedures	2013
21	City of Sierra Madre	Agreed Upon Procedures	2013
22	City of South Gate	Financial & Compliance	2012
23	City of Temple City	Agreed Upon Procedures	2012
24	City of Walnut	Agreed Upon Procedures	2012
25	County of Los Angeles	Financial & Compliance	2013 & 2012
	<b>Orange County</b>		
26	City of Anaheim	Financial & Compliance	2013 & 2012
27	City of Buena Park	Financial & Compliance	2012
28	City of Cypress	Agreed Upon Procedures	2012
29	City of Dana Point	Agreed Upon Procedures	2012
30	City of Fountain Valley	Agreed Upon Procedures	2013

**ATTACHMENT B**

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND***

LIST OF LOCAL GOVERNMENT RECIPIENTS AUDITED  
For the Years Ended June 30, 2013 and 2012  
(Continued)

	<u>City</u>	<u>Type of Audit</u>	<u>Fiscal Year (s)</u>
	<b>Orange County (Continued)</b>		
31	City of La Palma	Agreed Upon Procedures	2013
32	City of Laguna Hills	Agreed Upon Procedures	2013
33	City of Lake Forest	Agreed Upon Procedures	2013
34	City of Newport Beach	Financial & Compliance	2013 & 2012
35	City of Rancho Santa Margarita	Agreed Upon Procedures	2013
36	City of Santa Ana	Financial & Compliance	2013 & 2012
37	County of Orange	Financial & Compliance	2013 & 2012
	<b>Riverside County</b>		
38	City of Beaumont	Financial & Compliance	2013 & 2012
39	City of Calimesa	Financial & Compliance	2013
40	City of Indio	Agreed Upon Procedures	2013
41	City of Jurupa Valley	Financial & Compliance	2013 & 2012
42	City of Moreno Valley	Financial & Compliance	2013 & 2012
43	City of Murrieta	Financial & Compliance	2013 & 2012
44	City of Temecula	Financial & Compliance	2013 & 2012
45	City of Wildomar	Agreed Upon Procedures	2012
	<b>San Bernardino County</b>		
46	City of Big Bear Lake	Agreed Upon Procedures	2012
47	City of Grand Terrace	Financial & Compliance	2013
48	City of Rialto	Financial & Compliance	2013 & 2012
49	City of San Bernardino	Financial & Compliance	2013 & 2012
50	County of San Bernardino	Financial & Compliance	2013 & 2012
	<b>Consortium</b>		
51	Coachella Valley Association of Governments	Financial & Compliance	2013 & 2012
52	Gateway Cities Council of Governments	Financial & Compliance	2013 & 2012
53	San Gabriel Valley Council of Governments	Financial & Compliance	2013 & 2012
54	Western Riverside Council of Governments	Financial & Compliance	2013 & 2012

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***AIR QUALITY IMPROVEMENT FUND  
(SEGMENT 2 – SUBGROUP 1)***

***INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES***

***FOR THE YEARS ENDED JUNE 30, 2013 AND 2012***





SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

The Governing Board of  
The South Coast Air Quality Management District

We have performed the procedures enumerated below, which were agreed to by the management of the South Coast Air Quality Management District (SCAQMD), solely to assist you in summarizing instances of noncompliance and internal control deficiencies and material weaknesses reported in financial statement audit reports and internal control and compliance reports submitted to the SCAQMD by cities and counties that received automobile registration fee revenues (AB 2766 funds) from the SCAQMD in fiscal years 2013-12 and 2012-11. This report includes instances of noncompliance with respect to whether AB 2766 funds were spent on activities that reduce air pollution from motor vehicles pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). This report also includes internal control deficiencies and material weaknesses identified in the reports on internal control.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested, nor any other purpose.

Our procedures and results are as follows:

We performed a summary review of audited financial statements, compliance reports and internal control reports submitted to SCAQMD by the cities and counties that received more than \$100,000 of AB 2766 funds per year (large recipients) for fiscal years 2013-12 and 2011-12 (See Attachment A for list of municipalities). We identified any reporting of non-compliance, deficiencies in internal control and material weaknesses in internal controls, and summarized these instances.



## **NON-COMPLIANCE**

### **1. Submission of Annual Progress Report – City of Fontana**

The AQMD requires that AB 2766 recipients submit annual audited financial statements and progress reports by the first Friday in February of each year. For fiscal year 2012, the City of Fontana’s progress reports were submitted 11 days late.

