



Imperial County Air Pollution Control District

Performance Audit

Report No. 23-3900-022
May 2023

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Marilyn Standing Horse, CPA, Assistant Chief
Hanzhao Meng, CPA, Manager
David Jacob Shockey, CPA, Supervisor
Brian Dunham, Lead
Sydney Carrera
Ashley Monterrey
John Yang

Final reports are available on our website at <https://www.dof.ca.gov>.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



Gavin Newsom ■ Governor

915 L Street ■ Sacramento CA ■ 95814-3706 ■ www.dof.ca.gov

Transmitted via e-mail

May 18, 2023

Sydney Vergis, Division Chief
Mobile Source Control Division
California Air Resources Board
1001 I St
Sacramento, California 95814

Final Report—Imperial County Air Pollution Control District, Incentive Program Fiscal Compliance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance performance audit of the Imperial County Air Pollution Control District's (District) implementation of the California Air Resources Board's air pollution incentive programs.

The enclosed report is for your information and use. The District's response to the report findings is incorporated into this final report. The District agreed with our findings. We appreciate the District's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

If you have any questions regarding this report, please contact Hanzhao Meng, Manager, or David Shockey, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: On following page

cc: Lucina Negrete, Assistant Division Chief, Mobile Source Control Division, California Air Resources Board
Tess Sicat, Branch Chief, Mobile Source Control Division, California Air Resources Board
Lu Saephanh, Branch Chief, Contracts, Procurement, and Grants, Administrative Services Division, California Air Resources Board
Staci Bates, Audit Manager, Incentives Oversight Division, Mobile Source Control Division, California Air Resources Board
Deborah Paselk, Air Pollution Specialist, Mobile Source Control Division, California Air Resources Board
Belen Leon-Lopez, Air Pollution Control Officer, Imperial County Air Pollution Control District
Cassi Justice, Office Supervisor II, Imperial County Air Pollution Control District
Israel Hernandez, Project Manager, Imperial County Air Pollution Control District
Karina Alvarez, Auditor-Controller, Imperial County

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Imperial County Air Pollution Control District (District) is a public health agency committed to improving the health and quality of life for all district residents. The District receives grants for air pollution reduction incentive programs from the California Air Resources Board (CARB). CARB is charged with protecting the public from the harmful effects of air pollution and developing programs and actions to fight climate change. From requirements for clean cars and fuels to adopting innovative solutions to reduce greenhouse gas emissions, California has pioneered a range of effective approaches that have set the standard for effective air and climate programs for the nation and the world.¹

The District participates in three air pollution reduction incentive programs, as follows:

Carl Moyer Memorial Air Quality Standards Attainment Program (CMP)	CMP provides grant funding for cleaner-than-required engines, equipment, and other sources of air pollution. CMP is implemented as a partnership between CARB and California's 35 local air districts. CARB works collaboratively with the air districts and other stakeholders to set guidelines and ensure the program reduces pollution and provides cleaner air for Californians. ² CMP requires a 15-percent match of local funds.
Community Air Protection Incentives (CAP Incentives)	CAP Incentives provide funding through local air districts to put advanced technologies to work for cleaner air in the California communities that are most heavily impacted by disproportionate levels of air pollution. ³
Funding Agricultural Replacement Measures for Emission Reductions (FARMER)	FARMER provides funding through local air districts for agricultural harvesting equipment, heavy-duty trucks, agricultural pump engines, tractors, and other equipment used in agricultural operations. ⁴ FARMER is funded by multiple funding sources, including the Greenhouse Gas Reduction Fund (GGRF), Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF), and California Tire Recycling Management Fund (Tire Fund). ⁵

¹ Excerpt obtained from <https://ww2.arb.ca.gov/about>.

² Excerpt obtained from <https://ww2.arb.ca.gov/our-work/programs/carl-moyer-memorial-air-quality-standards-attainment-program>.

³ Excerpt obtained from <https://ww2.arb.ca.gov/our-work/programs/community-air-protection-incentives>.

⁴ Excerpt obtained from <https://ww2.arb.ca.gov/our-work/programs/farmer-program>.

⁵ Excerpt obtained from <https://ww2.arb.ca.gov/sites/default/files/2018-07/farmerguidelines-final.pdf>.

