

Transmitted via e-mail

September 12, 2012

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

Dear Mr. Goldstene:

Management Letter—Air Resources Board Proposition 1B Bond Funds

In accordance with our bond oversight responsibilities, the Department of Finance, Office of State Audits and Evaluations (Finance) completed an audit of the Air Resources Board's (Board) Proposition 1B bond funds.

SCOPE

Our audit objectives were to determine whether bond funds were expended and awarded in compliance with applicable legal requirements and established criteria, and monitoring processes were in place. Our audit was limited to the Board's key internal controls and transactions through June 30, 2011. We also state the following scope limitations:

- Our work was limited to the two bond programs administered by the Board: Goods Movement Emission Reduction Program (GMERP) and Lower-Emission School Bus Program (LESBP).
- Internal controls and transactions at the local agency level (the recipient of bond funds) were not included in the scope of our work.
- Key accounting records were not accessible or readily available to allow us to determine the Board's compliance with applicable criteria related to bond administrative costs. At the time of our fieldwork, the Board's financial statements were not completed and submitted to the State Controller's Office.
- An assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations was not performed.

METHODOLOGY

To determine whether the Board had key internal controls in place to ensure bond funds were expended and awarded in compliance with applicable legal requirements and established criteria, and monitoring processes were in place, we performed the following procedures:

- Reviewed the Bond Act, Health and Safety Codes, program guidelines, and applicable legal provisions and regulations.
- Interviewed management and key personnel at the Board responsible for administering bond funds to gain an understanding of how the Board administers the projects.

- Identified significant fiscal and program controls and tested controls to ensure they were working as intended.
- Reviewed a sample of projects to determine whether the Board is consistently applying regulations and adequately implementing established front-end accountability controls.
- Verified the information reported to the Strategic Growth Plan Bond Accountability website¹.

Except as noted, this audit was conducted in accordance with government auditing standards, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by government auditing standards. Finance is not independent of the Board, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this letter to rely on the information contained herein.

RESULTS

Based on our review of documentation made available to us, and interviews with the Board's management and key staff directly responsible for administering bond funds, we determined the following:

- *Accounting for Bond Funds:* The Board's processes for requesting bond funds were properly supported, valid, and authorized, and funds were properly transferred to the appropriate LESBP and GMERP accounts. Except for bond administrative costs, we determined the Board's cost allocation methodology for the GMERP and LESBP was consistent with applicable legal provisions, regulations, and established criteria.
- *Grant Agreements:* The grant agreements between the Board and local agencies contain the necessary components and language required by applicable Health and Safety Codes. For the GMERP, the Board properly recaptured funds for reallocation and expenditure prior to reversion deadlines.
- *Cash Disbursement Process:* The cash disbursement of bond funds to local agencies is supported by appropriate documentation.
- *Reporting Requirements:* Earned interest reported by local agencies is properly recorded and tracked by the Board. The required reports submitted to Finance and the Legislature is timely and contains the project information required by applicable legal provisions and regulations.

¹ Bond accountability website address is www.bondaccountability.com.

If you have any questions regarding this letter, please contact Frances Parmelee, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

cc: Mr. Richard Corey, Deputy Executive Officer, California Air Resources Board
Ms. Alice Stebbins, Chief, Administrative Services Division, California Air Resources Board
Ms. Cathleen Chapin, Chief, Fiscal Operations Branch, California Air Resources Board
Mr. David Azevedo, Manager, Accounting Section, California Air Resources Board