



Joint Legislative Audit Committee  
Office of the Auditor General



---

**FINANCIAL AUDIT REPORT  
STATE AIR RESOURCES BOARD  
YEAR ENDED JUNE 30, 1977**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the Department's system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT OF THE  
JOINT REVENUE SHARING TASK FORCE  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE  
AND THE  
DEPARTMENT OF FINANCE

827

FINANCIAL AUDIT REPORT  
STATE AIR RESOURCES BOARD  
YEAR ENDED JUNE 30, 1977



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

SENATORS  
ALBERT RODDA  
PAUL CARPENTER  
JOHN NEJEDLY  
ROBERT PRESLEY

ASSEMBLYMEN  
RICHARD ROBINSON  
DANIEL BOATWRIGHT  
LEROY GREENE  
BRUCE NESTANDE

□ STATE CAPITOL  
SACRAMENTO 95814  
(916) 323-1168

□ 925 L STREET  
SUITE 750  
SACRAMENTO 95814  
(916) 445-0255

RICHARD ROBINSON  
CHAIRMAN

March 23, 1979

827

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's financial audit report of State Air Resources Board, Year Ended June 30, 1977.

The auditors are Robert Hamric, CPA; William Woodward, CPA; Sandra Bevers and Thomas Dovi.

Sincerely,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. AUDITOR'S OPINION	2
III. FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET	3
GENERAL FUND	
STATE TRANSPORTATION FUND	
AIR POLLUTION CONTROL FUND	
AUTOMOTIVE REPAIR FUND	
CALIFORNIA ENVIRONMENTAL PROTECTION PROGRAM FUND	
GENERAL FIXED ASSETS	
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (OPERATING CLEARING)	
GENERAL FUND	4
STATE TRANSPORTATION FUND	5
AIR POLLUTION CONTROL FUND	6
AUTOMOTIVE REPAIR FUND	7
CALIFORNIA ENVIRONMENTAL PROTECTION PROGRAM FUND	8
IV. NOTES TO FINANCIAL STATEMENTS	9
V. COMMENTS AND RECOMMENDATIONS	16
VI. AUDIT ADJUSTMENTS	22
VII. RESPONSE TO THE JOINT REVENUE SHARING TASK FORCE'S REPORT	
STATE AIR RESOURCES BOARD	23

## INTRODUCTION

In compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the State Air Resources Board. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

The State Air Resources Board has primary responsibility for protecting air quality in California. This responsibility includes establishing ambient air quality standards for specific pollutants, evaluating standards adopted by the U. S. Environmental Protection Agency and developing and implementing the State Implementation Plan for the attainment and maintenance of these standards. The plan includes emission limitations established by the Board and air pollution control districts for vehicular and industrial sources.

The programs of the State Air Resources Board are supported by the General Fund and by reimbursements from the Motor Vehicle Account in the State Transportation Fund, the Air Pollution Control Fund, the Automotive Repair Fund and the California Environmental Protection Program Fund.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature  
and the Department of Finance:

We have examined the combined balance sheet of the State Air Resources Board as of June 30, 1977, and the related statements of revenues, expenditures and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group amounting to \$4,785,672 at June 30, 1977. Accordingly, we do not express an opinion on the General Fixed Assets account group.

In our opinion, except as stated in the preceding paragraph, these financial statements present fairly the financial position of the State Air Resources Board at June 30, 1977, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1977, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of revenues, expenditures and changes in operating clearing for the year ended June 30, 1976, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we also made a study and evaluation of the State Air Resources Board's system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Revenue Sharing Task Force



Wesley E. Voss  
Assistant Auditor General

Date: August 7, 1978

Staff: Robert Hamric, CPA  
William Woodward, CPA  
Sandra Bevers  
Thomas Dovi

STATE AIR RESOURCES BOARD  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1977  
 (With Unaudited Amounts for 1976)

