



June 11, 2008

Mr. Robert Kard, Air Pollution Control Officer
San Diego County Air Pollution Control District
10124 Old Grove Road
San Diego, CA 92131-1649

Dear Mr. Kard:

Final Report—Fiscal Review of the San Diego County Air Pollution Control District's Carl Moyer Program and Lower-Emission School Bus Program

Enclosed is the final report of the fiscal review of the San Diego County Air Pollution Control District's Carl Moyer Program and Lower-Emission School Bus Program for July 1, 2003 through October 31, 2007. The District's response, and our evaluation thereof, are incorporated into this final report.

We appreciate the assistance and cooperation of your staff and management during our review. If you have any questions, please contact Mary Kelly, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Jack Kitowski, Branch Chief, Mobile Source Control Division, California Air Resources Board
Ms. Heather Arias, Manager, Incentives Oversight Section, California Air Resources Board
Mr. David Salardino, Manager, Mobile Source Control Division, California Air Resources Board
Mr. Tim Hartigan, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Ms. Cecilia Redondo, Acting Chief, Administrative Services Division, San Diego County Air Pollution Control District
Mr. Chuck Spagnola, Program Coordinator, San Diego County Air Pollution Control District

FISCAL REVIEW

San Diego County Air Pollution Control District
Carl Moyer Program
Lower-Emission School Bus Program

Prepared By:
Office of State Audits and Evaluations
Department of Finance

083900042

June 2008

The California Air Resources Board (Board) contracted with the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal review of the San Diego County Air Pollution Control District's (District) implementation of the Carl Moyer Program and the Lower-Emission School Bus Program for July 1, 2003 through October 31, 2007. Concurrent to this review, the Board also conducted a program audit of the District's Carl Moyer Program and Lower-Emission School Bus Program. Because of this, Finance did not verify the programmatic validity of the projects reviewed.

Background

The District's mission is to achieve clean air and to protect the public health and the environment. The District implements multiple clean-air programs supported by federal, state, and local funds. This review encompasses two programs funded by the state: the Carl Moyer Program (CMP) and the Lower-Emission School Bus Program (LESBP) Retrofit and Replacement.

The objective of the CMP is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment. Public or private entities that operate eligible engines or equipment within the District's jurisdiction participate by applying to the District for a grant. Examples of eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units.

The primary purpose of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement Program and a Retrofit Program. The Replacement Program funds the replacement of older high-polluting school buses with new buses. The Retrofit Program funds the installation of Board-approved pollution control devices on diesel school bus engines.

Scope and Methodology

The Board engaged Finance to review the District's fiscal administration of the CMP and the LESBP, and the District's fiscal compliance with applicable laws, regulations, guidelines, and contract requirements. District processes for receiving, recording, and disbursing program funds; allocating administrative costs and earned interest; and meeting match funding requirements were analyzed. Schedules were created from the District's records to summarize amounts received and disbursed for the programs and funds from July 1, 2003 through June 30, 2006. While our audit period included fiscal year 2006 – 07, as of October 31, 2007, no fiscal awards were received by the District for that year. Finally, site visits were conducted to interview program participants and review pertinent documents.

The review was not conducted in accordance with Generally Accepted Government Auditing Standards, and did not include extensive testing of the District's internal control or the

programmatic appropriateness of expenditures. Had additional procedures been performed, other matters might have come to our attention that would have been reported. This report is a matter of public record and its distribution is not limited.

Analyses and Summary Schedules

Carl Moyer Program:

The following schedule illustrates CMP funds awarded and expended for program years 6, 7, and 8. The year 7 award includes project and multi-district funding. Years 6 and 7 have remaining unexpended project fund balances (Observation 1). Based on CMP funding guidelines, the District has until June 30, 2008 to expend the remaining year 8 project funds.

CMP Year	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ¹	Expenditures After Grant Period	Balance as of 10/31/2007
6	2003 – 04	919,738	(600,746)	318,992	(96,027)	222,965
7	2004 – 05	1,190,957	(873,770)	317,187	0	317,187
7 Multi - District	2004 – 05	459,165	(459,165)	0	0	0
8	2005 – 06	4,364,589	(2,798,585)	1,566,004	0	1,566,004

(1) Year 6 grant period ended 6/30/06; Year 7 grant period ended 6/30/07; Year 8 grant period ends 6/30/08.

