

Bay Area Air Quality Air District

Performance Audit of Engineering Division



December 2023



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RESULTS

The Engineering Division (Division) of the Bay Area Air Quality Management District (Air District) has been challenged in recent years with an increasingly complex workload, staffing shortages and the loss of institutional knowledge, and a lack of critical management and performance data from its permitting systems. These conditions combined have led to slower permit processing, increased backlogs, and a lack of clarity regarding what can be done to fix the problem. **Our review of the Division's activities identified four areas where improvements are necessary to ensure the Division is operating in an efficient manner and can fulfill core responsibilities and meet workload demands.**

BACKGROUND AND PURPOSE

In April 2023, the Air District's Board of Directors (Board) directed Sjoberg Evashenk Consulting to conduct an independent performance audit of the Air District's Engineering Division to assess the efficiency of its operations, performance metrics, workload and resource trends, and the time spent on non-core activities.

As a regulatory agency, a core purpose of the Air District is to identify sources of air pollution and require the owners of such sources to adhere to strict regulatory requirements. The Air District does this by requiring owners to obtain permits in order to operate sources of pollution, and to pay fees necessary to fund the Air District's regulatory activities. In Fiscal Year 2023, the Air District regulated approximately 10,000 facilities with about 26,000 devices.

KEY FINDINGS

- Permit applications were not always processed in a timely manner. While the number of new permit applications remained stable between Fiscal Years 2013 and 2022, fewer applications were being processed each year, leading to an increasing number of permit applications rolling over from one year to the next. During this period, the percent of New Source Review permits that were not processed timely increased from 13% to 25%. This contributed to a backlog of 632 applications as of 2023.
- Existing Air District information systems do not provide management with the information necessary to assess the effectiveness or efficiency of permitting processes. The Division does not have adequate measures in place to record and monitor performance indicators. It does not fully track time spent by exempt employees on permitting and non-core activities; track progress by each step of the permitting process; and cannot easily track and report late payments or delinquent accounts.
- **Several factors impact the Division's ability to meet workload demands.** Permits have become more complex since the adoption of AB 617, Rule 12-15, Rule 11-18, and the amendment of Rules 2-1 and 2-5. At the same time, staff resources have not kept pace. Employee attrition and recruiting challenges result in persistent vacancies and the loss of institutional knowledge, and an increasing percentage of remaining staff time is dedicated to non-permitting activities. Specifically, time spent on non-core duties doubled, from 6% to 13%, between 2018 and 2022. Finally, procedures for prioritizing and assigning work to staff were outdated.
- While the Air District has improved its cost recovery from 82 in Fiscal Year 2016 to 86 percent in Fiscal Year 2022, it has yet to achieve its goal to recover 100 percent of its costs, a goal that was established in Air District policy in 2012.

KEY RECOMMENDATIONS

- Develop a plan to address the permit backlog and update procedures for prioritizing and assigning workload.
- Work with the My Air Online team to (a) ensure necessary permitting and accounts receivable information is tracked; (b) develop standardized reports for management; and (c) identify and correct erroneous information.
- Once necessary information is tracked, management should (a) identify staffing resource needs; (b) review permit processes; and (c) refer delinquent accounts to the Compliance and Enforcement Division.

Introduction and Background

Established by the California Legislature in 1955 as the first regional air pollution control agency in the country, the Bay Area Air Quality Management District (Air District) is a public agency responsible for regulating the stationary sources of air pollution in the Bay Area counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, and parts of Solano and Sonoma counties. These nine counties form a regional air basin, sharing common geographical features and weather patterns, leading to similar pollution concerns. The Air District was created with the recognition that air emissions transcend political boundaries and that each county acting independently would not be as effective as a concerted regional approach to addressing air pollution concerns.

The Air District is governed by a 24-member Board of Directors (Board), comprised of locally elected officials from each of the nine Bay Area counties. The Board is responsible for adopting regulations for the control of air pollution in the regions represented by the Air District, overseeing Air District policies, and authorizing the number of personnel employed by the Executive Officer / Air Pollution Control Officer (APCO) and the assignment of staff.

The mission of the Air District is to “create a healthy breathing environment for every Bay Area resident while protecting and improving public health, air quality, and the global climate.” Consistent with this mission, the Air District has been focused on:

- Addressing community health issues through a multitude of programs and initiatives such as Community Air Risk Evaluation Program, California Assembly Bill (AB) 617, the Facility Risk Reduction Program, and conducting health risk assessments;
- Mitigating air pollution with air quality monitoring, implementation of the Spare the Air program, development of rules and regulations, and permitting and enforcement efforts; and,
- Reducing climate change by issuing grants to implement zero emissions technologies for mobile equipment, regulation of greenhouse gas emitting appliances, and assisting in the development of solar master plans intended for school districts around the Bay Area.

Towards this end, the Air District regulates the release of pollutants from stationary sources, issues permits to certain businesses that emit pollutants, monitors and predicts pollution levels, plans emission control strategies, encourages pollution reduction through incentives, and educates the public about air pollution. In Fiscal Year 2023, the Air District regulated approximately 10,000 facilities with about 26,000 devices and in the same year the Air District processed 900 new permits and more than 10,000 permit renewals. In Fiscal Year 2024, the Air District adopted a total budget of \$266.7 million—with the primary sources of funding coming from permit and other fees and penalties, local taxes, and state and federal grants. As a regulatory agency, a core purpose of the Air District is to identify sources of air pollution and require the owners of such sources to adhere to strict regulatory requirements. The Air District does this by requiring owners to obtain permits in order to operate sources of pollution, and to pay fees necessary to fund the Air District's regulatory activities for stationary sources.

Organizational Structure

The Engineering Division (Division) is responsible for reviewing permit applications for compliance with regulatory requirements; issuing air quality permits for various emissions-producing equipment in the Bay Area, when facilities and sources of pollution comply with state and local requirements; administering permit renewals; and notifying facility owners of permit fees due. The actual processing of permit fee payments **is performed by the Air District's Finance Department**. The Division is broken into five sections that perform a variety of activities, such as permit processing, conducting outreach and public hearings, responding to public records requests, emissions calculations, etc. Exhibit 1 illustrates the reporting structure of the Division.

EXHIBIT 1. DIVISION ORGANIZATIONAL STRUCTURE



Source: Auditor Generated Organizational Chart based on Air District Reporting Structure

The following five programs are overseen by the Division and staff from each of the five sections may work on one or more of these five programs:

- **Permit Evaluation Program:** This program evaluates and processes all non-Title V permit applications and renewals, including applications for (1) new/modified sources subject to Air District New Source Review (NSR) requirements, (2) emissions banking, (3) Interchangeable Emission Reduction Credits, and (4) Prevention of Significant Deterioration & Acid Rain permits. As part of these responsibilities, staff calculate emissions, evaluate compliance with regulatory requirements, and establish enforceable permit conditions. In addition, staff complete California Environmental Quality Act (CEQA) reviews; provide technical support to all divisions within the Air District; assist other agencies, industry, and the public; participate in cross-agency committees; and support the implementation of rules.
- **Air Toxic Program:** This program develops and implements strategies that integrate Federal, State, and local requirements for effective air toxics control measures. It encompasses activities such as reviewing new sources of air toxics, reducing risks associated with existing facilities (Regulation 11, Rule 18), implementing control measures for air toxics, and operating

the Air Toxics "Hot Spots" Program pursuant to Assembly Bill (AB) 2588. Moreover, the program supports Community Health Protection initiatives that aim to address air quality disparities in overburdened communities. Program staff provide guidance on calculating and controlling toxic emissions, manage the toxic emission inventory, assist with incident and compliance evaluations, conduct health risk assessments (HRAs) for stationary sources, and approve risk reduction plans for existing facilities.

- **Permit Operations Program:** This program is responsible for developing and managing systems to collect, update, and maintain data from permitted air pollution sources. This includes various data such as source locations, operational details, emission factors, emissions inventory, and tracking for "no net increase." The program involves activities like coordinating permit-related tasks, ensuring data accuracy, providing administrative support, and maintaining website content. Additionally, staff manage the **Division's** databases, oversee data quality, and provide customer support for permitted facilities.
- **Title V Program:** Title V of the Federal Clean Air Act (CAA) mandates the Air District to issue enforceable permits to major facilities. This program aims to boost CAA compliance through permits that explicitly cover all Federal, State, and Air District requirements for air pollution sources. For example, this program is responsible for evaluating and processing Title V applications, conducting outreach and public hearings, providing training to Air District staff, tracking Environmental Protection Agency (EPA) rulemaking, implementing streamlining measures for timely application issuance, and collaborating with the EPA for program evaluation.
- **Engineering Special Projects Program:** This program focuses on establishing an infrastructure for consistent and efficient permit evaluation and processing within the Division. This involves developing rules, policies, procedures, training, and tools to enhance the quality of permit services. The program aims to reduce the time and effort required for evaluating and issuing permits while improving overall service quality. It also includes projects related to public noticing, public records fulfillment, and AB 617 activities, such as Criteria Air Pollutants and Toxic Air Contaminants Reporting. The program manages Air District permit rules, updates permitting tools, reviews emissions inventory, coordinates public noticing, processes public records requests, and develops and implements AB 617 initiatives, including rule development and technology clearinghouse development.

Standard Permit Application Process Overview

The Division is responsible for evaluating permit applications, issuing new permits, and renewing existing permits for emission-related equipment in both large and small facilities. There are five core steps to the permitting process, including application submission, completeness determination, permit evaluation, special circumstances, and final decision. Throughout the application process, applicants can check the status of their **permit application on the Air District's website**. A high-level overview of the permitting process is illustrated in Exhibit 2 for standard applications. Less common application types such as Major

Facility Review (Title V), emissions banking, registration and permit exemptions have different requirements and workflow.

EXHIBIT 2. AIR DISTRICT PERMIT PROCESS OVERVIEW



Source: Auditor generated from permitting process flowchart illustrated in the Permit Handbook.

Below we provide an overview of each step and general timelines for standard applications.

1. **Application Submission:** Applicants must submit a permit application to the Air District and pay the required fees to obtain a permit from the Air District. Once an application is received, Division management assigns the application to staff based on the facility and source type. In addition, if an application has a Title V component, that portion of the application is separated out and depending upon application type may be assigned to the facility permit engineer or staff dedicated to Title V reviews for processing. All Title V permits are also logged and tracked by the Title V team.
2. **Completeness Determination:** The Division has 30 days to review the application package to determine whether all required forms and information was provided, the application is complete, and required fees have been paid. For permit applications that require a public comment period, the completeness review period is 60 days. If the Air District finds that these requirements have not been met, the Air District must provide the applicant with a written notification of the completeness status of the application submitted. Prior to July 1, 2022, the Air District had 15 business days to complete this review and provide the applicant with written notification. Upon notification from the Air District, the applicant has 90 days to provide the required information and

pay application fees. If the applicant fails to provide the required information and pay application fees, the Air District has the authority to cancel the application.