SCOPE

At the request of CARB, the California Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of the District's air pollution reduction incentive programs, as applicable for the following incentive programs and fiscal years:

Incentive Program	Fiscal Year							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CMP	✓	✓	✓	✓	✓	✓	✓	✓
CAP Incentives					✓	✓	✓	
FARMER					✓	✓	✓	

The audit scope included revenues and resulting balances from July 1, 2013 through June 30, 2021, and expenditures from July 1, 2013 through June 30, 2022. The audit objective was to determine whether the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes. The District's management is responsible for ensuring accurate financial reporting and compliance with applicable grant agreements, guidelines, and statutes.

METHODOLOGY

To plan the audit, we gained an understanding of the programs, and identified relevant criteria, by interviewing CARB and District personnel, and reviewing the executed grant agreements and amendments, funding plans, program guidelines, CARB website, and applicable statutes.

We conducted a risk assessment, including evaluating whether the District's key internal controls significant to our audit objective were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on the review and approval process for expenditures, expenditure and revenue reconciliation, interest revenue calculation and allocation, reimbursement request preparation, and processes for fund liquidation and reporting. Our assessment included conducting interviews with District personnel, and testing transactions related to expenditures, interest revenue, and reporting. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of data from the District's accounting system, OneSolution. To assess the reliability of revenue and expenditure reports generated by this system, we interviewed the District's staff and traced data elements to supporting documentation. We determined the data were sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. Our methods are detailed in the Table of Methodologies.

Table of Methodologies

Audit Objective: To determine whether the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes.							
<table border="1"> <thead> <tr> <th data-bbox="185 359 1421 394" style="text-align: center;">Methods</th></tr> </thead> <tbody> <tr> <td data-bbox="185 394 1421 604"> <ul style="list-style-type: none"> Selected 14 project expenditures from the three incentive programs across all funding fiscal years based on quantitative and qualitative factors, and determined if expenditures, including match-funded expenditures when applicable, were allowable, grant-related, authorized, supported, and incurred within the grant period by reviewing grant agreements, program progress reports, project contracts, District accounting records, vendor invoices, and checks, and comparing to relevant criteria. </td></tr> <tr> <td data-bbox="185 604 1421 793"> <ul style="list-style-type: none"> Reviewed all administrative expenditures reported for the three incentive programs across all funding fiscal years and determined if expenditures were properly supported and recorded, and incurred within the grant period by reviewing grant agreements, timesheets, accounting records, and program progress reports, and comparing to relevant criteria. </td></tr> <tr> <td data-bbox="185 793 1421 919"> <ul style="list-style-type: none"> Determined if match funding requirements were met by scheduling program expenditures, including match expenditures, and comparing to match requirements in relevant criteria. </td></tr> <tr> <td data-bbox="185 919 1421 1077"> <ul style="list-style-type: none"> Reviewed all interest revenue transactions from the three incentive programs across all funding fiscal years and determined if interest revenue was correctly determined and allocated to each program by reviewing the District's accounting records and annual/semi-annual program progress reports, and comparing to relevant criteria. </td></tr> <tr> <td data-bbox="185 1077 1421 1234"> <ul style="list-style-type: none"> Selected four annual/semi-annual program progress reports from the three incentive programs and determined whether the District reported required and accurate revenue and expenditure data to CARB by reviewing grant agreements, program guidelines, and accounting records, and comparing to relevant criteria. </td></tr> <tr> <td data-bbox="185 1234 1421 1394"> <ul style="list-style-type: none"> Selected nine liquidated grants from the three incentive programs and determined whether the District liquidated program funds before the liquidation deadlines by reviewing grant agreements, annual/semi-annual program progress reports, and accounting records, and comparing to relevant criteria. </td></tr> </tbody> </table>	Methods	<ul style="list-style-type: none"> Selected 14 project expenditures from the three incentive programs across all funding fiscal years based on quantitative and qualitative factors, and determined if expenditures, including match-funded expenditures when applicable, were allowable, grant-related, authorized, supported, and incurred within the grant period by reviewing grant agreements, program progress reports, project contracts, District accounting records, vendor invoices, and checks, and comparing to relevant criteria. 	<ul style="list-style-type: none"> Reviewed all administrative expenditures reported for the three incentive programs across all funding fiscal years and determined if expenditures were properly supported and recorded, and incurred within the grant period by reviewing grant agreements, timesheets, accounting records, and program progress reports, and comparing to relevant criteria. 	<ul style="list-style-type: none"> Determined if match funding requirements were met by scheduling program expenditures, including match expenditures, and comparing to match requirements in relevant criteria. 	<ul style="list-style-type: none"> Reviewed all interest revenue transactions from the three incentive programs across all funding fiscal years and determined if interest revenue was correctly determined and allocated to each program by reviewing the District's accounting records and annual/semi-annual program progress reports, and comparing to relevant criteria. 	<ul style="list-style-type: none"> Selected four annual/semi-annual program progress reports from the three incentive programs and determined whether the District reported required and accurate revenue and expenditure data to CARB by reviewing grant agreements, program guidelines, and accounting records, and comparing to relevant criteria. 	<ul style="list-style-type: none"> Selected nine liquidated grants from the three incentive programs and determined whether the District liquidated program funds before the liquidation deadlines by reviewing grant agreements, annual/semi-annual program progress reports, and accounting records, and comparing to relevant criteria.
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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes except as noted in the findings below. Revenues, expenditures, and resulting balances by program and fiscal year for CMP, CAP Incentives, and FARMER, are detailed in Appendix A.