### **2. Insufficient Detail on Timesheet for Direct Labor Charges – the City of Los Angeles**

According to Chapter 17 of the SCAQMD Resource Guide, “Direct labor must be documented on time sheets. If time sheets do not permit the level of detail required to document direct labor hours to be charged to AB 2766 projects specifically, then a detailed log of time spent on projects, the activities performed and the outcome or product generated must be maintained. Direct labor costs must identify the project to establish a clear audit trail. Allocating a fixed or budgeted amount of staff time and associated salary expense each pay period will not meet the requirements for the audit.” The City of Los Angeles did not document labor hours charged to AB 2766 projects for direct program costs in the amount of \$30,045 and \$30,045 for fiscal years 2013 and 2012, respectively. There were insufficient details to support the direct labor costs charged to the AB 2766 projects.

## **INTERNAL CONTROLS**

### **Material Weaknesses in Internal Controls**

#### **1. Budget Approval/Unrecorded Transactions – City of Costa Mesa**

For fiscal year 2013, the City of Costa Mesa has an arrangement with an outside organization to provide funding to the City of Costa Mesa for promotional activities without a written agreement. The arrangement allows for the payment of certain City-related promotional expenditures directly by the outside organization which results in City-related expenditures being incurred without formal budget approval by the City Council. The absence of not having budget approval of these expenditures and related revenue allows for a lack of accountability and could result in misuse of the funds provided by the outside organization. In addition, since the payments for these City expenditures are being paid directly by the outside organization, the expenditures and related reimbursement are not being recorded on the City’s general ledger. We recommend that the City enter into a written agreement with this organization in which the City would receive the funding directly and expenditures and revenues for this program would be approved by the City Council.



2. Purchasing Policies and Procedures – City of Costa Mesa

For fiscal year 2013, the City of Costa Mesa did not follow the established purchasing policies and procedures. Incidents were noted where purchase orders were not issued for some purchases over \$1,000. Additionally, some purchases did not go through the required procurement process, and there was no documentation that those purchases were exempt from the bidding process. There was no documentation that formal bidding was performed, nor that the City Council had approved for a contract that was greater than \$50,000.

**Significant Deficiencies in Internal Controls**

1. Risk Assessment Performed by Internal Audit and Finance Department – City of Santa Monica

For fiscal years 2013 and 2012, the City of Santa Monica has not fully implemented the finding of “Risk Assessment Performed by Internal Audit and Finance Department” disclosed in fiscal year 2011. The City of Santa Monica’s Internal Audit and Finance Departments did not perform a formalized risk assessment that identifies the financial risks within the City. The lack of a formalized risk assessment could lead to risks not being identified or adequately addressed. The City of Santa Monica is in the process of producing a citywide risk assessment. Questionnaires have been completed by various departments and have been summarized. The next step is to develop a matrix based on the questionnaires and eventually issue a draft and final report. The City of Santa Monica expects this to be completed in fiscal year 2015.

2. Accounting Policies & Procedures Manual – City of Santa Monica

For fiscal years 2013 and 2012, the City of Santa Monica has not fully implemented the finding of “Accounting Policies & Procedures Manual” disclosed in fiscal year 2011. The City of Santa Monica’s Finance Department has documented policies and procedures that were maintained in various documents and not in one comprehensive document. Procedures existed in the JD Edwards (JDE) manual which provided guidance on their financial system and their annual budget document contained policies that were prepared for City Council approval. The lack of comprehensive written policies and procedures could contribute to inconsistent accounting treatment and poor internal controls. The City of Santa Monica is in the process of drafting various separate policies and procedures which will be framed into a single manual. The City of Santa Monica anticipates the completion of the framework in fiscal year 2015.



We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the SCAQMD's compliance with the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the governing board and management of the SCAQMD, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
August 19, 2015

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
AIR QUALITY IMPROVEMENT FUND

List of Local Government Large Recipients  
For the Years Ended June 30, 2013 and 2012