ASSETS	Governmental Funds					Account Group			TOTAL (Memorandum Only) June 30, 1976	
	General Fund	State Transportation Fund	Air Pollution Control Fund	Automotive Repair Fund	California Environmental Protection Program Fund	Fixed Assets (Note 6)	General Long Term Debt	June 30, 1977		
								General Assets (Note 6)		General Long Term Debt
General Cash	\$ 474,912	-	\$302,033	\$ -	\$ -	\$ -	-	\$ 776,945	\$ 203,243	
Accounts Receivable	6,170,884	-	-	-	-	-	-	6,170,884	2,480,488	
Prepaid Expenses	201,430	-	-	-	-	-	-	201,430	17,018	
Land	-	-	-	-	-	182,640	-	182,640	182,639	
Equipment (Note 6)	-	-	-	-	-	4,126,173	-	4,126,173	4,111,131	
Amount to be Collected from Future Revenues (Note 3)	-	-	-	-	-	-	1,413,196	1,413,196	-	
<b>TOTAL ASSETS</b>	<b>\$ 6,847,226</b>	<b>\$ -</b>	<b>\$302,033</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,308,813</b>	<b>\$1,413,196</b>	<b>\$12,871,268</b>	<b>\$ 6,994,519</b>	
<b>LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>										
Liabilities:										
Accounts Payable (Note 2)	\$ 1,661,733	\$ 1,210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,662,943	\$ 555,194	
Due to Motor Vehicle Account in the State Transportation Fund (Note 3)	-	-	-	-	-	-	1,413,196	1,413,196	-	
<b>TOTAL LIABILITIES</b>	<b>1,661,733</b>	<b>1,210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,413,196</b>	<b>3,076,139</b>	<b>555,194</b>	
Encumbrances Outstanding (Note 4)	6,680,367	2,753,603	-	273,384	750,000	-	-	10,457,354	7,352,706	
Fund Equity:										
Investment in General Fixed Assets	-	-	-	-	-	4,308,813	-	4,308,813	4,293,771	
Reserve for Deferred Accounts Receivable	744	-	-	-	-	-	-	744	1,061	
Reserve for Uncleared Collections	479,561	-	-	-	-	-	-	479,561	10,874	
Operating Clearing (Note 5)	(1,975,179)	(2,754,813)	302,033	(273,384)	(750,000)	-	-	(5,753,376)	(5,297,767)	
Fund Balance	-	-	-	-	-	-	-	302,033	78,680	
<b>TOTAL FUND EQUITY</b>	<b>(1,494,874)</b>	<b>(2,754,813)</b>	<b>302,033</b>	<b>(273,384)</b>	<b>(750,000)</b>	<b>4,308,813</b>	<b>-</b>	<b>(662,225)</b>	<b>(913,381)</b>	
<b>TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>	<b>\$ 6,847,226</b>	<b>\$ -</b>	<b>\$302,033</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,308,813</b>	<b>\$1,413,196</b>	<b>\$12,871,268</b>	<b>\$ 6,994,519</b>	

The notes to the financial statements are an integral part of this statement.

STATE AIR RESOURCES BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977  
(With Unaudited Amounts for 1976)

	1977			1976
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues:				
Sale of Documents	\$ -	\$ 862	\$ 862	\$ 1,976
Services to Public	-	1,326	1,326	373
Sale of Fixed Assets	-	-	-	578
Total Revenues <sup>a/</sup>	-	2,188	2,188	2,927
Other Sources:				
Federal Grant for Air Pollution Control	1,459,216	1,605,275	145,059	1,358,734
Reimbursements	15,424,519	15,284,909	( 139,610)	12,749,511
Loan from State Transportation Fund (Note 3)	10,787,839	1,413,196	(9,374,643)	1,554,639
Appropriations	4,937,933	6,096,364	1,158,431	3,497,681
Refund to Reverted Appropriations	-	13,822	13,822	-
Refund to Prior Year Appropriations	-	79	79	11,532
Total Sources of Financial Resources	\$32,609,507	24,415,833	\$(8,193,674)	19,175,024
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$ 9,131,204	8,714,064	\$( 417,140)	7,009,297
General Expenses	450,548	534,192	83,644	426,436
Laboratory Supplies and Services	483,200	537,411	54,211	440,754
Printing	16,880	35,134	18,254	14,034
Communications	285,551	330,271	44,270	234,677
Training	64,330	44,670	( 19,660)	-
Travel-in-State	396,181	422,827	26,646	318,112
Travel-out-of-State	53,650	36,334	( 17,316)	50,937
Consultant Services	16,714,928	7,568,728	(9,146,200)	6,913,948
Facilities Operations	489,681	731,790	242,109	505,223
Equipment	1,104,054	1,096,116	( 7,938)	1,213,821
Consolidated Data Center	97,500	97,500	-	33,485
EDP Charges	-	-	-	72,782
Pro-Rata Interdepartmental Charges	55,000	52,061	( 2,939)	-
Environmental Protection Agency				
Pass-Through Funds	466,800	239,030	( 227,770)	117,036
Operation of Local Air Pollution				
Control Districts	2,800,000	2,799,746	( 254)	2,767,908
Prior Year:				
Prior Year Appropriation Adjustments	-	85,503	85,503	143,273
Total Uses of Financial Resources	\$32,609,507	23,325,377	\$(9,284,130)	20,261,723
Net Increase (Decrease) in Fund				
Balance During the Year		1,090,456		(1,086,699)
Operating Clearing - July 1		(3,065,635)		(1,978,936)
Operating Clearing - June 30		\$ (1,975,179)		\$ (3,065,635)