Finding 1: Administrative Expenditures Are Not Supported

Administrative expenditures associated with CMP, CAP Incentives, and FARMER programs between fiscal years 2013-14 and 2020-21 were not supported, totaling \$2.5 million. The District did not maintain documentation to support administrative expenditures related to the CMP and CAP Incentives programs. Although the District provided documentation to support administrative expenditures related to the FARMER program, the information provided was based on unsupported estimates and the District did not track the actual time staff spent on the FARMER program activities.

Of the \$2.5 million unsupported administrative expenditures, \$342,113 have passed the liquidation deadlines and should be remitted to CARB. The remaining \$2.2 million are still within the open grant liquidation periods and can be used to fund other eligible grant expenditures. Table 1 details the unsupported administrative expenditures among the three programs.

Table 1: Unsupported Administrative Expenditures

Program	Total Unsupported Administrative Expenditures	Amounts Within Open Grant Liquidation Periods	Amounts Passed Liquidation Deadlines
CMP	\$ 362,806	\$ 168,968	\$ 193,838
CAP Incentives	1,781,790	1,781,790	0
FARMER	362,035	213,760	148,275
Total	\$ 2,506,631	\$ 2,164,518	\$ 342,113

The District does not have policies, procedures, or processes to track and document administrative expenditures for each program. Without sufficient documentation, the District cannot ensure all administrative funds are expended in accordance with applicable grant agreements, guidelines, and statutes.

Health and Safety Code section 44299.2 subdivision (c) states that CMP funds not liquidated by June 30 of the fourth year following the year of allocation shall be returned to CARB. The 2019 CAP Incentives Program Guidelines chapter 3, section K and the 2018 FARMER Program Guidelines section 5.1 also require unliquidated funds to be submitted back to CARB after the liquidation deadline.⁶

⁶ CARB approved amendments to the grant agreements of all three incentive programs to extend the liquidation deadlines due to the COVID-19 pandemic.

In addition, the 2017 CMP Program Guidelines chapter 3, section J, the 2019 CAP Incentives Program Guidelines chapter 3, section E, and the 2018 FARMER Program Guidelines section 4 require the air districts to keep records of project implementation costs and make them available for review during CARB or other state agency monitoring visits, reviews, and audits.

Recommendations:

- A. Remit to CARB \$342,113 unsupported administrative expenditures that have passed the liquidation deadlines.
- B. Coordinate with CARB to determine the redirection and/or remittance of the \$2.2 million unsupported administrative expenditures prior to the respective grant liquidation deadlines.
- C. Develop and implement policies, procedures, and processes to ensure administrative expenditures are supported by documentation and actual staff time spent on activities at the program level.

Finding 2: Interest Revenues Reporting Needs Improvement

The District's reported interest revenues in the annual program reports were not always accurate and supported for the CMP and CAP Incentive programs. Specifically:

- The District underreported interest revenues for the CMP program totaling \$2,206 due to transposition errors, which included \$735 in 2013-14 and \$1,471 in 2017-18. The District does not have policies and procedures to ensure interest revenues were verified and reviewed before including them in the annual program reports. The unspent interest revenue of \$2,206 should be remitted to CARB as the associated fiscal years have passed the grant liquidation deadlines.
- The District could not substantiate \$42,281 in interest revenues reported in the annual program reports for the CAP Incentive program. The unsubstantiated interest revenue included \$1,181 for 2017-18, \$5,161 for 2018-19, and \$35,939 for 2019-20. While the District could have established new bank accounts after grant funds were received, the District did not have policies and procedures to reinforce the account establishment and did not set up the bank account until five years after the grant funds were first received. As a result, the District could not determine and track the amount of interest earned on the grant funds and could not explain and support how the reported interest amounts were determined. The District has until June 30, 2023, 2024, and 2025, respectively, to verify the interest revenue amounts and determine whether any amounts need to be redirected or remitted to CARB, as the associated fiscal years are still within the open grant liquidation periods.