<u>Local Government</u>	<u>Fiscal Year(s)</u>
<b>Los Angeles County</b>	
1. Burbank	2013 and 2012
2. Carson	2013 and 2012
3. Downey	2013 and 2012
4. Hawthorne	2013 and 2012
5. Los Angeles	2013 and 2012
6. Norwalk	2013 and 2012
7. Pasadena	2013 and 2012
8. Pomona	2013 and 2012
9. Santa Clarita	2013 and 2012
10. Santa Monica	2013 and 2012
11. Torrance	2013 and 2012
12. West Covina	2013 and 2012
13. Whittier	2013 and 2012
<b>Orange County</b>	
14. Costa Mesa	2013 and 2012
15. Fullerton	2013 and 2012
16. Garden Grove	2013 and 2012
17. Huntington Beach	2013 and 2012
18. Irvine	2013 and 2012
19. Mission Viejo	2013 and 2012
20. Orange	2013 and 2012
21. Westminster	2013 and 2012
<b>Riverside County</b>	
22. Corona	2013 and 2012
23. Riverside	2013 and 2012
24. County of Riverside	2013 and 2012
<b>San Bernardino County</b>	
25. Fontana	2013 and 2012
26. Ontario	2013 and 2012
27. Rancho Cucamonga	2013 and 2012

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***MOBILE SOURCE AIR POLLUTION REDUCTION  
REVIEW COMMITTEE FUND  
(SEGMENT 3)***

***INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES***

***FOR THE YEARS ENDED JUNE 30, 2013 AND 2012***





SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## Independent Accountant's Report On Applying Agreed-Upon Procedures

The Governing Board of  
The South Coast Air Quality Management District

We have performed the procedures enumerated below to the financials and other records of the South Coast Air Quality Management District (SCAQMD), which were agreed to by the management of the SCAQMD, solely to assist you in determining whether automobile registration fee revenues (AB 2766 funds) distributed to the Mobile Source Air Pollution Reduction Review Committee (MSRC) during fiscal years 2011-12 and 2012-13 were spent on the reduction of air pollution from motor vehicles pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). The SCAQMD's management is responsible for use of AB 2766 funds in accordance with the cited criteria. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or any other purpose.

Our procedures and results are as follows.

1. We reviewed the list of the MSRC members to verify that, in accordance with CHSC 44244(a), the Committee consists of a representative from each of the specified agencies.

### ***Result***

We noted no exceptions in performing this procedure.





2. In accordance with CHSC Section 44244(b), we verified that the MSRC developed and adopted work programs for FY 2011-12 and 2012-13 that were approved by the SCAQMD Governing Board.

***Result***

We noted no exceptions in performing this procedure.

3. We reviewed the list of the Technical Advisory Committee (TAC) members to verify that membership of TAC is in accordance with the specifications of CHSC Section 44244(c). As required by CHSC Section 44244(c), the TAC advisory committee shall also include one or more person who is a mechanical engineer specializing in vehicle engines.

***Result***

We noted that for the period reviewed (July 1, 2011 through June 30, 2013) the TAC position for a representative of the Cities of Los Angeles County and Air Pollution Control Expert position were vacant. We noted no other exceptions in performing this procedure.

4. We obtained an understanding of how AB 2766 funds are accounted for, including whether AB 2766 funds are maintained in a separate fund or if there is a separate accounting for the funds maintained by other means.

***Result***

We noted that the MSRC has a separate fund called the Mobile Source Air Pollution Reduction Review Committee Fund.

5. We obtained an understanding of established internal control procedures related to the receipt and use of AB 2766 funds.

***Result***

We noted no exceptions in performing this procedure.



6. We agreed AB 2766 revenues recorded in the Mobile Source Air Pollution Reduction Fund General Ledger to the SCAQMD's record of disbursements.

***Result***

We noted no exceptions in performing this procedure.

7. We conducted interviews in order to obtain an understanding of how the SCAQMD allocates interest earned and determined the reasonableness of the interest allocation and that interest was used for the same purposes for which AB 2766 funds were allocated to the SCAQMD.

***Result***

We noted no exceptions on the cost allocation schedule.

8. We tested AB 2766 expenditures of the Mobile Source Air Pollution Reduction Fund for each year to determine:
  - a) allowability, reasonableness, adequacy of supporting documentation, proper approval, clearly identified the project, and were incurred during the fiscal year;
  - b) that the funds were spent in accordance with CHSC Section 44220(b), which requires that AB 2766 fund expenditures were incurred solely to reduce air pollution from motor vehicles and for related planning, monitoring, enforcement and technical studies necessary for implementation of the California Clean Air Act of 1988; and
  - c) in accordance with CHSC Section 44235, the SCAQMD did not use AB 2766 fees for the purpose of establishing or maintaining the district as a direct provider of the car pool, van pool, or other ridesharing or transit services.

***Result***

We noted no exceptions in performing this procedure.

9. We analyzed AB 2766 administrative expenditures to verify, in accordance with CHSC Section 44233, that the MSRC did not use more than 5% of the AB 2766 fees for administrative expenditures.