<sup>a/</sup> Revenues are not included in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.



STATE AIR RESOURCES BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
STATE TRANSPORTATION FUND-MOTOR VEHICLE ACCOUNT

FOR THE FISCAL YEAR ENDED JUNE 30, 1977  
(With Unaudited Amounts for 1976)

	<u>Budget As Adjusted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>1976 Actual</u>
<u>Sources of Financial Resources</u>				
Appropriations	<u>\$14,980,504</u>	<u>\$13,337,043</u>	<u>\$(1,643,461)</u>	<u>\$14,928,922</u>
Total Sources of Financial Resources	<u>\$14,980,504</u>	<u>13,337,043</u>	<u>\$(1,643,461)</u>	<u>14,928,922</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Vehicular Emission Program	\$11,529,308	11,529,308	\$ -	8,297,764
Loans to Vehicle Inspection Program	1,413,196	1,413,196	-	1,554,639
Assistance to Counties	2,038,000	2,014,931	(23,069)	5,039,923
Air Pollution Program	-	-	-	36,595
Prior Year:				
Prior Year Appropriation Adjustments	<u>-</u>	<u>(198,995)</u>	<u>(198,995)</u>	<u>(189,787)</u>
Total Uses of Financial Resources	<u>\$14,980,504</u>	<u>14,758,440</u>	<u>\$ (222,064)</u>	<u>14,739,134</u>
Net Increase (Decrease) in Operating Clearing During the Year		(1,421,397)		189,788
Operating Clearing - July 1		<u>(1,333,416)</u>		<u>(1,523,204)</u>
Operating Clearing - June 30		<u>\$(2,754,813)</u>		<u>\$(1,333,416)</u>

The notes to the financial statements are an integral part of this statement.

STATE AIR RESOURCES BOARD  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL  
 AIR POLLUTION CONTROL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977  
 (With Unaudited Amounts for 1976)

	1977		1976
	Budget As Adjusted	Actual	Actual
			Over (Under) Budget
<u>Sources of Financial Resources</u>			
Revenues from Miscellaneous Local Agencies	\$ -	\$223,020	\$ -
Income from Surplus Money Investment Fund	-	<u>333</u>	-
Total Sources of Financial Resources	<u>\$ -</u>	<u>223,353</u>	<u>\$ -</u>
Net Increase in Fund Balance During the Year	223,353		680
Fund Balance - July 1		<u>78,680</u>	<u>78,000</u>
Fund Balance - June 30		<u>\$302,033</u>	<u>\$78,680</u>

The notes to the financial statements are an integral part of this statement.