Without policies and procedures that require verifying and reviewing the interest revenue amounts before including them in the annual program reports and timely deposit of grant funds into separate bank accounts, the District cannot ensure interest revenues are correctly tracked, reported, and liquidated within the grant liquidation periods.

The 2017 CMP Program Guidelines chapter 3, section M requires the air districts to certify the project and fiscal information contained in the annual reports are accurate and complete, and to maintain documents in support of the report.

The 2019 CAP Incentives Program Guidelines chapter 3, section F requires the air districts to account for CAP Incentives as separate funds and maintain accounting records that track interest earned separately from other incentive fund programs.

Recommendations:

- A. Remit to CARB \$2,206 in CMP program interest revenues not liquidated before the liquidation deadlines.
- B. Coordinate with CARB to determine the redirection and/or remittance of the \$42,281 unsupported CAP Incentive program interest revenues prior to the respective grant liquidation deadlines.
- C. Develop and implement policies and procedures to ensure separate bank accounts are established upon receipt of grant funds, and interest revenues are separately tracked, accurately determined, reviewed, supported, and accurately reported in the annual program reports.

Schedule 1: CMP Summary

Moyer Year	Fiscal Year	Total Revenue	Total Expenditures (Excluding Match)	Resulting Balance ⁷
16	2013-14	\$ 319,880	\$ 287,326	\$ 32,554
17	2014-15	326,273	293,801	32,472
18	2015-16	331,180	289,930	41,250
19	2016-17	352,127	308,658	43,469
20	2017-18	364,006	317,707	46,299
20 State Reserve ⁸	2017-18	61,909	61,909	0
21	2018-19	382,870	335,667	47,203
21 State Reserve ⁷	2018-19	71,681	0	71,681
22	2019-20	423,056	370,632	52,424
23	2020-21	407,167	95,041	312,126
23 State Reserve ⁷	2020-21	78,220	0	78,220

Schedule 2: CMP Revenue

Moyer Year	Fiscal Year	Program Funds	Administrative Funds	Interest Revenue	Total Revenue
16	2013-14	\$ 286,372	\$ 31,819	\$ 1,689	\$ 319,880
17	2014-15	292,251	32,472	1,550	326,273
18	2015-16	288,749	41,250	1,181	331,180
19	2016-17	304,285	43,469	4,373	352,127
20	2017-18	313,799	44,828	5,379	364,006
20 State Reserve	2017-18	61,909	0 ⁹	0	61,909
21	2018-19	330,419	47,203	5,248	382,870
21 State Reserve	2018-19	62,721	8,960	0	71,681
22	2019-20	366,964	52,424	3,668	423,056
23	2020-21	354,219	50,603	2,345	407,167
23 State Reserve	2020-21	68,442	9,778	0	78,220

⁷ Per Health and Safety Code section 44287, subdivision (j), funds not liquidated by the District by June 30 of the fourth calendar year following the date of the reservation shall be returned to CARB. Resulting balances were not yet required to be expended as of the end of the audit period, June 30, 2022, for Moyer Years 21, 22, and 23.

⁸ State Reserve funds are a portion of the CMP funds set aside to provide monetary grants focusing on a specific project type(s).

⁹ The awarded \$7,739 administrative funds were used for program expenditures, which is allowed by CARB.

Schedule 3: CMP Expenditures

Moyer Year	Fiscal Year	Program Expenditures	Administrative Expenditures ¹⁰	Interest Expenditures	Total Expenditures (Excluding Match)	Match Expenditures	Total Expenditures
16	2013-14	\$ 286,372	\$ 0	\$ 954	\$ 287,326	\$ 47,740	\$ 335,066
17	2014-15	292,251	0	1,550	293,801	48,708	342,509
18	2015-16	288,749	0	1,181	289,930	49,500	339,430
19	2016-17	304,285	0	4,373	308,658	52,163	360,821
20	2017-18	313,799	0	3,908	317,707	53,794	371,501
20 State Reserve	2017-18	61,909	0	0	61,909	0	61,909
21	2018-19	330,419	0	5,248	335,667	56,643	392,310
21 State Reserve	2018-19	0	0	0	0	0	0
22	2019-20	366,964	0	3,668	370,632	62,908	433,540
23	2020-21	92,696	0	2,345	95,041	60,723	155,764
23 State Reserve	2020-21	0	0	0	0	0	0

Schedule 4: CAP Incentives Summary

Grant Number	Fiscal Year	Total Revenue	Total Expenditures	Resulting Balance ¹¹
G17-MCAP-16	2017-18	\$ 501,181	\$ 470,217	\$ 30,964
G18-MCAP-02	2018-19	7,965,161	503,601	7,461,560
G19-MCAP-04	2019-20	6,080,208	0	6,080,208

Schedule 5: CAP Incentives Revenue

Grant Number	Fiscal Year	Program Funds	Administrative Funds	Interest Revenue ¹²	Total Revenue
G17-MCAP-16	2017-18	\$ 468,750	\$ 31,250	\$ 1,181	\$ 501,181
G18-MCAP-02	2018-19	6,965,000	995,000	5,161	7,965,161
G19-MCAP-04	2019-20	5,288,729	755,540	35,939	6,080,208

¹⁰ Administrative expenditures were unsupported and were not included in the audited expenditure amounts.

¹¹ The District has until June 30, 2023, 2024, and 2025 to expend or remit resulting balances to CARB for 2017-18, 2018-19, and 2019-20, respectively.

¹² Although reported in the annual program reports, the District could not substantiate how the interest revenues were determined for the CAP Incentive program.

Schedule 6: CAP Incentives Expenditures

Grant Number	Fiscal Year	Program Expenditures	Administrative Expenditures ¹³	Interest Expenditures	Total Expenditures
G17-MCAP-16	2017-18	\$ 469,036	\$ 0	\$ 1,181	\$ 470,217
G18-MCAP-02	2018-19	498,440	0	5,161	503,601
G19-MCAP-04	2019-20	0	0	0	0

Schedule 7: FARMER Summary

Grant Number	Fiscal Year	Funding Source	Total Revenue	Total Expenditures	Resulting Balance ¹⁴
G17-AGIP-08	2017-18	AQIF	\$ 1,191,979	\$ 1,043,704	\$ 148,275
G18-AGIP-09	2018-19	Tire Fund	1,150,615	1,007,420	143,195
G19-AGIP-05	2019-20	GGRF	488,010	417,445	70,565

Schedule 8: FARMER Revenue

Grant Number	Fiscal Year	Funding Source	Program Funds	Administrative Funds	Interest Revenue	Total Revenue
G17-AGIP-08	2017-18	AQIF	\$ 1,037,925	\$ 148,275	\$ 5,779	\$ 1,191,979
G18-AGIP-09	2018-19	Tire Fund	1,002,363	143,195	5,057	1,150,615
G19-AGIP-05	2019-20	GGRF	410,947	70,565	6,498	488,010

Schedule 9: FARMER Expenditures

Grant Number	Fiscal Year	Funding Source	Program Expenditures	Administrative Expenditures ¹⁵	Interest Expenditures	Total Expenditures
G17-AGIP-08	2017-18	AQIF	\$ 1,037,925	\$ 0	\$ 5,779	\$ 1,043,704
G18-AGIP-09	2018-19	Tire Fund	1,002,363	0	5,057	1,007,420
G19-AGIP-05	2019-20	GGRF	410,947	0	6,498	417,445

¹³ Administrative expenditures were unsupported and were not included in the audited expenditure amounts.

¹⁴ The District has until June 30, 2023 and 2024 to expend or remit the resulting balances to CARB for 2018-19 and 2019-20, respectively.

¹⁵ Administrative expenditures were unsupported and were not included in the audited expenditure amounts.

AIR POLLUTION CONTROL DISTRICT



May 4, 2023

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA95814

Subject: Response to Imperial County Air Pollution Control District Incentive Program
Fiscal Compliance

Dear Department of Finance,

This letter is in response to the California Department of Finance (DOF) Incentive Program Fiscal Compliance audit findings, Report No. 23-3900-022. The Imperial County Air Pollution Control District (District) reviewed your findings and verified to ensure accuracy.

In line with this, the District would like to inform you that the management team is looking into any discrepancies documented in the report and will take all steps necessary to address the following findings:

1. Implement Policies and procedures for bank accounts and interest revenues;
2. Track actual time staff spent on activities; and
3. Discuss findings with CARB to determine next steps.

The District would like to thank the DOF staff that was assigned to us with regard to the courtesy and professionalism exhibited during the audit.

Sincerely,

Original signed by:

Belen Leon-Lopez
Imperial County APCO