***Result***

We noted no exceptions in performing this procedure.



10. We obtained the SCAQMD expenditures to verify, in accordance with CHSC Section 44244.1(d), that the MSRC expended AB 2766 fees within one year of the program or project completion date.

***Result***

We noted no exceptions in performing this procedure.

11. We reviewed the SCAQMD's financial statements to verify that the Mobile Source Air Pollution Reduction Review Committee Fund was audited as part of the SCAQMD's annual audit conducted by an Independent CPA firm.

***Result***

We noted that the Mobile Source Air Pollution Reduction Review Committee Fund was audited as part of the SCAQMD's annual audit conducted by an Independent CPA firm.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion, on the MSRC's compliance with the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the governing board and management of the SCAQMD, members of the Mobile Source Air Pollution Reduction Review Committee and members of the Technical Advisory Committee of the MSRC and is not intended to be, and should not be used anyone other than those specified parties.

A handwritten signature in cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
August 19, 2015

***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***MOBILE SOURCE AIR POLLUTION REDUCTION  
REVIEW COMMITTEE FUND  
(SEGMENT 3 - PROJECTS)***

***INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES***

***FOR THE YEARS ENDED JUNE 30, 2013 AND 2012***





SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Accountant's Report On Applying Agreed-Upon Procedures

The Governing Board of  
The South Coast Air Quality Management District

We have performed the procedures enumerated below to the financials and other records of the South Coast Air Quality Management District (SCAQMD), which were agreed to by the management of the SCAQMD, solely to assist you in determining whether automobile registration fee revenues (AB 2766 funds) distributed to the Mobile Source Air Pollution Reduction Review Committee (MSRC) during fiscal years 2011-12 and 2012-13 were spent on the reduction of air pollution from motor vehicles pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code (CHSC). These AB 2766 funds were allocated within the MSRC's fiscal years 2012-13 and 2011-12 AB 2766 Discretionary Fund Work Programs. The SCAQMD's management is responsible for use of AB 2766 funds in accordance with the cited criteria. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or any other purpose.

Our procedures and results are as follows.

1. We examined and tested ten (10) projects, as presented in Attachment A, approved for funding during FY 2011-12 and 2012-13 by the MSRC to determine if these projects were aligned with the work programs for FY 2011-12 and 2012-13 and if these were properly approved by the SCAQMD's Governing Board

### ***Result***

We noted no exceptions in performing this procedure.



2. For the ten projects selected in fiscal years 2011-12 and 2012-13, as presented in Attachment A, we verified that the project was proposed under the FY 2011-12 and 2012-13 work programs that was developed and adopted by the MSRC and approved by the SCAQMD Board in accordance with CHSC Section 44244(b).

***Result***

We noted no exceptions in performing this procedure.

3. Obtain an understanding of how AB 2766 funds are accounted for, including whether AB 2766 funds are maintained in a separate fund or if there is a separate accounting for the funds maintained by other means.

***Result***

We noted that the MSRC has a separate fund called the Mobile Source Air Pollution Reduction Review Committee Fund.

4. We obtained an understanding of established internal control procedures related to the receipt and use of AB 2766 funds.

***Result***

We noted no exceptions in performing this procedure.

5. We agreed AB 2766 revenues recorded in the Mobile Source Air Pollution Reduction Fund General Ledger to the SCAQMD's record of disbursements.

***Result***

We noted no exceptions in performing this procedure.

6. We obtained a detailed listing of expenditures for the ten projects approved during fiscal years 2011-12 and 2012-13 and selected a sample of expenditures for testing. We tested AB 2766 expenditures of the Mobile Source Air Pollution Reduction Fund for each year to determine:

- a) allowability, reasonableness, adequacy of supporting documentation, proper approval, clearly identified the project, and were incurred during the fiscal year;
- b) that the funds were spent in accordance with CHSC Section 44220(b), which requires that AB 2766 fund expenditures were incurred solely to reduce air pollution from motor vehicles and for related planning, monitoring, enforcement



and technical studies necessary for implementation of the California Clean Air Act of 1988; and

- c) in accordance with CHSC Section 44235, the SCAQMD did not use AB 2766 fees for the purpose of establishing or maintaining the district as a direct provider of the car pool, van pool, or other ridesharing or transit services.

***Result***

We noted no exceptions in performing this procedure.