STATE AIR RESOURCES BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
AUTOMOTIVE REPAIR FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977  
(With Unaudited Amounts for 1976)

	<u>Budget As Adjusted</u>	<u>1977 Actual</u>	<u>Over (Under) Budget</u>	<u>1976 Actual</u>
<u>Sources of Financial Resources</u>				
Appropriations	\$ 1,093,535	\$ 870,151	\$(223,384)	\$ 985,000
Total Sources of Financial Resources	<u>\$ 1,093,535</u>	<u>870,151</u>	<u>\$(223,384)</u>	<u>985,000</u>
<u>Uses of Financial Resources</u>				
Reimburse Air Resources Board--General Fund - Vehicle Emission Tests	\$ 1,093,535	1,093,535	\$ -	1,035,000
Prior Year Appropriation Adjustment	<u>-</u>	<u>(48,714)</u>	<u>(48,714)</u>	<u>-</u>
Total Uses of Financial Resources	<u>\$ 1,093,535</u>	<u>1,044,821</u>	<u>\$ (48,714)</u>	<u>1,035,000</u>
Net Decrease in Operating Clearing During the Fiscal Year		(174,670)		(50,000)
Operating Clearing - July 1		<u>(98,714)</u>		<u>(48,714)</u>
Operating Clearing - June 30		<u>\$ (273,384)</u>		<u>\$ (98,714)</u>

The notes to the financial statements are an integral part of this statement.

STATE AIR RESOURCES BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
CALIFORNIA ENVIRONMENTAL PROTECTION PROGRAM FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977  
(With Unaudited Amounts for 1976)

	1977		1976
	Budget As Adjusted	Actual	Actual
		Over (Under) Budget	
<u>Sources of Financial Resources</u>			
Appropriation	\$1,950,000	\$2,000,000	\$2,000,000
Total Sources of Financial Resources	<u>\$1,950,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
<u>Uses of Financial Resources</u>			
Reimburse Air Resources Board--General Fund for Environmental Protection Program	\$1,950,000	1,950,000	2,800,000
Total Uses of Financial Resources	<u>\$1,950,000</u>	<u>1,950,000</u>	<u>2,800,000</u>
Net Increase (Decrease) in Operating Clearing During the Year		50,000	(800,000)
Operating Clearing - July 1		(800,000)	
Operating Clearing - June 30		<u>\$ (750,000)</u>	<u>\$ (800,000)</u>

The notes to the financial statements are an integral part of this statement.

STATE AIR RESOURCES BOARD  
ALL FUNDS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1977

1. Summary of Significant Accounting Policies

The accounting policies of the State Air Resources Board conform to generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The State Air Resources Board accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller and annual consolidated General Fund statements are published by that office.

Income:

Throughout the fiscal year, income is accounted on a cash basis, except for appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. An exception to this

procedure occurs when transfers of money to the Architecture Revolving Fund for capital outlay are recorded as expended at the time of transfer even though the actual expenditures from that fund may not occur until a later date. Valid expenditure commitments are accrued at June 30.

#### Air Pollution Control Fund

The Air Pollution Control Fund is a depository for (1) penalties paid by motor vehicle manufacturers or distributors who fail to comply with standards or test procedures established by the Board and (2) penalties for violations of abatement orders issued by any local air pollution control district. The penalty, all or a portion thereof, imposed for the violation of an abatement order is deposited into the Air Pollution Control Fund only if civil action is brought by the Attorney General.

#### Income:

Throughout the fiscal year, income is accounted on a cash basis, except for appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

Automotive Repair Fund and California Environmental Protection Program Fund

The Automotive Repair Fund and the California Environmental Protection Program Fund reimburse the General Fund for the State Air Resources Board's motor vehicle pollution projects.

Income:

The State Air Resources Board does not collect revenue for these funds.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis.

State Transportation Fund

The Motor Vehicle Account in the State Transportation Fund reimburses the General Fund for the Vehicle Emission Program, loans money to the Vehicle Inspection Program sponsored by the State Air Resources Board and provides assistance to air pollution control districts.

Income:

The State Air Resources Board does not collect revenue for this account.

### Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis.

### Liabilities

Retirement Plan: Regular employees of the State Air Resources Board are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year included in the expenditures-personal services account were \$912,994.

Vacation and Sick Leave: The Board does not record the costs of vacation and sick leave at the time the benefits are accumulated. At the time of usage, the expenditures-personal services account is charged.

### General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain nonexpendable equipment items not on the State Administrative Manual



equipment list, is capitalized in the General Fixed Assets account group. Nonexpendable equipment, generally valued at \$150 or over with a useful life of two years or more, is recorded at original cost or, if not available, at fair market value.

2. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

3. Due to Motor Vehicle Account in the State Transportation Fund

The Legislature appropriated monies as a loan from the Motor Vehicle Account in the State Transportation Fund for the establishment of air pollution control inspection stations by the Bureau of Automotive Repair, Department of Consumer Affairs pursuant to Chapter 1154, Statutes of 1973. This loan is repayable from fees collected for inspection of motor vehicles.

4. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

5. Operating Clearing

This account is the connecting link between the State Air Resources Board's portion of the General Fund, the State Transportation Fund, the Automotive Repair Fund and the California Environmental Protection Program Fund and the central accounts of the General Fund or other funds maintained by the State Controller. The account balances at June 30, 1977 represent the net liabilities of the General Fund, the State Transportation Fund, the Automotive Repair Fund and the California Environmental Protection Program Fund.

6. General Fixed Assets Account Group

The State Air Resources Board has not maintained an adequate record of its general fixed assets. Subsidiary records have not been updated since October 1976, and the aggregate amount disagrees with the general ledger equipment account by approximately \$1,310,228. A physical inventory will be required to reconcile the two amounts.

7. Operating Leases

The following is a yearly schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 1977:

Year ending June 30:	
1978	\$236,577
1979	<u>165,872</u>
Total Minimum Payments Required	<u>\$402,449</u>

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	<u>Year Ending June 30</u>	
	<u>1976</u>	<u>1977</u>
Minimum Rentals	<u>\$82,585</u>	<u>\$400,124</u>

## COMMENTS AND RECOMMENDATIONS

### Internal Accounting Control

As part of our examination, we made a study of the State Air Resources Board's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstood instructions, mistaken judgment, carelessness

or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgments required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the State Air Resources Board's system of internal accounting control for the year ended June 30, 1977. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions which we believe to be weaknesses.

Employees Who Handle Cash Are Not Required to Take Continuous Vacations

The State Air Resources Board does not require employees who handle cash to take full continuous annual vacations. It is a common practice to require persons performing cashiering duties to take regular vacations. This allows substitutes to take the place of employees during vacations. This

internal control practice is intended to reduce the possibility of misappropriation and, if such an event should occur, increases the likelihood of detection.

Recommendation: Employees who handle cash and other valuables take full continuous annual vacations and assign their duties to other employees.

#### Accounting Records Are Not Kept Current

The accounting records are not kept current as required by the State Administrative Manual (SAM) Section 7110. At the start of our audit in May 1978, the records were only posted through January 1978. The Equipment Account had not been updated since October 1976. This condition can result in errors going undetected for long periods.

Recommendation: The Board maintain its accounting records on a current basis in compliance with Section 7110 of the State Administrative Manual.

#### Collections Received by Mail Are Not Recorded Promptly

Collections received by mail may not be recorded for several days under current State Air Resources Board procedures. The employee who opens the mail does not record the collections but instead gives them to another employee who records them on the day they are deposited. Delays in the recording could result in collections getting lost without evidence of receipt.

Recommendation: The Board list mail collections at the time the mail is opened and endorse checks immediately.

Cash Receipts Are Recorded on Dates Different From the Dates of Actual Receipt

Tests of cash receipts disclosed instances where the date of posting the receipt in the cash receipt register was different from the date of actual receipt. Good internal control procedures call for the recording of cash receipts on the date of actual receipt as required by SAM Section 8093.

Recommendation: The Board record cash receipts on the date of actual receipt as required by SAM Section 8093.

Bank Deposits Are Not Made Within Required Time Limits

SAM Section 8030.1 requires deposits to be made within one business day when a certain amount of collections is accumulated. The State Air Resources Board has been depositing collections once a week, regardless of the amount of cash or checks received.

Recommendation: The Board make bank deposits within the time limits required by SAM Section 8030.1.

Funds Are Not Remitted to the State Treasury Monthly

SAM Section 8091 requires agencies to remit collections to the State Treasury at least once a month. Examination of the cash disbursements register revealed that remittances were made periodically but not as frequently as the required monthly remittance.

Recommendation: The Board remit money to the State Treasury as frequently as required by SAM Section 8091.