3. Permit Evaluation: During this phase, Division staff evaluate the permit application. This includes preparing an evaluation report documenting the relevant background information and completing emission calculations, requirements, conditions, special determinations, and analyses. Application permit evaluation and final determination deadlines vary by application type and timelines may be extended if certain criteria are met. Further, the steps undertaken during the permit evaluation process vary between permit applications and may include one or more of the following interim steps, if triggered: best available control technologies, health risk assessments, offsets, prevention of significant deterioration, new source performance standards, national emissions standard for hazardous air pollutants, and permit conditions.
4. Special Circumstances: Depending on the permit application, the permit application may require the Air District to complete a CEQA review, obtain EPA approval, and/or obtain public comments prior to the Air District issuing the applicant a permit.
 - CEQA Review – If triggered, the Division must verify that the requirements of CEQA have been satisfied prior to issuance of an approval to construct or operate. The CEQA document must include a preliminary environmental study describing the proposed project, potential environmental impacts, alternative options, and mitigation measures. CEQA requires preparation of an Initial Study, Notice of Preparation of a Draft Environmental Impact Report, Draft/Final Environmental Impact Report or a Negative Declaration. Typically, the Lead Agency is the local city or county government, but if no Lead Agency exists, the Air District must take on the role and prepare or oversee a consultant to prepare the CEQA analysis. The Division reviews the completed and certified CEQA documents to ensure it adequately includes the project in the permit application.
 - EPA Review – If triggered, the Division must submit copies of the initial application, renewal application, or minor revisions to a Title V permit to the EPA for a 45-day review period. If the EPA objects to any portion of the permit, the Air District must address those comments within 90 days. If there are no objections, the Air District issues minor permit revisions within 15 days of the end of the review period or 90 days from the date of submission, whichever is later. The 18-month timeline for the Air District to take final action on initial applications, renewals, and significant revisions of the Title V permits includes the public comment period and the EPA review period.
 - Public Comments – If triggered, the Air District distributes the public notice, opens a public 30-day comment period, and responds to the comments.
5. Final Permit Decision: Unless certain additional requirements are triggered, the Air District generally has 35 working days from the date the application was deemed to be complete to make a final denial or approval decision. After July 1, 2022, the Air District generally has 90 days from the date the application was deemed to be complete to make a final denial or approval and 180

days if the application requires a public notice and comment period and/or the application involves a Title V facility. If an Authority to Construct (AC) is issued, the permittee must notify the Air District of startup and satisfy any initial requirements (startup conditions) before the Permit to Operate (PO) is issued.

General Permit Renewal Process

Air District permits, including AC, PO, Certificates of Registration (Registrations), and Title V permits, require timely renewal or action before expiration. While most permits are renewed annually, Title V permits are renewed every five years. During the renewal process for facilities with a PO, the Air District may collect annual operating data which is used for fee calculation, verify compliance with regulations and permit conditions, maintain the emissions inventory, and ensure compliance with the **Air Toxics “Hot Spots” Information and Assessment Act (AB 2588)**. For all renewals, the Air District sends an invoice to the designated facility contact detailing the amount owed to renew the permit. Facilities must pay the invoiced amount by the due date listed on their invoice to remain in active status. The renewal process is generally automated unless changes or updates are necessary. For Title V renewals, the facility must submit a Title V renewal application.

Permitting Regulations and Guidance

The Air District adopted several rules within Regulation 2 related to permit processing that outline the requirements for issuing an AC or PO. Specifically, Air District Regulation 2, Rule 1 (Rule 2-1) outlines the permit criteria for sources of air pollution. Generally, any equipment or operation emitting pollutants or controlling emissions into the air needs an Air District Permit to Operate, unless exempted by Air District Regulations or specific sections of Rule 1. Regulation 2, Rule 2 (Rule 2-2) and Rule 5 (Rule 2-5) cover the requirements for New Source Review applications, including toxic sources. Requirements specific to Major Facility applications are found in Regulation 2, Rule 6 (Rule 2-6). Updates to Rule 2-1 and Rule 2-5 were approved by the Board on December 15, 2021, and became effective July 1, 2022. Regulation 3 indicates the fees required to obtain permits, register equipment, and access other Air District Services.

In addition, to help guide the permit application process, the Air District developed several permitting manuals, guides, and trainings that are available on the Air District website, including:

- **Permit Handbook:** The handbook outlines the standards and measurements used by the Air District to evaluate permit applications, information and forms applicants are required to submit to the Air District, processing timelines, and an overview of the permitting process.
- **Engineering Division Policy and Procedure Manual:** This manual provides a guide to the policy, procedural, and documentation requirements of the majority of the Air District's **permitting activities**. This manual provides clarification and instructions on the permit evaluation process.
- **Best Available Control Technology and Best Available Control Technology for Toxics Workbook:** This workbook provides guidance and requirements for commonly permitted sources subject to NSR.

- Refinery Emissions Inventory Guidelines: The guidelines provide standardized methods and instructions for calculating emissions from petroleum refineries. These guidelines are based on **emission estimates from the U.S. EPA's Emission Estimation Protocol for Petroleum Refineries.**
- NSR Handbook and Training: The Air District provides a training presentation and handbook to help applicants learn about important changes to NSR permitting rules that came into effect on August 31, 2016. The training focuses on the more complex permitting issues that arise at major facilities, such as power plants, petroleum refineries, chemical plants, factories, and other large industrial facilities.

These requirements **provide the framework for the Air District's efforts to** reduce sources of pollution, improve ambient air quality, and reduce greenhouse gas emissions.

Scope and Methodology

In April 2023, **the Air District's Board of Directors** directed Sjoberg Evashenk Consulting to conduct an independent performance audit of the **Air District's Engineering Division**. Specifically, we were asked to evaluate:

1. **Efficiency of the Division's core and non-core** business operations, including regulatory and Air District requirements, permitting activities and process workflows.
2. Key performance metrics, including mandated requirements, timeliness of permit processing, workload indicators, and other measures.
3. Workload and resource trends and contributing factors (staffing, information technology).
4. The extent to which the Division dedicates resources to non-core functions—accounts receivable, Public Records Act requests, rulemaking support services, response to Board inquiries—and whether non-core functions can be reduced or reassigned to divisions that may be more suitable in the long term.

To meet the audit's objectives, SEC performed the following audit steps:

- Interviewed Air District management and staff in the Engineering Division, Finance Division, My Air Online, and Legal Office to gain an understanding of roles and responsibilities, applicable rules and regulations, resource management, workload management, permit processes, core and non-core activities, fee setting procedures, systems and tools used, and processes in place to manage and prioritize workload.
- Assessed strategies and plans used by the Air District when tasking the Engineering Division to implement new rules, legislation, initiatives, and projects, such as Regulation 12, Rule 15 (12-15), Regulation 11, Rule 18 (11-18), and AB 617, as well as to manage existing work growing increasingly complex.
- Conducted New Production System and process walk-throughs to gain an understanding of permit processes and tools and reports used by management and staff to track permit applications and ensure compliance with applicable laws, regulations, and rules. From these process walk-throughs mapped out permit processes.
- Requested and reviewed universes of active permit applications and completed permit applications as of May 30, 2023, generated from both the New Production System and Databank. Performed trend analysis to identify backlogs, annual workload, and other performance metrics.
- Requested and reviewed a universe of permit application fee payments from JD Edwards as of October 30, 2023, and the New Production System as of November 6, 2023, to assess and conduct revenue trend analysis and assess the timeliness of permit fee payments.
- Selected a sample of 22 permit applications from a universe of permits provided by the Air District as of May 31, 2023, to examine the permit application process and determine whether the

applications were processed in accordance with policies and procedures, applicable laws, regulations and rules, and good business/internal control practices.

- Reviewed current and historical methodologies used to set fees to identify, justify, and ensure costs are appropriate and sufficiently cover the Air District's costs to provide services.
- Evaluated how systems, including Databank and the New Production System, are used to carry out key responsibilities and assessed whether data collected, and used by management and the Board, was sufficient to assess the efficiency of permitting processes and identify bottlenecks in the process.

Audit fieldwork was performed between May and November 2023. On December 8, 2023, a draft of this report was provided to management for review and discussion, and input was provided by management prior to finalizing the report. Air District management generally agreed with the conclusions presented in this report, and responses and feedback provided by management were considered and incorporated **where applicable in the final report. Management's response to the audit recommendations is presented** in Appendix A of this report.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Findings and Recommendations

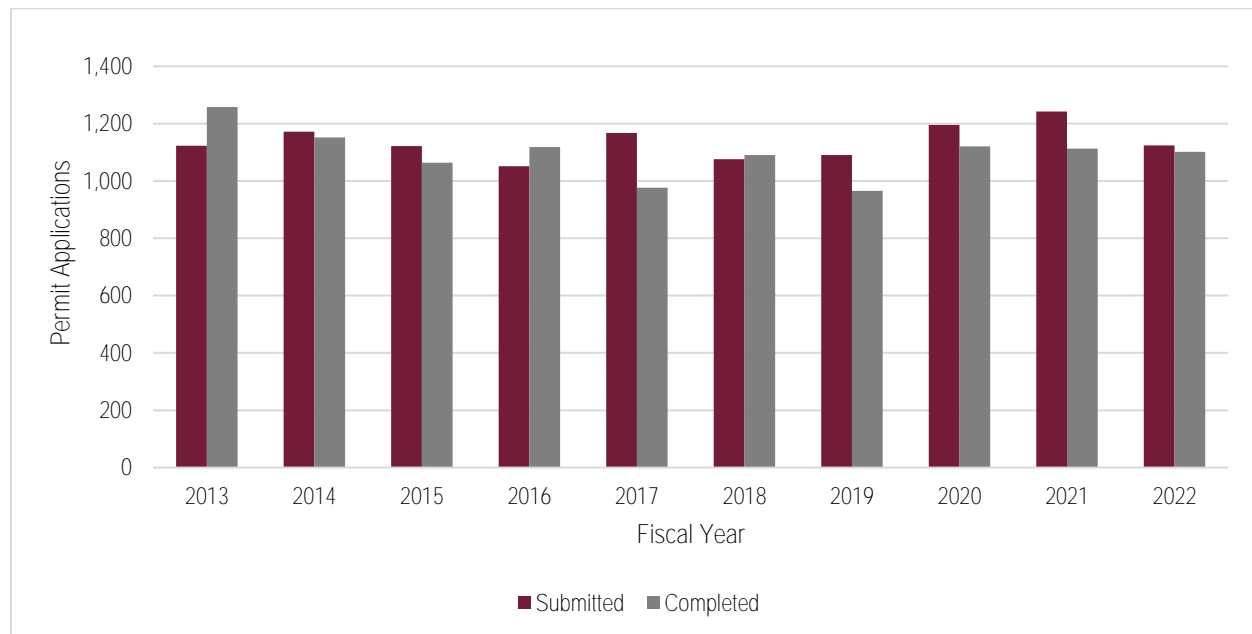
One of the Division's core responsibilities is to process permit applications and renewals. Our review of the Division's activities identified four areas where improvements are necessary to ensure the Division is operating in an efficient manner and can fulfill core responsibilities and meet workload demands. First, while the Division generally processed a consistent number of applications each year, a combination of increases in the number of permit applications rolling over from one year to the next and Division staff not following established procedures for cancelling applications that did not comply with District requirements, resulted in the Division experiencing a permit backlog as of May 30, 2023. Second, existing District information systems do not provide Division management with the information necessary to assess the efficiency of permitting processes, identify resource needs, and oversee permitting accounts receivables. Third, a combination of hiring freezes, employee attrition, challenges filling vacant positions, and new regulations appear to have impacted the Division's ability to perform core duties and meet workload demands. Lastly, while the Air District has improved its cost recovery, it has yet to achieve its goal to recover 100 percent of its costs, a goal that was established in Air District policy in 2012. Below we provide a discussion of each of these four findings.

Finding 1. Permit Applications are Not Always Processed in a Timely Manner and Backlog Exists

One of the core functions of the Engineering Division is to process new permit applications and permit renewals. Over the past decade, the number of permit applications submitted to the Air District and processed each fiscal year have remained relatively consistent, as shown in Exhibit 3.

Yet, our review of NSR permit applications, which account for approximately 95 percent of the applications received, found that the percentage of permit applications processed within Air District established timeframes declined over the past decade, and a permit application backlog exists. Further, the Division is not consistently following its policy to cancel incomplete applications when the applicant fails to provide required information and pay permit fees within 90 days of notification, adding to its backlog. Lastly, our review of facility application and renewal fee payments found that facilities do not always pay fees within the required timeframes.