- 7. We obtained a listing of the SCAQMD expenditures to verify, in accordance with CHSC Section 44244.1(d), that the MSRC expended AB 2766 fees within one year of the program or project completion date and that no more than 5% of the AB 2766 funds are used for administrative costs.

***Result***

We noted no exceptions in performing this procedure.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion, on the MSRC's compliance with the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan (AQMP) prepared pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the governing board and management of the SCAQMD, members of the Mobile Source Air Pollution Reduction Review Committee and members of the Technical Advisory Committee of the MSRC and is not intended to be, and should not be used anyone other than those specified parties.

A handwritten signature in cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
August 19, 2015

**ATTACHMENT A**  
**REVIEW RESULTS OF TEN (10) MSRC PROJECTS**

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS

**Contract No.** : MS12002

**Contractor** : Orange County Transportation Authority

**Project Title** : Implement a special express bus services to the Orange County Fair

**Project Status:** Complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 342,340	\$ 333,185	\$ 9,155	\$ -	\$ 333,185

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : MS12012

**Contractor** : Rim of the World Unified School District

**Project Title** : Maintenance facility modifications of alternative fuel infrastructure

**Project Status:** Complete

<b>AB 2766 Funding Adopted</b>	<b>Amount Paid to Date</b>	<b>Contract Balance</b>	<b>Questioned Costs</b>	<b>Costs Accepted</b>
<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,000</u>

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : ML12022

**Contractor** : City of La Puente

**Project Title** : Purchase two (2) medium-duty compressed natural gas (CNG) and three (3) heavy-duty liquefied petroleum gas (LNG) vehicles

**Project Status:** Not complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 110,000	\$ 100,000	\$ 10,000	\$ -	\$ 100,000

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : MS12032

**Contractor** : Fox Transportation

**Project Title** : Purchase twenty (20) natural gas medium-heavy-duty vehicles

**Project Status:** Complete

<b>AB 2766 Funding Adopted</b>	<b>Amount Paid to Date</b>	<b>Contract Balance</b>	<b>Questioned Costs</b>	<b>Costs Accepted</b>
<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : MS12034  
**Contractor** : Ware Disposal, Inc.  
**Project Title** : Purchase eight (8) natural gas medium-duty vehicles  
**Project Status:** Not complete

<b>AB 2766 Funding Adopted</b>	<b>Amount Paid to Date</b>	<b>Contract Balance</b>	<b>Questioned Costs</b>	<b>Costs Accepted</b>
<u>\$ 133,070</u>	<u>\$ 74,763</u>	<u>\$ 58,307</u>	<u>\$ -</u>	<u>\$ 74,763</u>

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : MS12036  
**Contractor** : VSP Parking  
**Project Title** : Purchase two (2) natural gas medium-heavy-duty vehicles  
**Project Status:** Complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 50,000	\$ 50,000	\$ -	\$ -	\$ 50,000

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : ML12039  
**Contractor** : City of Redlands  
**Project Title** : Purchase three (3) natural gas heavy-duty vehicles  
**Project Status:** Complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 90,000	\$ 90,000	\$ -	\$ -	\$ 90,000

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : ML12042

**Contractor** : City of Chino Hills

**Project Title** : Expand existing CNG station located at Chino Hills City Yard

**Project Status:** Complete

<b>AB 2766 Funding Adopted</b>	<b>Amount Paid to Date</b>	<b>Contract Balance</b>	<b>Questioned Costs</b>	<b>Costs Accepted</b>
<u>\$ 87,500</u>	<u>\$ 87,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,500</u>

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : ML12050  
**Contractor** : City of Baldwin Park  
**Project Title** : Install electric vehicle charging infrastructure  
**Project Status:** Complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 402,400	\$ 385,363	\$ 17,037	\$ -	\$ 385,363

**Audit Results** : No findings

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 MOBILE SOURCE AIR POLLUTION REDUCTION  
 REVIEW COMMITTEE FUND  
 REVIEW RESULTS OF TEN (10) MSRC PROJECTS  
 (CONTINUED)

**Contract No.** : MS12086

**Contractor** : SuperShuttle International, Inc.

**Project Title** : Purchase twenty-three (23) natural gas medium-duty vehicles

**Project Status:** Not complete

<b><u>AB 2766 Funding Adopted</u></b>	<b><u>Amount Paid to Date</u></b>	<b><u>Contract Balance</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Costs Accepted</u></b>
\$ 225,000	\$ 202,500	\$ 22,500	\$ -	\$ 202,500

**Audit Results** : No findings