Carl Moyer Program Administration:

The following schedule illustrates CMP administration funds awarded and expended for program years 7 and 8. No administration funds were awarded for years 1 through 6. The District uses a job cost methodology to calculate administration costs charged to the CMP. Using this methodology, the District has fully expended the year 7 and 8 administration grant funds. The administration expenses appropriately relate to CMP activities and are directly supported by timesheets as required by CMP guidelines.

CMP Year	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period	Remaining Administration Award
7	2004 – 05	27,568	(27,568)	0
8	2005 – 06	101,032	(101,032)	0

Carl Moyer Program Match Requirements:

The following schedule illustrates the CMP match requirements and expenditures for program years 6, 7, and 8. The District fully met match requirements for years 6, 7, and 8 by completing eligible projects funded with local-control funds.

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period	Remaining Unexpended Match Requirement
6	2003 – 04	459,869	(459,869)	0
7	2004 – 05	542,330	(542,330)	0
8	2005 – 06	684,964	(684,964)	0

Carl Moyer Program Earned Interest:

The following schedule illustrates the District’s allocation of interest earned on the cumulative unexpended balances of CMP funds during the review period. The District had a beginning balance of earned interest from prior CMP funding cycles. The District’s interest calculation methodology is appropriate and allocations are materially correct and properly recorded. The District has not expended any of the CMP earned interest funds.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2003 – 04	140,987	24,741	0	165,728
2004 – 05	165,728	39,039	0	204,767
2005 – 06	204,767	63,519	0	268,286
2006 – 07	268,286	77,247	0	345,533
7/1/07 - 10/31/07	345,533	53,475	0	399,008

Lower-Emission School Bus Program:

The following schedule illustrates LESBP Replacement and Retrofit Program funds awarded and expended during the review period. The District did not receive LESBP Retrofit Program funding during fiscal year 2003 – 04 or LESBP Replacement Program funding during fiscal year 2005 – 06. The LESBP Program was not funded statewide during fiscal years 2004 – 05 or 2006 – 07. The District requested only \$388,750 of its fiscal year 2003 – 04 approved \$390,000 award and expended all \$388,750 by completing eligible LESBP projects. As of

October 31, 2007, the District had a \$1,051,000 balance remaining from its fiscal year 2005 - 06 award.

Fiscal Year	Program	Award Amount	Expenditures as of 10/31/07	Balance as of 10/31/07
2003 – 04	Replacement	388,750	(388,750)	0
2005 – 06	Retrofit	1,051,000	0	1,051,000

Lower-Emission School Bus Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of LESBP funds during the review period. The District had a beginning balance of earned interest from prior LESBP funding cycles. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. The District has not expended any of the LESBP earned interest funds.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2003 – 04	225,156	11,948	0	237,104
2004 – 05	237,104	13,658	0	250,762
2005 – 06	250,762	21,055	0	271,817
2006 – 07	271,817	84,272	0	356,089
7/1/07 - 10/31/07	356,089	22,957	0	379,046

Review of the District's compliance with the fiscal requirements of the CMP and the LESBP resulted in the following observation:

Carl Moyer Program

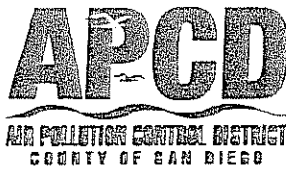
Payments of \$96,027 (11 percent) of the year 6 award were made after the respective grant period. Furthermore, \$222,965 (25 percent) of the year 6 award and \$317,187 (27 percent) of the year 7 award remain unspent as of October 31, 2007.

Recommendation:

The District should work with the Board to develop a plan to return or expend the remaining funds on eligible projects.

The District's assistance and cooperation with our review was appreciated. If you have any questions regarding this report, please contact Mary Kelly, Manager, at (916) 322-2985.

SAN DIEGO COUNTY AIR POLLUTION
CONTROL DISTRICT'S RESPONSE



May 8, 2008

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department Of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Botelho:

On behalf of the San Diego Air Pollution Control District (District), I wish to express my appreciation of your staff's professionalism during the audit of the Carl Moyer Program and the Lower-Emission School Bus program.

The District continuously strives to enhance how it administers the incentive programs and we are always open to new ideas that help us achieve the highest levels of performance. With that, however, the audit draft report had one observation that we believe is inconsistent with the California Air Resources Board (ARB) interpretation of "expenditures." The observation incorrectly noted that:

"Payments of \$96,027 (11 percent) of the year 6 award were made after the respective grant period. Furthermore, \$222,965 (25 percent) of the year 6 award and \$317,187 (27 percent) of the year 7 award remain unspent as of October 31, 2007."

The issue at hand is that the awards are considered to be "spent" by both this District and the ARB upon execution of the contracts, as the money is then encumbered for payment of the projects that will be completed over the timeframe specified in those contracts. This is accordance with the ARB 2003 Guidelines that are applicable to years 6 and 7. Please refer to pages 162 to 166 of those guidelines.

The difficulty here seems only to be with the Department of Finance's incorrect interpretation that encumbered funds are not "spent" even though your staff acknowledged that each Carl Moyer grant award was encumbered before the end of each respective grant period. In our case, the contract terms include both the project completion date and the project life. This allows the project owners to submit invoices within the contract term, which is generally a five-year period.

Next, while the Department of Finance's recommendation that the District work with ARB to develop a plan to return or expend the remaining funds has long been in place, it is an erroneous recommendation in instances where funds are encumbered past the grant period. However, any District contract award that is withdrawn is then reallocated and included in the following year's

May 8, 2008

project funding. It is also monitored to ensure the project is completed within the original two-year time period. Clearly, once the funds are encumbered and the project owners remain in compliance of the contract terms and conditions, the District has no legal ability to remove the encumbrance.

Lastly, as part of our continuous improvement process beginning with Carl Moyer Year 8, the District began withholding up to 10% of the project owner's grant award to ensure timely and continuous submission of reports for the full term of the contract. This amount will always be encumbered until the last required report is received. ARB applauded the District for this effort.

We look forward to working with you and your staff in an effort to continuously improve the implementation of the incentive programs.

If you have any questions, please contact Cecilia Redondo, Group Program Manager, at 858-586-2607.

Sincerely,

Original signed by:

ROBERT KARD
Air Pollution Control Officer

cc: Jack Kitowski, Branch Chief, Mobile Source Control Division, Air Resources Board
Rosa M. Abreu, Assistant Director, San Diego Air Pollution Control District

EVALUATION OF RESPONSE

The San Diego County Air Pollution Control District's (District) response to the draft audit report has been reviewed and incorporated into this final report.

The District disagrees with the Department of Finance's (Finance) observation that payments were made after the grant period and funds remain unspent. The District concludes this disagreement stems from the definition of "expended" employed by Finance versus the definition employed by the District and the Air Resources Board (Board).

It is important to note that although Finance has been engaged by the Board to perform fiscal reviews of the Carl Moyer and related programs, Finance and the Board are independent of one another related to the reviews performed. Finance conducts its reviews of the Carl Moyer Program based on the Health and Safety Code (HSC), which is the ultimate authority governing this program.

Per HSC Section 44287(k), "Any funds reserved for a district pursuant to this section are available to the district for a period of not more than two years from the time of reservation. Funds not expended by June 30 of the second calendar year following the date of the reservation shall revert back to the state board as of that June 30." The HSC makes no reference to encumbrances, rather it is very specific in its requirement that funds must be "expended" by Districts within the two year grant period. This is consistent with the program's overall goal of achieving early emission reductions by requiring projects (engines) to be funded and in operation within a specified timeframe. By not expending funds, the District is unable to achieve the intended program emission reductions.

Additionally, the District asserts that the Finance staff "acknowledged that each Carl Moyer grant award was encumbered before the end of each respective grant period." However, because the HSC requires that funds be expended, a review of encumbrances would not yield pertinent results. Consequently, no such review was performed.

Our observation and recommendation remains unchanged. It is recommended that the District comply with HSC Section 44287(k) in order to achieve the program goals of early emission reductions.