EXHIBIT 3. PERMIT APPLICATIONS SUBMITTED AND COMPLETED BY FISCAL YEAR, 2013 THROUGH 2022



Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 31, 2023.

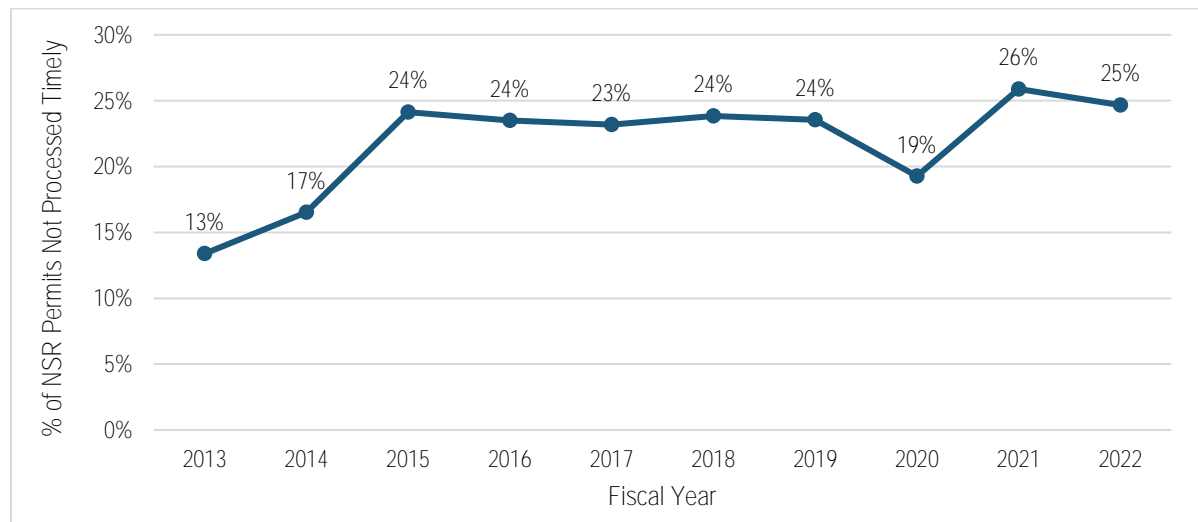
Over The Past Decade the Percent of New Source Review Permits Not Processed Timely Increased

Each type of permit application has varying timelines and requirements for review. NSR permit applications are the most common type of permit application received by the Air District and have a general processing timeline of 35 business days to process once the application has been determined by the Air District to be complete.¹ To assess whether the Division consistently met this timeline, we reviewed 4,303 NSR permit applications submitted from Fiscal Year 2013 through 2022.² As shown in Exhibit 4, the percentage of NSR permit applications that were not processed timely has increased over the past decade, increasing from 13 percent in Fiscal Year 2013 to 25 percent in Fiscal Year 2022.

¹ Effective July 1, 2022, the Air District increased the general processing timeline to 90 days to process once an application has been determined by the Air District to be complete.

² NSR permit applications reviewed **did not have any public comments and had a final determination status of “Denied” or “Approved”**.

EXHIBIT 4. PERCENT OF NEW SOURCE REVIEW PERMITS NOT PROCESSED TIMELY BY FISCAL YEAR SUBMITTED



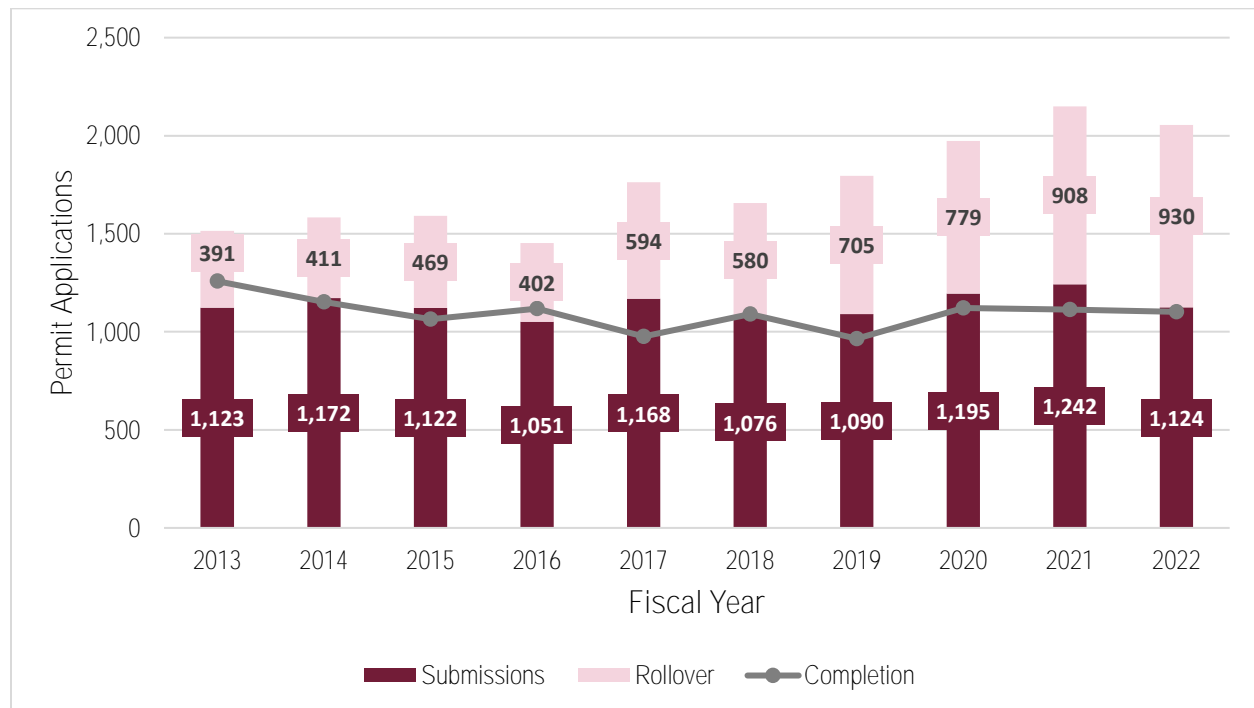
Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 31, 2023.

As discussed in Finding 2 of this report, although the Air District tracks some key dates, such as the date the application was submitted, date applicant was notified of an incomplete application, date application was determined complete, and date of the final decision, the Air District does not track when interim steps of the process were started and completed, such as HRAs, source testing, EPA reviews, etc. As a result, permit application data could not be reviewed in aggregate to assess process inefficiencies and bottlenecks. To determine why the permit applications were not processed timely, we reviewed underlying support for 22 permit applications. While our review found that completeness reviews and final determinations were not always completed within the prescribed timelines, we also found that the Division's records were inconsistently maintained and generally did not contain sufficient detail to demonstrate when interim steps, as discussed in the Introduction and Background section of this report, were started and completed making it impossible to determine the cause for the delays identified.

Permit Application Backlog Exists

Over the past 10 years, Fiscal Year 2013 through 2022, the number of active unprocessed permit applications rolling over from one year to the next grew each fiscal year—increasing from 391 permit applications rolling over in Fiscal Year 2013 to 930 permit applications rolling over in Fiscal Year 2022, an increase of 138 percent—as shown in Exhibit 5. While the permit application rollover does not directly correlate to the number of backlogged applications, it **directly increases the Division's workload and** the number of active applications requiring resources and staff attention. This increases the likelihood that backlogs will compound.

EXHIBIT 5. PERMITS APPLICATIONS SUBMITTED, PROCESSED, AND ROLLED OVER BY FISCAL YEAR



Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 31, 2023.

The submission of new permit applications remained remarkably stable over the past decade, with 1,123 submitted in 2013 and 1,124 submitted in 2022. Yet, fewer new permit applications are resolved annually, leading to increased rollover trends. As of May 30, 2023, this has contributed to a total of 632 backlogged applications—that is, permit applications that were deemed complete, fully paid, and awaiting final determination for a period of time exceeding the allotted period of time required by regulation.

As shown in Exhibit 6, our review found that 96 percent of the backlogged applications were either standard permit applications or Title V applications and that, on average, backlogged permit applications were active for 1,067 days, or nearly three years. While the average active time for most of the backlogged permit application types was closer two years, both Synthetic Minor and Title V permit application types were significantly higher, with average active times ranging from nearly four years to more than five years. This is in part due to longer standard processing times for these permit types, which is typically 18-months.

EXHIBIT 6. BACKLOGGED PERMIT APPLICATIONS BY TYPE, AS OF MAY 30, 2023

Type	Number of Permit Applications	Percent of Total	Average Total Days Active
Banking	11	2%	606
Emissions Reduction Credit Transfer	2	<1%	106
Precertification	3	<1%	633
Standard	412	65%	651
Synthetic Minor	6	1%	1,416
Title V	198	31%	1,966
Total	632	100%	1,067

Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 30, 2023.

While the Air District does not maintain data necessary to determine the root cause for the processing delays identified for the backlogged permits, as discussed in Finding 2 of this report, our review found that 88 percent of the backlogged permits were classified as in the **“Application Under Evaluation”** phase as of May 30, 2023. This status is used by the Air District when the application has been determined by Air District personnel to be complete, all application fees have been paid, and the Air District is evaluating the application. **However, the “Application Under Evaluation” phase may entail multiple steps, such as CEQA review, source testing, HRAs, and EPA evaluation.**

While current internal guidelines for **evaluating “Standard”** permit applications requires staff to complete the evaluation within 90 days, backlogged permits that were **in the “Application Under Evaluation” phase have** been in this phase for an average of 774 days or roughly two years. There are many triggering events that would extend this standard timeline; however, the system does not track this. Because the Air District does not track all of these distinct steps and only tracks the date the current status started, the Air District cannot determine what factors within the permit evaluation phase are contributing to the processing delays, how long an application spends in each high-level status, nor whether an application is delinquent.

EXHIBIT 7. PERMIT BACKLOG APPLICATIONS STATUS

Current Application Status	Total Applications	Percentage of Backlog	Average Days in Current Application Status	Standard Permit Timelines for Completing Each Phase
Evaluating Permit Application Completeness	24	3.8%	474	15 business days
Application Under Evaluation	553	87.5%	774	90 days ^A
Undergoing Public Comment	50	7.9%	919	10 to 30 calendar days ^B
Final 10 Day Evaluation	5	0.8%	58	10 calendar days ^C
Total	632	100%		

Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 30, 2023.

Notes: ^A Prior to July 1, 2022, the standard timeline was 35 business days.

^B All applications include a 10-day Public Participation Period, and some applications require an additional 30-day public comment period.

^C Final 10-day evaluation period is only tracked and applicable to permits processed through the New Production System. This status only occurs after the end of a public noticing period. Final issuance is expected within 10 days after the close of the comment period.

While the Air District was unable to provide data necessary to determine the root cause, Division management provided anecdotal factors that it believes contribute to the backlog, including increased complexity of permit applications due to changes in regulatory requirements and insufficient staffing resources as discussed later in Finding 3 of this report.

Air District Does Not Always Follow Its Internal Policy to Cancel Incomplete Permits Adding to The Permit Application Backlog

To help ensure the timely processing of permit applications, the Air District requires that applicants provide all required information and pay applicable application fees prior to the Air District fully processing the permit application. When a permit application is received Division staff review the information provided by the applicant for completeness, such as verifying the application is signed by the applicant and all required maps, plans, and reports are included, and verify required fees are paid. If the application is missing required information and/or required fees have not been paid, the Air District provides the applicant with 90 days to submit the required information and pay fees. If these two requirements are not met by the end of the 90-day period, Air District staff will cancel the permit application and require the applicant to reapply for a permit. While this practice should help ensure Air District staff focus limited resources on permit applications that are complete and can be processed, we found that the policy is not always followed. Our review of the 1,237 active permit applications as of May 30, 2023, found that 345 of the permit applications, or nearly 28 percent, were incomplete and the applicant had not provided all required information and paid required fees by the end of the 90-day period. **Because of this, the Division’s active workload should have been 892, not 1,237.** The Air District did not follow its policy to cancel the applications. As a result, these incomplete applications remained in the active permit application queue potentially impacting staff workload and directing resources away from permit applications that have been determined complete and ready for processing.

Facilities Do Not Always Pay Required Fees Timely

One factor that impacts the total time it takes to process a permit application and renewal is the amount of time it takes for a facility to pay their fees. Our review of permit application and renewal fees found that roughly half of new applicants and a quarter of renewals did not pay fees within the required timelines, as shown in Exhibit 8. Specifically, an application cannot move to the evaluation phase until all fees are paid, such as the filing fee, initial fee, risk screening fee, permit to operate fee, and toxic surcharge. The Air District requires applicants to either pay their fees when submitting their application or within 30 days of the invoice date. In addition, Air District policy is to cancel applications if the applicant has failed to provide requested information and paid required fees within 90 days of written notification from the Air District that the application is incomplete—although this policy is not always followed as discussed below. Similarly, a permit cannot be renewed if the facility does not pay required fees within the required timelines.

EXHIBIT 8. AGEING ANALYSIS ON INVOICES PAID^A

Days to Pay Fees	Fiscal Year				
	2018	2019	2020	2021	2022
Permit Applications (-30 days)					
Invoices Paid by Due Date	46%	51%	58%	57%	56%
Past Due 30 Days or Less	8%	9%	10%	9%	11%
Past Due 31 or More Days	39%	33%	24%	26%	27%
31 to 90 Days	8%	7%	4%	6%	7%
91 Days or More	32%	25%	20%	20%	20%
No Payment Provided	7%	7%	7%	8%	7%
Revenue Collected Past 90 Days	\$1.5 Million	\$2.8 Million	\$2.8 Million	\$1.9 Million	\$1.9 Million
Permit Renewals (-60 days)					
Invoices Paid by Due Date	72%	82%	80%	81%	78%
Past Due 60 Days or Less	12%	10%	9%	9%	10%
Past Due 61 or More Days	13%	6%	7%	7%	7%
61 to 90 Days	2%	1%	2%	2%	3%
91 Days or More	10%	5%	5%	4%	4%
No Payment Provided	3%	2%	3%	3%	5%
Revenue Collected Past 90 Days	\$2.1 Million	\$6.6 Million	\$2.1 Million	\$7.2 Million	\$1.2 Million

Source: Auditor generated analysis of Power BI report provided by the Engineering Division's Technology and Operations section.

Note: ^AAmounts reported are based on unaudited reports provided by the Air District. Air District management notated there are errors and inaccuracies with the financial data due to synchronization and data migration issues with the legacy systems, financial system, and the New Production System.

Untimely payments and underpayments impact staffing resources, as Air District staff need to track the application and renewal status and need to calculate late fees and penalties where applicable. In addition, untimely payments impact the Air District's **financial resources** as well as determining if facilities are operating without a valid permit. Permit and fee revenues account for roughly a third of the Air District's

total revenue. With over \$3 million in permit fee revenue collected 91-days or more past due in Fiscal Year 2022, this could have an impact on Air District revenue. Further, as discussed in Finding 2 of this report, the Air District was unable to provide a reliable, comprehensive report of amounts past due for facilities that had not paid, with amounts outstanding reported varying between reports, as shown in Exhibit 9. Specifically, amounts outstanding ranged from \$0 to \$2.4 million between three of the reports, and in one report a past due status could not be determined with the data provided.

EXHIBIT 9. VARIANCES BETWEEN ACCOUNTS RECEIVABLE REPORTS PROVIDED BY THE AIR DISTRICT

Report	Number of Delinquent Invoices Fiscal Year 2018 through 2022	Amount Outstanding Fiscal Year 2018 through 2022
Report 1	68,819	\$2.4 Million
Report 2	2,406	\$0
Report 3	850	\$1.2 Million
Report 4	Unknown	Unknown

Source: Auditor generated analysis of Power BI report provided by the Engineering Division's Technology and Operations section as well as JD Edwards report provided by the Finance Division.

Air District management reported that some of the legacy system files migrated to the New Production System were corrupted or obsolete causing incorrect invoice records and indicated that some of the unpaid invoices reported were not true invoices. The Air District also reported that on occasion staff have created an internal Permit Application to document an administrative action taken on the permitted facility which may result in a \$0 invoice.

According to the Air District, many facilities shut down or change ownership without notification to the Air District which was exasperated during the pandemic. Neither the Engineering Division nor Compliance and Enforcement Division have the staffing resources necessary to call facilities or go on-site to facilities that have not paid their fees to verify whether the facility is still in operation and enforce permitting requirements. Air District management reported that they have considered temporary positions or the use of third-party collectors for past due payments; however, no action has been taken. As a result, the Air District may not be collecting revenue owed and facilities may be operating and polluting without required permits.

Finding 2. The Division Does Not Track Information Necessary to Assess Efficiency of Permitting Processes, Identify Resource Needs, and Oversee Accounts Receivables

Establishing efficient, streamlined permit processes helps to ensure permits are processed in a timely manner and reduces the risk of permit backlogs. For management to effectively oversee permitting activities, manage resources, and evaluate whether current practices are working as intended it must have reliable, sufficient data. According to a report issued by the National Center for Environmental Innovation, **an agency's ability to assess waste and identify areas where processes can be improved requires sufficient data to not only understand how processes are working, but also for management to evaluate processes**

and drive decisions.³ Our review of data maintained and used by the Division found that while the Division collects some data, it does not track the type of information necessary for it to effectively manage resources and assess possible permitting bottlenecks and some data maintained in the New Production System is inaccurate or unreliable. This is in part due to limitations in the data collected in both the recently decommissioned legacy permitting system, Databank, and the New Production System, as well as limitations in how management hours are recorded and tracked. Lastly, management does not have reliable information related to permit fee accounts receivables due to system synchronization and data migration issues between legacy systems, the financial system, and the New Production System.

The Information Systems Used to Process Permits Do Not Track Progress by Stage of The Permitting Process, Inhibiting Engineering's Ability to Identify Bottlenecks or Breakdowns

The Division lacks adequate tracking systems for crucial steps within the permit evaluation process that impedes the Division's ability to assess efficiency and identify bottlenecks. Because key steps of the permit evaluation phase are not tracked and do not require engineer status updates, the Air District is unable to identify or evaluate the specific causes that contribute to 25 percent of NSR permits being delayed beyond mandatory timeframes, the persistent increases in application rollovers from year to year, and the backlog of 600 outstanding permits. **This is true of the Air District's legacy systems and its New Production System.** Further, legacy system limitations prevented the Air District from tracking when a permit moved in and out of specific phases. While the New Production System is able to track more statuses than the legacy system, Databank (such as CEQA review and public comments), and the dates of status changes, the duration of certain interim steps within the process are still not tracked. These include:

- best available control technologies,
- source testing,
- HRAs,
- offsets,
- prevention of significant deterioration,
- new source performance standards,
- national emissions standard for hazardous air pollutants,
- permit conditions, and
- EPA review.

In addition, several statuses available in the New Production System, such as awaiting public hearing and public comment notification, though available are not used by the Air District. Additionally, with the implementation of the New Production System, Engineering can now track approvals within the system; however, the Division has not established standard or ad hoc reports necessary for this type of review. In Exhibit 10, we provide a list of statuses **tracked by the Division's legacy system**, Databank, and the New Production System.

³ National Center for Environmental Innovation *Working Smart for Environmental Protection*.

EXHIBIT 10. APPLICATION STATUSES TRACKED IN DATABANK AND NEW PRODUCTION SYSTEM

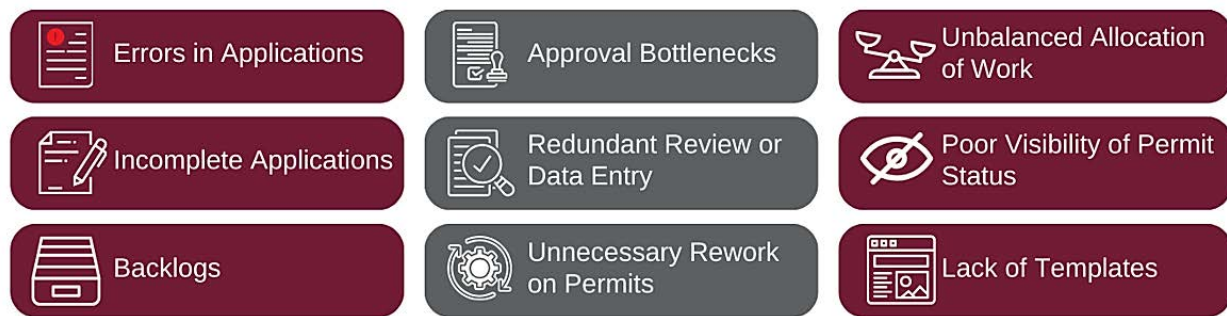
Databank	New Production System
Received Incomplete Re-Activated Complete Comment Authority to Construction Canceled Denied Exempt Expired Granted AC Grant/Issue Issue Synthetic Minor Issue Title5 Permit to Operate Issued	<u>Active and in Use</u> Transferred to NPS Application Submitted Initiated Reinitiated Evaluating Permit Application Completeness Incomplete for Data Incomplete For Initial Fees and Data Incomplete for Initial Fees Awaiting Payment of Final Fees Complete - Application Under Evaluation Awaiting Surrender of Offsets Undergoing Air District CEQA Evaluation Undergoing Public Comment Final 10 Day Evaluation Withdrawn Canceled Approved Denied <u>Available, but Not Active</u> Awaiting Public Hearing Expired Public Comment Period for PSD Public Comment Notification Public Hearing for PSD

Source: Auditor generated from information reported by the Division and system-generated reports.

Without such information, the Division cannot determine factors contributing to processing delays and whether the process delays are from internal sources (Division or other divisions within the Air District) or outside the Air District (applicant, EPA, etc.)—nor can this audit—leading to a substantial lack of data necessary for evidence-based decision-making. Additionally, permitting process transparency is diminished because the **“Under Evaluation”** status does not specify where specifically within the review process a permit is, such as whether the application is undergoing source testing review or HRA, etc. As such, neither management nor the public can determine where an application is, at any given time, and why an application is taking so long to process.

In the absence of substantive data from the Air District’s information systems, below is a list of common areas where process inefficiencies have been identified in permitting processes of other agencies. For instance, other agencies have experienced approval bottlenecks and redundant review or data entry in their permitting processes.

EXHIBIT 11. COMMON INEFFICIENCIES IN PERMIT PROCESSES



Source: Auditor generated best practices table using National Center for Environmental Innovation report *Working Smarter for Environmental Protection*.

During this review, we found that, similar to other agencies, the Division experiences some process inefficiencies with incomplete applications, backlogs, and management reported that while many templates exist, the Division is still in the process of developing some templates in the New Production System. As the Division enhances its data collection it should review its current processes to assess whether other common efficiencies exist in its processes and determine the root cause for inefficiencies identified. The Air District should also continue reviewing data migrated into the New Production System and financial system from legacy systems to identify and correct erroneous and corrupt data.

The Division Does Not Have a Method to Fully Track Time Spent by Exempt Employees on Permitting Activities, **Impeding the Division's** Ability to Determine the Actual Personnel Resources Dedicated to Division Operations

While the time spent by exempt employees over the standard 80-hour two-week pay period does not have an impact on personnel salary and benefit costs, it does impact how related costs should be allocated between programs for cost recovery purposes and **the Division's ability to** fully assess staffing resource needs. Specifically, while both exempt and non-exempt Air District employees track their time by charging hours to specific billing codes that are tied to programs and services—recovered by fees charged to applicants, any time spent by exempt employees over the standard 80-hour two-week pay period is not reflected on the **employee's** timecard and not considered when allocating costs for cost recovery. As a result, if the time reported on an exempt **employee's** timecard does not accurately reflect the proportion of time spent per program, then the costs recovered for each program may not accurately reflect the appropriate proportion of costs. Further, management cannot accurately assess how much time or resources are necessary to provide services for each program.

For example, if an exempt employee works 100 hours in a two-week period, spending the first 75 hours working on Internal Combustion Engines (or 75 percent of their time), the next 15 hours working on Organic Liquid Storage Tanks (15 percent of their time), and the last 10 hours on public records requests (10 percent of their time), but only records the first 75 hours spent on Internal Combustion Engines (nearly 94 percent of the time reported compared to 75 percent of their time spent) and five (5) hours spent on Organic Liquid Storage Tanks (6 percent of the time reported compared to 15 percent of their time spent) this would disproportionately impact cost recovery for these programs. Management indicated exempt staff prioritize inputting hours related to bill codes tied to cost recovery fees over bill codes not tied to a specific

cost recovery fee schedule; however, there is not a process in place to ensure time is spread proportionally.

Although management could not provide underlying support for all overtime spent, management provided some anecdotal evidence that exempt employees regularly work more than the standard pay period, with some employees working between 20 and 30 hours more than the standard 80-hour two week pay period. The Division has five exempt employees, if each of these employees works 20 additional hours per pay period, this equates to 2,600 hours annually, potentially justifying the need for an additional position.

Further, Division management recognized the need to fully understand how all its staffing resources were spending their time and reached out to the Air District's **Human Resources Office in 2018 and 2020 to assess whether the Air District's current timekeeping system could be used to track all hours worked by exempt employees.** However, the Division was told that it was not possible to track time spent above the 80-hour pay period for exempt employees. In the absence of using the Air District's timekeeping system, the Division did not establish another formal mechanism to consistently track hours worked by exempt employees in the Division.

Because the Division does not track actual hours spent nor have a process to ensure hours are proportionally billed for exempt employees, management cannot assess how much time is truly spent on each program and whether costs recovered truly cover all related program costs. In addition, management cannot determine how much time the Air District spends on other administrative and non-core activities, such as public records requests and time spent working on the development of the New Production System.

Other air districts, such as South Coast Air Quality District and North Coast Air Quality Management District, track all time spent regardless of the whether an employee is exempt or not, allowing them to track the full level of effort required to support their programs and activities. Further, South Coast identified that traceability of the status of applications within their data as well as applicable timelines were not easily measured or identified, resulting in a lengthy manual review process to identify bottlenecks within the permitting process. As a result, South Coast Air Quality Air District reported that tracking metrics is a top priority for their Engineering and Compliance Division, this includes tracking all staff time and time spent on each step of the permit process.

Air District Does Not Have Reliable Data to Track or Analyze Late Payments

As discussed in Finding 1 of this report, Air District management was unable to provide a report of the total amount owed for facilities that had failed to pay required permitting fees from Fiscal Year 2018 through 2022. While the Air District could provide a report of facilities with outstanding invoices, this report did not include the invoiced amount and other reports provided did not align with previously provided reports. In addition, Air District management from both the Engineering and Finance Divisions reported that reports used by Air District personnel to track accounts receivables were not always accurate or reliable due to issues that occurred during data migration from legacy systems, financial system, and the New Production System. This issue was identified during a separate audit of the My Air Online system. As such, management does not have the information necessary to make informed decisions regarding permit fees accounts receivable, which could impact the Air District cost recovery and revenue collections. According to

Air District management, in the absence of a reliable system-generated report of amounts owed by each facility, Air District staff must review individual records for each facility to determine amounts owed and paid.

For instance, the Finance Division communicated that accounts receivable data provided in response to the audit might not be entirely accurate due to the financial systems synchronization with the New Production System, which included invalid or uncollectable invoices as well as errors in the displayed balances and missing invoices. Similarly, the Engineering Division reported that issues related to data synchronization between the financial system, legacy system, and the New Production System, impacted the reliability and accuracy of the accounts receivable reports that are used by management to make decisions and were provided in response to audit requests. For example, Division management reported that in some instances the New Production System did not recognize a previously terminated facility in Databank affecting the overall facility transfer to the New Production System.

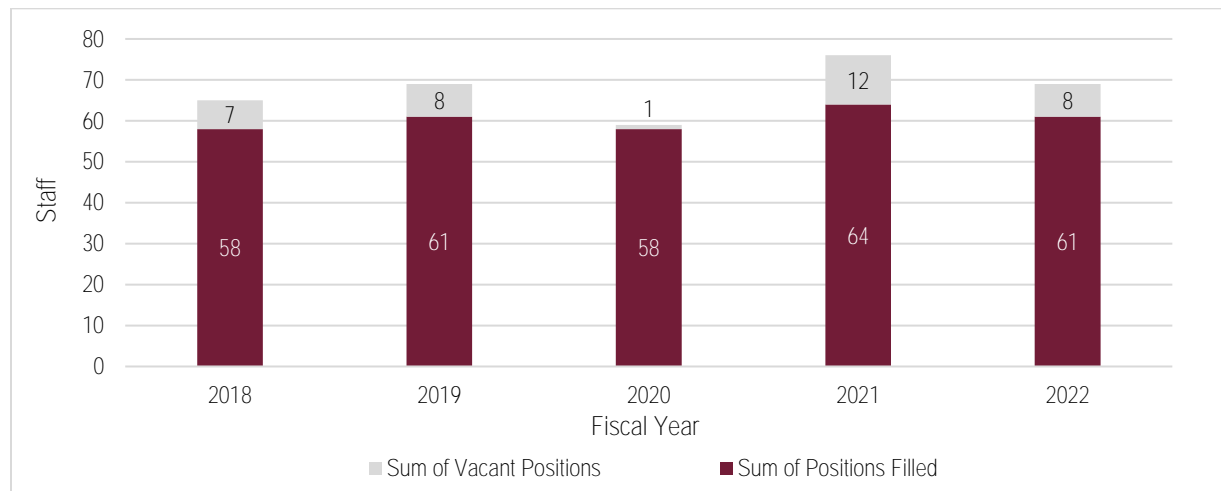
Finding 3. A Combination of Hiring Freezes, Employee Attrition, Challenges Filling Vacant Positions, and New Regulations Appear to Have Impacted the Divisions Ability to Meet Workload Demands

While the Division's staffing levels remained relatively consistent and staff generally dedicated most of their time to the Division's core responsibilities over the past five fiscal years, the Division struggled to keep pace with permit application submissions. Although the Division does not track the data necessary to assess its resource needs and to identify process inefficiencies, several factors appear to contribute to the **Division's** inability to consistently meet current workload demands and established timelines for processing permits, including hiring freezes, employee attrition, challenges filling vacant positions, and changes in regulatory requirements that the Air District reported increased the complexity and level of effort necessary to process permit applications. Peer districts interviewed all indicated that attrition, loss of institutional knowledge, and changes to regulations have had an adverse effect on their ability to meet workload demands. Further, since Fiscal Year 2018, the percent of time spent on non-core activities, such as development of the New Production System, Public Records Act requests, and rule development, has risen each year from 6 percent in Fiscal Year 2018 to 13 percent in Fiscal Year 2022.

Hiring Freezes, Employee Attrition, And Challenges Filling Vacant Positions Impacted Staffing Levels

As shown in Exhibit 12, over the last five fiscal years the Division has had between one (1) and 12 vacant authorized positions each fiscal year. According to management, a combination of hiring freezes, employee attrition, and challenges hiring new employees impacted its ability to fill vacant positions. This combination of challenges led to significant constraints on the Division's staffing resources and appears to have impacted its ability to perform core functions.

EXHIBIT 12. FILLED AND VACANT ENGINEERING AND PERMITTING STAFF LEVELS



Source: Auditor generated using Division generated document of staff, positions, and program areas for Fiscal Year 2018-2023.

Below is a discussion of several factors that impacted the Division's staffing levels.

- **Hiring Freezes:** Specifically, since 2020, the Air District has undergone two hiring freezes that impacted the Engineering Divisions ability to fill authorized vacant positions. With the first hiring freeze in April 2020, the Division had three vacant positions that included an Air Quality Engineer I, Senior Air Quality Engineer, and Air Quality Specialist I. These three positions were frozen and subsequently deleted. In June 2021 and re-iterated in March 2022, the Air District placed another hiring freeze on filling any new positions that were approved as part of the Air District's Fiscal Year 2022 Budget that had not already been filled. As a result of this freeze, the Engineering Division was unable to fill four newly added positions until the freeze was lifted in the last quarter of 2022.
- **Employee Attrition:** Since 2018, the Engineering Division lost 25 employees to separation or retirement. Management reported that many of the employees leaving had significant institutional knowledge that created a gap in expertise and led to challenges in training new employees. In addition, management reported there has also been an impact on the Divisions other staffing **resource's** ability to focus on core activities as more seasoned staff were spending time onboarding and training newer staff. In addition, the Division anticipates that there will be several additional retirements in the near future that will result in an even greater loss of institutional knowledge and require additional staffing resources to bring their replacements up to speed.
- **Challenges Filling Vacant Positions:** The Division has struggled to fill both entry-level and experienced positions. For its experienced positions, management reported that the candidate pools have been small, and it has been challenging to find candidates with the experience and expertise required. Similarly, although the Engineering Division utilizes an intern program to train future air quality engineers, the Air District's **current entry level requirements prohibit the Division** from hiring these individuals when they graduate due to the minimum experience requirements **listed for the Division's entry-level** Air Quality Engineer I. Specifically, this position requires a minimum of two years-experience to qualify for the position. As a result, management reported that

interns seek employment with other air quality districts and the Division must either find candidates from other divisions within the Air District or from other air quality districts. According to management, in the past there was a position that was truly an entry-level position that did not have any minimum experience requirements; however, this position was removed at some point and never replaced. Management raised this concern to Human Resources on multiple occasions dating back to 2015; however, the requirements have not been adjusted nor was a new position created.

EXHIBIT 13. ENTRY LEVEL AIR QUALITY ENGINEER EXPERIENCE REQUIREMENTS

	Bay Area Air Quality Management District	San Joaquin Valley Air Pollution Control District	Sacramento Metropolitan Air Quality Management District	San Diego County Air Pollution Control District	South Coast Air Quality Management District
Position Title	Air Quality Engineer I	Air Quality Engineer Level I	Assistant Air Quality Engineer	Junior Air Pollution Control Engineer	Assistant Air Quality Engineer
Annual Salary Range	\$95,695-\$128,241	\$75,924-\$112,224	\$90,563-\$127,858 ^A	\$71,178-\$87,443	\$72,803-\$97,851
Education Requirements	Bachelors of Science degree	Bachelors of Science degree	Bachelors of Science degree	Bachelors of Science degree	Bachelors of Science degree
Minimum Experience Requirements	Two years experience in related field	None	None	None	None
Other Requirements	None	California Engineer in Training Certificate	None	None	None

Source: Auditor generated from job postings on www.governmentjobs.com.

Notes: ^A Auditor calculated annual salary based on position hour rate of \$43.54-61.47, at 2080 annual working hours.

As shown in Exhibit 13, while four peer air quality districts have similar education requirements, none of the other districts require minimum experience for their comparable entry-level air quality engineer positions. While the Air District’s **annual starting salary is higher than peers, this appears** to be commensurate with the minimum experience requirement. In August 2023, Division management began the process to try to create a new position, Air Quality Engineer 0, that will be a true entry-level position that does not require any minimum years of experience.

In addition, according to Division management, when vacancies exist in higher level positions within the Division, these vacancies are typically filled with individuals currently employed by the Air District. As a result, while they are able to fill one position, it typically creates a trickling effect of vacancies in the positions that promoted staff are vacating from which leads to up to three recruitments to fill the vacancies and meet the necessary staffing level.

Other peer districts reported similar challenges meeting staffing resource needs, including hiring freezes, challenges obtaining authorized positions, employee attrition due to recent retirements, and loss of institutional knowledge. To address these challenges other air districts, such as North Coast Air Quality Management District and South Coast Air Quality Management District, use contractors and retired annuitants to augment their staffing resources and help meet workload demands. According to Division management, the Division currently has one retired annuitant and the Air District recently received approval for three additional retired annuitant positions to assist the Division.

Lastly, Division management reported that its inability to fill vacant positions has impacted its ability to perform some core duties, including updating emission factors, conducting site visits, updating the permit handbook, and calling facilities to remind them of payments due for permit renewals. In addition, management reported that it has impacted the quality and consistency of training provided to Division staff and **management's** ability to provide opportunities for professional growth through the assignment of special projects due to heavy workloads of staff.

Although Staffing Levels Remained Relatively Consistent Over the Past Five Years, Permit Workload Metrics Indicate Workload Has Increased

The number of filled positions slightly increased from Fiscal Year 2018 to 2022, with filled positions increasing from 58 to 61 filled positions during this period, as shown in Exhibit 12. During the same period, the number of staff dedicated to processing permits has also remained fairly consistent. However, as shown in Exhibit 14 the total number of active permits, permit applications submitted, permit renewals, permits per filled permit processing full time equivalent (FTE) position, permitted devices and operations, and HRAs completed by the Division have increased. Specifically, the number of new permits applications submitted slightly increased from 1,076 permit applications in Fiscal Year 2018 to 1,124 permit applications in Fiscal Year 2022, an increase of 48 applications or 4 percent. Similarly, the number of HRAs also increased by 45 percent from 230 to 334 over the same period. However, as discussed earlier, the number of permit applications completed has not kept pace with the rate at which applications are submitted. As a result, the number of active permit applications has steadily increased each year, with the total number of active applications increasing by 362 applications or 22 percent from Fiscal Year 2018 to 2022.

EXHIBIT 14. PERMIT APPLICATION WORKLOAD INDICATORS

Metric	2018	2019	2020	2021	2022	5-Year Change	5-Year Percent Change
Total Permit Renewals	4,621	8,979	8,503	8,733	10,229	+5,608	+121%
Total Active Permit Applications	1,670	1,670	1,900	2,021	2,032	+362	+22%
Total Permit Applications Submitted	1,076	1,090	1,195	1,242	1,124	+48	+4%
Total Permit Applications Processed	1,090	965	1,121	1,113	1,102	+12	+1%
Filled Permit Processing FTE	40	41	40	39	40	0	0%
Total Permit Renewals Per Filled Permit Processing FTE	116	219	213	224	256	+140	+121%
Total Active Permit Applications Per Filled Permit Processing FTE	42	41	48	52	51	+9	+22%
New Permit Applications Submitted per Filled Permit Processing FTE	27	27	30	32	28	+1	+4%
Permit Applications Completed per Filled Permit Processing FTE	27	24	28	29	27	0	0%
Permitted Facilities ^A	10,856	10,900	9,765	10,471	10,238	(618)	-6%
Permitted Devices and Operations ^A	24,347	24,233	22,574	26,519	25,873	+1,526	+6%
Health Risk Screening Analysis ^A	230	296	287	252	334	+104	+45%

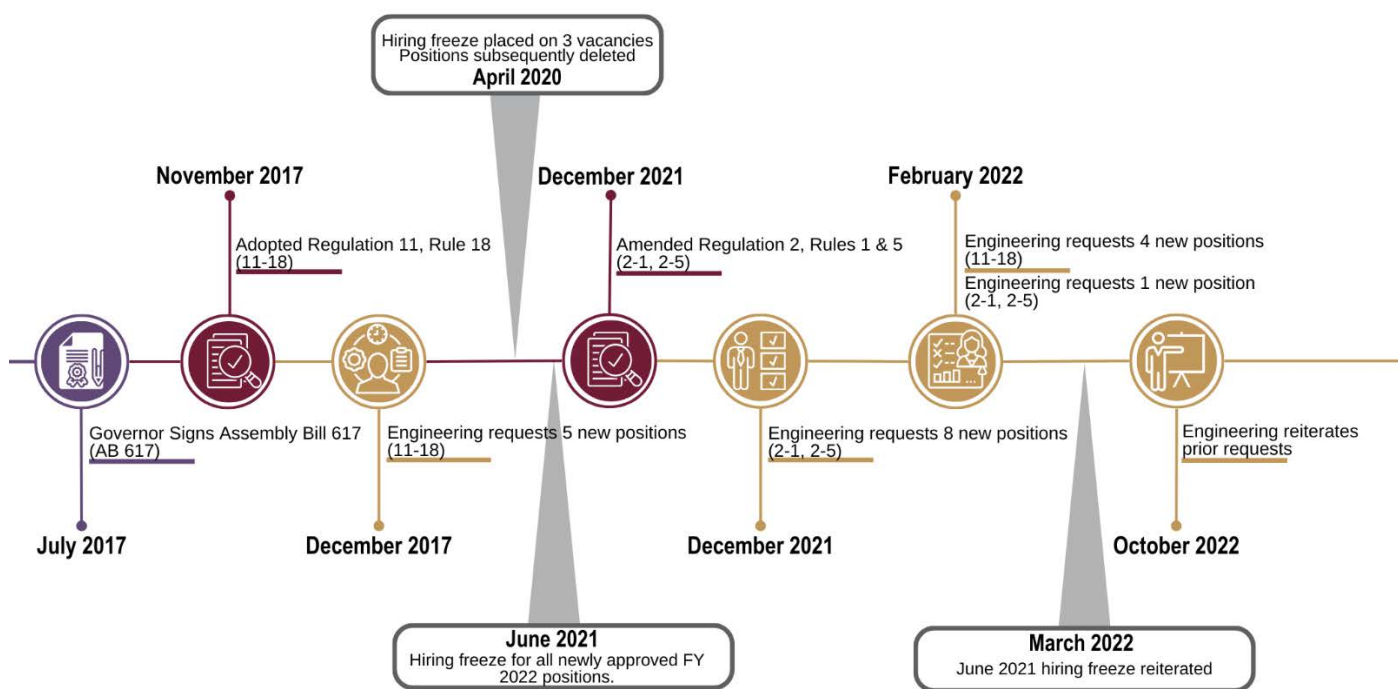
Source: Auditor generated from permit application system generated reports from Databank and New Production System provided by the Air District as of May 31, 2023, Engineering staffing reports, and Air District Annual Reports 2018 through 2022

Notes: ^A Amounts reported for calendar year.

Since 2017, the Board of Directors Adopted New Regulations and Requirements that Added Complexity to **the Division's** Existing Workload

The Air District has the authority to develop new regulations and requirements in accordance with its mandate to regulate and monitor air emissions. In recent years, there have been several new regulations and amendments to the Air District's current rules as well as new statewide legislation that have resulted in additional workload and reporting requirements for the Division, as shown in Exhibit 15. Despite the increased responsibilities, staffing levels have remained relatively consistent.

EXHIBIT 15. STATE AND AIR DISTRICT REGULATORY CHANGES AND REQUESTED POSITIONS TIMELINE



Source: Auditor generated from Air District staff reports, staff presentations before the Air District Board of Directors and its Committees, and regulation guidance found at Air District.gov.

In 2016, although outside of the audit period, Division management reported that Rule 12-15 created significant workload for their staff resulting in an increase of hours needed to fulfill required functions. One goal of Rule 12-15 was to determine whether changing crude slate impacts emissions; however, the Division management reported that it is very difficult to obtain provable emissions and inventories from facilities, which has led to multiple rounds of data requests and responses between the Air District and facilities, difficulty obtaining crude information, and made it impossible for Air District staff to complete required comparisons. Further, associated calculations for large refinery operations are currently computed manually in a complicated Microsoft Access document—though this is planned to be automated within the New Production System in future updates. Since 2018, the Division spent more than 17,000 hours on Rule 12-15 related activities with more than half of these hours spent in Fiscal Years 2021 and 2022. Management reported that the Division does not have the staffing nor infrastructure necessary to complete the work required to enforce this rule. As such, the Air District is looking to change the rule in the foreseeable future.

In July 2017, California passed AB 617 that mandated the California Air Resource Control Board establish a statewide Technology Clearinghouse for emission reduction technologies and required community level air monitoring, enhanced emissions reporting requirements, increased penalty provisions for polluters, and accelerated review of retrofit pollution control technology. As a result, the Air District was tasked with implementing enhanced emissions reporting and participating in sub-workgroups created by the California Air Resource Control Board in August 2021 to help respond to community questions on permitting and help develop the statewide Technology Clearinghouse. **Although management recommended to the Board's** Budget and Finance Committee in December 2017 that the Air District establish a Community Protection Office to engage with communities impacted by AB 617 and recommended three positions be allocated to this office, no positions were allocated to the Division to work on the other mandates required by AB 617. The Division also reported that it participates on four AB 617 community workgroups. Based on the Air Districts payroll records over the past five fiscal years, Fiscal Year 2018 through 2022, the Engineering Division has spent at least 4,200 hours working on AB 617 related activities. According to Division management, both non-exempt and exempt staff work on AB 617 related tasks. As discussed earlier, because exempt employees only report 80-hours per pay period, the hours billed towards AB 617 may not include all actual time spent by exempt employees. Peer Air Districts interviewed indicated that the new reporting requirements tied to AB 617 have also increased their staff's workload.

In November 2017, the Board approved Rule 11-18 which increased the requirements for HRAs. In December 2017, management proposed that the Board Budget and Finance Committee approve amending the Fiscal Year 2018 budget to include 22 new positions. Included in this request were five new positions that management indicated were necessary to handle the increased workload associated with the passage of Rule 11-18. Specifically, Division staffs' existing workload was expanded to include risk screenings, HRA analyses, HRA consultant oversight, data and inventory refinement, and participation in both public and industry review processes for health risk reduction plans. According to the Air District's Fiscal Year 2019 Budget, during "the second quarter of FYE 2018 the Board approved an additional 22 FTEs to address new and expanded program because of AB 617." However, it is unclear whether these positions were actually allocated to the Engineering Division for the additional responsibilities. Division management reported that they did not receive the additional resources requested.

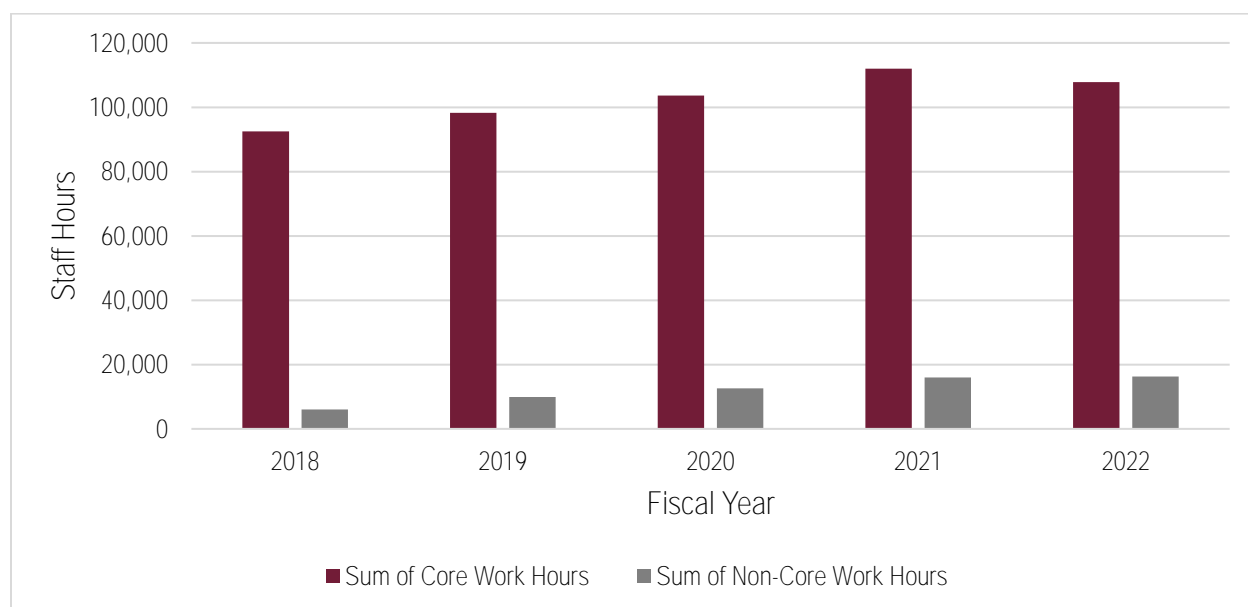
In December 2021, the Air District's **Board approved amending Rules 2-1 and 2-5** to amend the timelines for processing permit applications, establish more stringent cancer risk limits and enhanced public notifications for projects in overburdened communities, and to update guidelines for gasoline dispensing facilities health risk screening. During this presentation, management requested eight (8) additional full-time staff in the Division to implement the proposed changes; however, the Division was unable to hire any new positions due to a hiring freeze that went into effect in June 2021, as previously discussed. According to Division management, the Division recently created a supervisor position and three engineering positions to perform these functions.

Each of these changes impacted the Division's workload; however, management reported that the Division has not received staffing resources commensurate with the level of effort necessary to enforce and perform activities associated with each change.

Opportunities Exist to Improve Engineering **Division's** Resource Prioritization and Assigned Duties

According to the California Clean Air Act, Code of Federal Regulations, and the Air Districts priorities, one of the main duties of the Air District is to issue permits and collect fees from polluting sources. This is the primary responsibility of the Division, as such all other responsibilities are ancillary to this core duty. Our review of time spent by the Division on various activities found that while a majority of the time spent over the last five fiscal years was on permitting related activities, the percentage of time spent on non-core duties assigned to the Division has increased from 6 percent in Fiscal Year 2018 to 13 percent in Fiscal Year 2022, as shown in Exhibit 16. Our review found that time dedicated to the New Production System development, public records requests, and rule development were among the primary causes for the increases identified.

EXHIBIT 16. CORE WORK HOURS VERSUS NON-CORE WORK HOURS



Source: Auditor generated from DayForce System (timekeeping system) provided by the Air District as of June 2, 2023, For the period of July 2017 through June 2, 2023.

While this is a nominal increase, **this could have an impact on the Division's ability** to perform its core duties if this trend continues. In a report issued by National Center for Environmental Innovation, one factor noted for challenges faced by permitting agencies, was that the divisions responsible for processing permit applications often were tasked with other duties because the staff were so knowledgeable; however, this contributed to permit processing backlogs and insufficient staffing necessary to handle all assigned workload.

Although the Division provided some documentation detailing how it prioritized and assigned workload, some of the procedures were outdated, dating back to 2000 without any updates, and did not align with current practices. Further, our review of staffing assignments found that the number of facilities and permits assigned to staff were inconsistent and we could not assess whether the distribution was equitable due to the varying complexity of permits and the lack of data to assess processing times. Given the Division has a backlog in processing permits and the percentage of permits processed within Air District established

timeframes has declined, Division management should consider assessing its current approach to prioritizing resources to ensure that core duties are prioritized over ancillary activities.

Other air districts, such as South Coast Air Quality Management District, have developed detailed plans for prioritizing permit application processing and addressing their existing backlog. For example, included in their Permit Enhancement Program guide are plans to fill vacancies, expand overtime, deploy engineers from other departments, physically relocate teams of engineers for the sole purpose of permitting, and reallocate resources temporarily to address their permit backlog. In addition, management requires any outside administrative or supportive work to be approved and assigned to staff by the Director of the Engineering Division. Similarly, other air districts indicated that they were in the process of developing plans to prioritize resources and address permit backlogs. Sacramento Metropolitan Air Quality Management District reported that management meets with staff every two weeks to prioritize resources and ensure applications that are either in the backlog or becoming overdue are a priority.

In addition, some of the responsibilities currently assigned to the Engineering Division at the Air District are handled by other divisions outside of Engineering at other air districts. For example, the Engineering Division is responsible for completing CEQA reviews and comments at the Air District; however, at South Coast Air Quality Management District and Sacramento Metropolitan Air Quality Management District separate groups outside of the Engineering Division are responsible for CEQA reviews and comments. In addition, Sacramento Metropolitan Air Quality Management District utilizes contractors to assist with CEQA reviews. In another example, at South Coast Air Quality Management District the emissions inventory intake and processing from facilities work is completed by the Planning, Rule Development and Implementation group; however, this work is completed by the Division at the Air District. According to the Air District, this work is labor intensive and impacts **the Division's processing of permit** renewals as emission inventories are currently updated as part of the renewal process.

Finding 4. Opportunities Exist to Enhance Current Fee Schedule to Better Recover Air District Costs

California Health and Safety Code Sections 42311 and 41512.7 give the Air District the authority to charge fees related to the permitting and regulation of air pollutants and **limits the Air District's ability to increase** rates by capping the total rate increase at 15 percent in any given year.

In establishing its cost recovery model, the Air District established 23 fee schedules to cover the cost of providing related services. In 2012, the Board adopted **the Air District's Cost Recovery Policy**, established as the general policy of the Air District to fully recover the costs of regulatory program activities by assessing fees to regulated entities. To achieve this end, the policy sets forth the following requirements:

- a) The goal for the Air District was to achieve 85 percent overall cost recovery by 2016, as the first step toward eventually achieving full cost recovery.
- b) Amendments to the 23 fee schedules should be made based on consideration of cost recovery analyses conducted at the fee schedule-level, with larger increases being adopted for the schedules that have the larger cost recovery gaps.

- c) The Air District should continue to analyze the extent to which fees recover regulatory program activity costs, both on an overall basis, and at the level of individual fee schedules.

In December 2022, the Board adopted a new policy that eliminated the incremental goal of 85 percent cost recovery and re-emphasized the Board's goal of achieving full cost recovery, a goal that was consistent with the 2012 policy. Other air districts reviewed in California have similar 100 percent goals for cost recovery. Since this goal was set, the Air District has improved its cost recovery, increasing the percentage of costs recovered from 82 percent in Fiscal Year 2016 to 86 percent in Fiscal Year 2022. However, the Air District did not meet its goal of reaching the 85 percent cost recovery milestone by 2016, and only accomplished the 85 percent target during Fiscal Year 2019 and Fiscal Year 2022.

In preparation for setting rates for Fiscal Year 2023, staff recommended a 15 percent increase for most fee schedules not recovering at least 110 percent as a means of expediting the Air District's cost recovery efforts. Subsequently, the Board adopted a resolution abandoning the requirement to determine rate increases based on cost recovery analyses at the fee schedule-level, and instead applied a 15 percent rate increase for each of the 23 rate fee schedules that were not. Further, the Air District reported that it does not consider costs to be fully recovered unless at least 110 percent of costs are recovered to account for inflation and forecasted cost increases. This evolution in how the Air District approached cost-recovery calculations is reflected in Exhibit 17.

EXHIBIT 17. FEE SCHEDULE RATE INCREASE METHODOLOGY

Fee Schedule Cost Recovery Rate Range	Proposed Fee Schedule Rate Change Methodology	Fee Schedule Cost Recovery Rate Range	Proposed Fee Schedule Rate Change Methodology
Fiscal Year 2018		Fiscal Year 2019-2022	
Above 100%	No Increase	Above 110%	No Increase
95-100%	Consumer Price Index (CPI-W) Increase	95-110%	Consumer Price Index (CPI-W) Increase
85-94%	7% Increase	85-94%	7% Increase
75-84%	8% Increase	75-84%	8% Increase
Less than 75%	9% Increase	50-74%	9% Increase
		Less than 50%	15% Increase
Fiscal Year 2023		Fiscal Year 2024 and Forward	
Above 110%	No Increase	Above 110%	No Increase
Less than 110%	15% Increase	100 < 110%	Consumer Price Index (CPI-W) Increase
		Less than 100%	15% Increase

Source: Auditor generated from Air District Staff Reports Fiscal Year 2018-2023.

Our review of the Air District cost recovery model identified instances where (a) the Air District did not always follow its established methodology for increasing fees, even as the methodology evolved; (b) some fee schedules have become obsolete due to legislative changes; and (c) ambiguity exists in how the Air District's 23 fee schedules, which can be viewed as narrowly defined funding sources, align with the broad view of air district programs as established in statute. In the end, the Air District is not fully recovering its costs and current fee schedules appear obsolete and unnecessarily specific to source and facility types.

Despite the **Air District's Cost Recovery** and Containment Policy, our analysis revealed that fee increases sometimes **deviated from the Air District's stated approach**. Between Fiscal Years 2018 and 2023, there were at least 10 instances where increases applied did not fully align with the stated methodology, often leading to rate increases that were lower than what the policy allowed. This ultimately delayed the Air District's path to full cost recovery. **Deviations from the Air District's** rate setting methodology are illustrated in Exhibit 18.

EXHIBIT 18. FEE SCHEDULE INCREASES

Fee Schedule	FY 2018		FY 2019		FY 2020		FY 2021		FY 2022		FY 2023	
	% Rate Increase	3-Year Average Cost Recovery	% Rate Increase	3-Year Average Cost Recovery	% Rate Increase	3-Year Average Cost Recovery	% Rate Increase	3-Year Average Cost Recovery	2022 % Rate Increase	3-Year Average Cost Recovery	2023 % Rate Increase	3-Year Average Cost Recovery
Schedule A	9.0%	3.6%	15.0%	3.5%	15.0%	3.8%	0.0%	16.0%	15.0%	26.9%	15.0%	38.3%
Schedule B	0.0%	100.4%	3.1%	107.1%	3.9%	100.3%	0.0%	100.7%	1.5%	98.5%	15.0%	94.5%
Schedule C	0.0%	295.8%	0.0%	351.2%	0.0%	397.2%	0.0%	363.2%	0.0%	310.3%	0.0%	228.8%
Schedule D	8.0%	79.3%	8.0%	79.8%	6.0%	81.9%	0.0%	89.0%	1.5%	103.0%	0.0%	113.3%
Schedule E	9.0%	68.4%	9.0%	72.4%	9.0%	73.9%	0.0%	72.3%	8.0%	81.4%	15.0%	88.2%
Schedule F	7.0%	85.2%	7.0%	89.8%	3.9%	100.8%	0.0%	98.1%	7.0%	86.7%	15.0%	65.0%
Schedule G1	9.0%	61.4%	9.0%	52.3%	15.0%	48.4%	0.0%	43.7%	15.0%	49.1%	15.0%	52.5%
Schedule G2	9.0%	52.9%	15.0%	48.7%	15.0%	48.7%	0.0%	51.5%	9.0%	55.4%	15.0%	52.5%
Schedule G3	7.0%	88.8%	7.0%	93.7%	7.0%	94.2%	0.0%	87.3%	9.0%	74.7%	15.0%	65.1%
Schedule G4	9.0%	38.9%	15.0%	32.8%	15.0%	33.1%	0.0%	46.7%	9.0%	60.4%	15.0%	69.0%
Schedule G5	0.0%	271.7%	0.0%	284.3%	0.0%	284.9%	0.0%	232.2%	0.0%	181.1%	0.0%	129.2%
Schedule H	9.0%	64.3%	9.0%	51.8%	9.0%	50.8%	0.0%	56.6%	8.0%	76.4%	15.0%	70.0%
Schedule I	9.0%	10.1%	15.0%	31.5%	0.0%	63.7%	0.0%	64.3%	0.0%	39.6%	0.0%	17.1%
Schedule K	9.0%	17.5%	15.0%	15.3%	15.0%	12.9%	0.0%	12.1%	15.0%	9.1%	15.0%	8.9%
Schedule L	0.0%	115.5%	0.0%	110.5%	0.0%	143.2%	0.0%	159.7%	0.0%	171.5%	0.0%	173.2%
Schedule N	0.0%	133.1%	0.0%	112.1%	0.0%	86.1%	0.0%	54.2%	15.0%	49.2%	15.0%	70.7%
Schedule P	8.0%	82.4%	7.0%	84.8%	8.0%	82.5%	0.0%	86.4%	7.0%	93.6%	15.0%	103.7%
Schedule R	9.0%	25.6%	15.0%	39.0%	0.0%	67.6%	0.0%	77.2%	0.0%	155.3%	0.0%	223.8%
Schedule S	9.0%	73.1%	3.1%	96.2%	15.0%	26.3%	0.0%	18.0%	15.0%	13.3%	15.0%	15.8%
Schedule T	7.0%	86.6%	7.0%	89.5%	8.0%	79.7%	0.0%	80.6%	9.0%	73.6%	15.0%	80.9%
Schedule V	9.0%	21.9%	3.1%	16.6%	3.9%	23.9%	0.0%	27.3%	9.0%	29.7%	15.0%	28.1%
Schedule W	0.0%	-	0.0%	362.4%	9.0%	50.3%	0.0%	39.7%	15.0%	15.5%	15.0%	12.1%

Source: Auditor generated from Air District cost recovery and staff reports.

Key: Red font indicates that the approved fee increase methodology was not followed.

Notwithstanding the **inconsistent application of the Air District's fee-setting methodology**, this analysis revealed another problem: the 2012 policy and **the Air District's methodology**, as applied to 23 different fee schedules, is unnecessarily complicated and implies an intent to achieve a status in which each individual

fee schedule achieves 100 percent for the activities performed related to that fee schedule. This is a more burdensome rate setting approach than is required in statute, which encourages the full recovery of all costs, in aggregate, associated with the **Air District's regulatory activities**. As allowed by the policy, the Air District's Board periodically deviates from the typical cost recovery process when factoring in impacts including but not limited to small businesses, government entities, non-businesses, and economic indicators. These deviations are discussed in the Staff Report presented to the Board when setting fees for the upcoming fiscal year.

Likewise, some fee schedules consistently over or under recover costs. For example, Fee Schedule C recovered between 193 percent to 397 percent of the cost of providing related services since 2017. This is mainly due to a shift in priorities to other industry sectors. Conversely, the cost recovery for Fee Schedule K, was significantly less, with cost recovery rates between 9 percent and 18 percent over the six fiscal years. While not unallowable, these inconsistencies raise potential concerns over how the rates were initially set, whether resources required to administer the programs have significantly changed, or whether the current rates align with Air District priorities.

Finally, certain fee schedules became obsolete due to changes in statute. For example, in 1991 California identified the use of Perchloroethylene as a toxic air chemical, and the resulting studies led to amended legislation phasing out the chemical by January 1, 2023. As a result, there are no facilities with dry cleaning machines that are charged fees under Fee Schedule I. All dry cleaning machines currently qualify for registration under Fee Schedule R. In Fiscal Year 2022, the Air District reported that it cost the Air District nearly \$11,000 to provide services related to Fee Schedule I; however, because these facilities were phasing out, the Air District only collected \$703 in related fees. Further investigation also determined that the disparity was mainly due to field staff charging time to the wrong billing code.

Other air districts have recognized the need to improve their cost recovery and have recently begun reassessing their existing fee schedules. For instance, South Coast Air Quality Management District adopted three basic fee types to recover most of the cost associated with time spent in processing and renewing permits, the three fees focus on permit processing fees, annual renewal operating fees (equipment-based), and an emission based operating fee. Accompanied with these three primary recovery fees South Coast Air Quality Management District also initiated a study of actual time spent processing permits and the individual fee schedules, adding a detailed basis for any increases or changes in priority. Given the Air District is not fully recovering its costs and the variances and inconsistencies noted, the Air District should review its current fee schedules to assess whether the schedules should be adjusted, or a new fee structure implemented to better align the Air Districts fee schedules with current practices and to fully recover the Air District's **costs**.

Recommendations

To improve its oversight of permitting activities, management of resources, integrity of data, and ensure practices exercised by the Division are efficient, the Division should:

1. Develop a plan to address the permit application backlog. As part of this plan, the Division should consider the use of contractors and/or retired annuitants to supplement its existing staffing resources.
2. Work with the My Air Online team to ensure the New Production System records processing time data on both core and interim permit processing steps, outstanding accounts receivable information is readily available at the facility and aggregate level and reports necessary for management to assess permit process efficiency, identify bottlenecks, and assess the timeliness of payments are developed and available to Division management. As part of this, management should identify information it needs to oversee permitting activities and work with the My Air Online team to develop standardized reports with the required information. In addition, the Division should continue to work with the My Air Online team to identify and correct erroneous and corrupted data that was migrated from legacy systems and is currently recorded in the New Production System.
3. Work with the Human Resources Office to determine the feasibility of tracking the total hours worked by management within existing systems. If this is not feasible, management should develop an alternative process to track actual time spent to ensure it has a full understanding of resource needs and where staff are spending their time.
 - a. This analysis should be used to refine cost recovery for these positions to ensure the appropriate percentage of costs are attributed to each program.
4. Work with Air District management and Human Resources to implement a new job classification for entry level position for the Division.
5. Review existing permit and workload prioritization processes to assess whether procedures should be updated to better align with Division priorities and current practices.
6. Once the Division has the data it needs to assess permit process efficiency and determine current workload and resource needs, management should:
 - a. Review existing resources and determine whether resources are sufficient to not only meet workload demands, but also perform all core activities.
 - i. As part of this review, management should also review time spent by Division staff and management on non-core activities and assess the impact these activities have on resources, whether the responsibility should be transferred to another area within the Air District, **and the Division's ability to meet existing workload demands and perform core functions.**
 - ii. Management should review previously requested staffing that was not approved from newly adopted programs to check if the estimates are up to date to fully implement the work.

- b. Identify permitting process inefficiencies and bottlenecks and implement process improvements to address the root-cause of the inefficiencies identified, including dependencies outside the Division.
 - c. Track and identify delinquent accounts and work with the Compliance and Enforcement Division to enforce permitting requirements and collect amounts owed.
 - i. Once the true number and amount of delinquent accounts is identified, the Air District may want to consider the use of a third-party collector to help the Air District collect past due amounts.
7. Work with executive management, District Counsel, and the Board to re-evaluate the existing Cost Recovery and Containment Policy and fee schedules to determine whether they should be adjusted to better align practices with the intent of Air District leadership.

Appendix A. Management's Response

The Engineering Division is supportive of the recommendations made by the Auditor and looks forward to working with the Board on continuous improvement to fulfill the mission of the Air District.

Responses to each recommendation are provided.

To improve its oversight of permitting activities, management of resources, integrity of data, and ensure practices exercised by the Division are efficient, the Division should:

1. Develop a plan to address the permit application backlog. As part of this plan, the Division should consider the use of contractors and/or retired annuitants to supplement its existing staffing resources.

Response: The Division will develop a comprehensive plan to address the permit application backlog that will utilize a variety of tools and resources, including temporary staffing such as contractors and/or retired annuitants. As an example of the early buy-in to this approach, the Division recently hired four retired annuitants to supplement existing staff to help address the backlog.

2. Work with the My Air Online team to ensure the New Production System records processing time data on both core and interim permit processing steps, outstanding accounts receivable information is readily available at the facility and aggregate level and reports necessary for management to assess permit process efficiency, identify bottlenecks, and assess the timeliness of payments are developed and available to Division management. As part of this, management should identify information it needs to oversee permitting activities and work with the My Air Online team to develop standardized reports with the required information. In addition, the Division should continue to work with the My Air Online team to identify and correct erroneous and corrupted data that was migrated from legacy systems and is currently recorded in the New Production System.

Response: **Utilizing the Engineering Division's recent full transition to Production System, the** Division can improve the permit processing and reporting functionality of the system. The Division will continue to work with My Air Online team to implement the recommendations to obtain the permit processing and financial data and reports necessary to assess efficiency, identify bottlenecks, and assess timeliness of payments. Our corrective action plan will include a list of these key standard reports and will identify development needs if additional My Air Online capabilities are required.

For the identification and correction of erroneous and corrupted data that was migrated from the legacy systems to the Production System, the Air District concurs and is currently working on resolving this issue to clean up the accounts receivable aging report and remove invalid invoices from the JDE financial system. **This recommendation was also made by the Air District's independent financial auditors, Simpson & Simpson LLP.**

3. Work with the Human Resources Office to determine the feasibility of tracking the total hours worked by management within existing systems. If this is not feasible, management should develop an alternative process to track actual time spent to ensure it has a full understanding of resource needs and where staff are spending their time.
 - a. This analysis should be used to refine cost recovery for these positions to ensure the appropriate percentage of costs are attributed to each program.

Response: The Air District is working to identify a solution to track all work hours performed by exempt employees. This recommendation was also made by Matrix consultant as part of their April 2022 Cost Recovery and Containment Study Report.

4. Work with Air District management and Human Resources to implement a new job classification for entry level position for the Division.

Response: The Engineering Division agrees with this recommendation and is currently working with the Human Resources office to create an entry-level engineering position.

5. Review existing permit and workload prioritization processes to assess whether procedures should be updated to better align with Division priorities and current practices.

Response: The Engineering Division concurs and will also tie the prioritization process into the Air District's Strategic Planning Process.

6. Once the Division has the data it needs to assess permit process efficiency and determine current workload and resource needs, management should:
 - a. Review existing resources and determine whether resources are sufficient to not only meet workload demands, but also perform all core activities.
 - i. As part of this review, management should also review time spent by Division staff and management on non-core activities and assess the impact these activities have on resources, whether the responsibility should be transferred to another area within the Air District, and the Division's ability to meet existing workload demands and perform core functions.
 - ii. Management should review previously requested staffing that was not approved from newly adopted programs to check if the estimates are up to date to fully implement the work.
 - b. Identify permitting process inefficiencies and bottlenecks and implement process improvements to address the root-cause of the inefficiencies identified, including dependencies outside the Engineering Division.
 - c. Track and identify delinquent accounts and work with the Compliance and Enforcement Division to enforce permitting requirements and collect amounts owed.

- i. Once the true number and amount of delinquent accounts is identified, the Air District may want to consider the use of a third-party collector to help the Air District collect past due amounts.

Response: The District agrees with the steps identified in this finding. Once the necessary data has been collected, the Division will review whether resources are sufficient for the workload and core activities considering the impact of non-core activities. Once process inefficiencies and bottlenecks are identified, the Division will work on process improvements and include other divisions either as an additional resource and/or as a contributor to the inefficiencies or backlog. We will create a strategic staffing plan that addresses short-term needs at clearing the backlog and long term maintenance needs.

In addressing delinquent accounts for permit renewal, the Division will continue to work with both Compliance and Enforcement and Legal divisions to get active facility accounts paid to issue updated permits to operate. The District has considered third-party collectors in the past and will explore the use of them again. In addition, the Division will explore other less resource-intensive options.

7. Work with executive management, District Counsel, and the Board to re-evaluate the existing Cost Recovery & Containment Policy and fee schedules to determine whether they should be adjusted to better align practices with the intent of Air District leadership.

Response: The Air District concurs and plans to review the current policy and fees to better recover costs.