### Petty Cash Is Not Counted as Frequently as Required

The State Air Resources Board has five petty cash funds ranging in amounts from \$25 to \$500. Section 8111.2 of the State Administrative Manual requires petty cash funds of \$50 or less to be counted annually and petty cash funds over \$50 to be counted quarterly. None of the State Air Resources Board's funds has been counted as frequently as required.

Recommendation: The Board count petty cash funds as frequently as required by SAM Section 8111.2.

### Old Salary Advance Has Not Been Resolved

A salary advance made to a former student assistant over three years ago is still outstanding. Section 8790.55 of the State Administrative Manual allows an agency to file an offset claim with the Franchise Tax Board against separated employees. In addition, state agencies should notify the State Controller's Office as required by Section 8593.4 of the State Administrative Manual.

Recommendation: The Board file an offset claim with the Franchise Tax Board to recover the old salary advance and notify the State Controller's Office in accordance with SAM Sections 8790.55 and 8593.4.

### Separation of Duties Over Personnel Transactions Is Inadequate

Personnel clerks at the State Air Resources Board are responsible for certifying the payroll attendance reports, maintaining the employees' roster and signing reports of appointment and separation. Good internal control requires that these functions be separated.



Recommendation: The Personnel Unit separate the following functions:

- Certifying payroll attendance reports
- Maintaining employees' roster
- Signing reports of appointment and separation.

Controls Over Property Are Inadequate

The safeguarding of state owned property is the responsibility of all state agencies. Specific requirements have been established in the State Administrative Manual to assist agencies in the safeguarding of property. The State Air Resources Board failed to comply with two of these requirements.

Section 7923 of the State Administrative Manual requires agencies to reconcile equipment expenditures to the property ledger. These reconciliations are to be made at the end of each month, or each quarter if the volume of property transactions is small. The reconciliations have not been made since October 1975.

Section 8659 of the State Administrative Manual requires that a physical inspection and account of all nonexpendable property be made at least once every three years. Physical inspections under this section are to be controlled or supervised by someone other than the custodian of the property records. The Board has not completed a physical inspection since 1974.

Recommendation: The Board strengthen its control over property by performing the reconciliations and physical inspections mandated by Sections 7923 and 8659 of the State Administrative Manual.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this presentation of such conditions does not modify our opinion report on such financial statements.

#### AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the following accounts:

- Accounts Payable
- Encumbrances Outstanding.

The adjustments were necessary to correct the Board's accrual entries. The Board concurred with the suggested journal entries and accordingly adjusted the financial records to reflect those adjustments.

**AIR RESOURCES BOARD**

1102 Q STREET  
P.O. BOX 2815  
SACRAMENTO, CA 95812



(916) 322-8198

MAR 15 1979

Mr. Samuel E. Hull, Chief  
Joint Revenue Sharing Task Force  
1025 P Street  
Sacramento, CA 95814

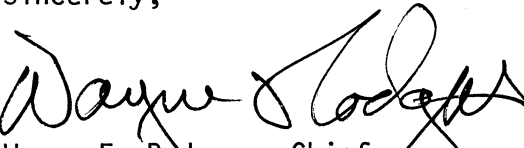
Dear Mr. Hull:

We have examined the findings and recommendations made by the Joint Revenue Sharing Task Force Audit Team pertaining to the Financial Audit of the Air Resources Board's records for the year ended June 30, 1977, and concur in the Auditor's opinion. Specific comments and recommendations contained in the report have been evaluated for cost effectiveness and applicability to the Air Resources Board's administrative operations and in those areas deemed appropriate we have incorporated the recommendations into our procedures.

Accounting records relating to general fixed assets have been updated and are now kept current. A physical inventory of all equipment has been performed and subsidiary property control records are currently being updated. Because of the magnitude of equipment items for which we must maintain records and basic inadequacies in an outmoded manual system, we are currently evaluating the feasibility and cost of converting to a computerized system. This will allow for compliance with the extensive mandated record keeping requirements within existing staff resources.

I would like to express our appreciation to the task force members for their professional and constructive approach during the conduct of the audit.

Sincerely,

  
Wayne E. Rodgers, Chief  
Administrative Services Division

Office of the Auditor General

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps