



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

December 3, 2012

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—San Diego County Air Pollution Control District, Fiscal Compliance Audit of Carl Moyer, Lower-Emission School Bus, Goods Movement Emission Reduction, and Air Quality Improvement Programs

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the San Diego County Air Pollution Control District's (District) Carl Moyer, Lower-Emission School Bus, Goods Movement Emission Reduction, and Air Quality Improvement programs for the period July 1, 2007 through December 31, 2011.

The enclosed report is for your information and use. The District's response to the report observations and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

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

Enclosure

cc: Mr. Scott Rowland, Chief, On-Road Control Regulations Branch, California Air Resources Board
Mr. Doug Thompson, Manager, Incentives Oversight Section, California Air Resources Board
Ms. Jennifer Kozumplik, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Mr. Daniel Knowlton, Chief, Administrative Services, San Diego County Air Pollution Control District
Mr. Michael Watt, Program Coordinator, Mobile Source Incentives Section, San Diego County Air Pollution Control District
Mr. Kenneth Koyama, Executive Director, California Air Pollution Control Officers Association

AUDIT REPORT

San Diego County Air Pollution Control District Carl Moyer Program Lower-Emission School Bus Program Goods Movement Emission Reduction Program Air Quality Improvement Program

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

MEMBERS OF THE TEAM

Susan M. Botkin, CGFM
Manager

Sherry Ma, CRP
Supervisor

Staff
Marilyn Santiago
Amanda Voie

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

You can contact our office at:

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

TABLE OF CONTENTS

Background, Scope and Methodology.....	1
Results.....	4
Incentive Grant Funds Schedule	6
Response.....	11
Evaluation of Response	15

BACKGROUND, SCOPE AND METHODOLOGY

Background

The San Diego County Air Pollution Control District (District) is a government agency that regulates sources of air pollution within San Diego County. The District's mission is to protect the public from the harmful effects of air pollution, achieve and maintain air quality standards, foster community involvement, and develop and implement cost-effective programs meeting state and federal mandates, considering environmental and economic impacts.¹ The District works in conjunction with the California Air Resources Board (Board) in achieving its clean air goals. The Board awards block grants to the District and provides guidance and oversight for the Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), Goods Movement Emission Reduction Program (GMERP), and Air Quality Improvement Program (AQIP).

The CMP's objective 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 participate by applying for a grant. Eligible projects include cleaner on-road, off-road, marine, locomotive, and agricultural sources. The Multi-District portion of the CMP provides incremental cost funding for projects operating in more than one local air district. In its first 12 years, the CMP provided over \$680 million in state and local funds to clean-up over 24,000 engines.² The Board awarded \$16,322,227 to the District from July 1, 2007 through December 31, 2011 for the CMP.

The primary goal of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this goal by funding the replacement of older high-polluting school buses with new buses, and the installation of Board-approved pollution control devices on diesel school bus engines. As of December 2011, the Board had awarded nearly all of the LESBP and 2009 state Diesel Emission Reduction Act (DERA) grant funding, including \$5,852,531 to the District.³

The objective of the GMERP is to reduce emissions and health risk from freight operations in California's priority trade corridors. The GMERP is funded by \$1 billion from Proposition 1B Bond funds. The Board has awarded \$553 million to 9 local agencies over multiple fiscal years for the GMERP. As of December 2011, the Board awarded \$14,316,000 to the District for GMERP.⁴

The AQIP is a voluntary incentive program to fund clean vehicle and equipment projects, research on biofuels production and the air quality impacts of alternative fuels, and workforce training. The AQIP uses multiple types of projects to achieve program goals. The District receives funding for the Lawn and Garden Equipment Replacement Project. The Board has

¹ San Diego County Air Pollution Control District website, www.sdapcd.org

² California Air Resources Board website, www.arb.ca.gov.

³ Ibid.

⁴ Ibid.

awarded \$2.6 million in funding for the Lawn and Garden Equipment Replacement Project, including \$150,000 to the District.⁵

The Board advances CMP, LESBP, GMERP, and AQIP funds to the local air districts. Interest income from these advanced funds must be reported to the Board and used to fund projects that meet the respective program guidelines. The local air districts are required to account for interest income.⁶

Scope

In accordance with an interagency agreement with the Board, the Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of the District's CMP, LESBP, GMERP, and AQIP incentive grant funds for the period July 1, 2007 through December 31, 2011.

The audit objectives were to determine for the CMP, LESBP, GMERP, and AQIP:

- The amount of grant funds awarded, the grant program and administrative funds expended within and after the grant period, and the remaining award amount at December 31, 2011.
- The match funding requirement, the matching funds expended within the grant period, and any remaining match requirements at December 31, 2011.
- The amount of interest revenue earned on grant funds, the amount of interest revenue expended, and the interest balance as of December 31, 2011.
- Whether the grant expenditures complied with applicable laws, regulations, grant agreements, and Board program guidelines.
- Whether grant expenditures were recorded accurately in the District's accounting system and the Board's grant reporting databases.

As part of planning our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The Board allows cumulative tracking of CMP expenditures, regardless of the funding year, to determine whether an air district has expended the required amount by each grant expenditure deadline. Cumulative expenditure totals prior to fiscal year 2007-08 are outside the audit scope and excluded from this report.

Methodology

To complete this audit, we performed the following procedures:

- Interviewed key personnel, reviewed policies and procedures, and reviewed information systems documentation to obtain an understanding of the programs and internal controls over relevant information systems and accounting processes.
- Reviewed the programs' grant award agreements and reviewed the Board's program guidelines and applicable Health and Safety Code sections to determine the District's fiscal compliance requirements regarding the incentive grants being audited.

⁵ Ibid.

⁶ Ibid.

- Compiled schedules to summarize CMP, LESBP, GMERP, and AQIP project, match, administration, and interest grant funds activity for the period July 1, 2007 through December 31, 2011 from District accounting and project records, including the District general ledger, Board grant database reports, District administrative cost documentation, and District interest earnings documentation.
- Selected a sample of CMP, LESBP, GMERP, and AQIP project and match expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported, and properly recorded, by tracing to District general ledgers, vendor invoices, payroll records, check disbursement information, and project file documentation.
- Analyzed District administrative costs supporting documentation to determine whether administrative costs were accurately calculated, recorded, and adequately supported.
- Analyzed District interest earnings and disbursement supporting documentation to determine whether interest earnings were accurately allocated to the various programs using a reasonable allocation methodology applied consistently.
- Selected a sample of program award receipts and traced to accounting records and bank statements to verify amount of program award revenue received, and determined the timeliness of the deposit of funds and accuracy of recording in the accounting records.
- Compared amounts reported in the District's general ledger to amounts in the Board's program databases to determine if accounting and program records reconcile.

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.

The results of the audit are based on our review of documents, other information made available to us, and interviews with staff directly responsible for administering incentive funds.

Based on the testing performed, the San Diego County Air Pollution Control District's (District) grant expenditures related to the Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), Goods Movement Emission Reduction Program (GMERP), and Air Quality Improvement Program (AQIP) were accurately recorded in the District's accounting systems and the California Air Resources Board's (Board) grant reporting systems. Except as noted below, the District complied with applicable laws, regulations, grant agreements, and the Board's guidelines.

Observation 1: CMP Grant Funds Were Expended or Retained After the Grant Period

CMP regular and multi-district funds totaling \$1,267,694 were expended after the respective grant periods. Specifically, year 10 regular funds totaling \$653,109 were expended after June 30, 2010. Year 11 regular and multi-district funds totaling \$314,585 and \$300,000, respectively, were expended after June 30, 2011. While these payments were for valid projects, the claims were not approved for payment within the respective grant periods as required by statute.

Additionally, as of December 31, 2011, CMP year 10 regular funds totaling \$31,081 remained unexpended. Year 11 regular and multi-district funds totaling \$2,299,317 and \$35,000, respectively, remained unexpended.

Health and Safety Code section 44287(k) states, "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."

Recommendation:

Ensure projects are completed and funds expended within the respective grant periods. Final determination as to the treatment of the unexpended funds and funds expended outside the grant period will be made by the Board.

Observation 2: CMP Unmet Match Requirement

CMP year 11 grant had a remaining unmet match requirement of \$476,003 after the grant period ended June 30, 2011. The Board allows air districts to count total cumulative match expenditures toward an expenditure deadline; however, the cumulative match balance from prior years is outside the audit scope, therefore only the year 10 and year 11 amounts reported by the District were applied to the match requirement for this report.

CMP year 11 grant agreement G08-M023 identifies a required District match amount of \$705,023. Section E of the Terms and Conditions of the grant agreement states, "Carl Moyer Program 2008-2009 funds must be expended by June 30, 2011." Per the CMP 2008 Guidelines, Program Administration chapter, Part I, section 2, Definitions, "Carl Moyer Program funds include state Carl Moyer Program funds awarded by the Board (as provided by statute), including interest earned on these State funds and local funds used as program match funding."

Recommendation:

The District should ensure the required match amount specified in the grant agreement is satisfied before the expenditure deadline. Final determination as to the treatment of the funds expended outside the grant period will be made by the Board.

INCENTIVE GRANT FUNDS SCHEDULES

Our audit included a review of the Carl Moyer Program (CMP) regular, multi-district, administration, match, and earned interest funds; Lower-Emission School Bus Program (LESBP) project, administration, match, and earned interest funds; Goods Movement Emission Reduction Program (GMERP) project, administration, match, and earned interest funds; and Air Quality Improvement Program (AQIP) project, administration, match, and earned interest funds. Schedules detailing the receipts and expenditures during the CMP years 10 through 13, LESBP program years 2007-08 and Federal Fiscal year (FFY) 2009, GMERP program years 2007-08 and 2008-09, and AQIP program year 2009-10 are illustrated in the following schedules:

Schedules 1 through 4 illustrate the CMP regular and multi-district project, administration, match, and earned interest funds.

Schedule 1: CMP Regular and Multi-District 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 December 31, 2011
10	2007-08	\$4,411,889	\$3,727,699	\$684,190	\$653,109	\$31,081
11	2008-09	3,761,441	1,147,539	2,613,902	314,585	2,299,317
11 Multi-District	2008-09	475,000	140,000	335,000	300,000	35,000
12	2009-10	3,231,132 ²	0	N/A	N/A	3,231,132
12 Multi-District	2009-10	240,421	140,000	N/A	N/A	100,421
13	2010-11	2,933,310 ²	0	N/A	N/A	2,933,310
13 Multi-District	2010-11	452,921	0	N/A	N/A	452,921

(1) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

(2) The District received \$1,071,969 of the Year 12 project funds and \$293,331 of the Year 13 project funds as of December 31, 2011.

Schedule 2: CMP Administration Funds

CMP Year	Fiscal Year	Administration Award Amount	Expenditures Within Grant Period ³	Balance as of December 31, 2011
10	2007-08	\$232,205	\$232,205	\$0
11	2008-09	197,971	197,971	0
11 Multi-District	2008-09	25,000	25,000	0
12	2009-10	170,060	91,257	78,803
12 Multi-District	2009-10	12,654	12,654	0
13	2010-11	154,385	3,962	150,423
13 Multi-District	2010-11	23,838	759	23,079

(3) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

Schedule 3: CMP Match Funds

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period ⁴	Remaining Match Requirement as of December 31, 2011
10	2007-08	\$716,681	\$716,681	\$0
11 ⁵	2008-09	705,023	229,020	476,003
12	2009-10	510,179	0	510,179
12 Multi-District	2009-10	253,075	0	253,075
13 ⁵	2010-11	463,154	0	463,154

(4) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

(5) Year 11 and Year 13 multi-district did not have match requirements; therefore, not included in schedule.

Schedule 4: CMP Earned Interest

Fiscal Year	Beginning Balance	Interest Earned	Interest Expenditures ⁶	Balance at Fiscal Year End
2007-08	\$345,533	\$208,847	\$262,321	\$292,059
2008-09	292,059	103,338	0	395,397
2009-10	395,397	39,948	435,345	0
2010-11	0	12,822	0	12,822
7/1/11-12/31/11	12,822	6,891	0	19,713

(6) The Board established interest expenditure deadlines in 2010 for the remaining balance as of June 30, 2010 to be expended by June 30, 2013, interest earned during FY 2010-11 to be expended by June 30, 2014, and interest earned during FY 2011-12 to be expended by June 30, 2015.

Schedules 5 through 8 illustrate the LESBP project, administration, match, and earned interest funds.

Schedule 5: LESBP Project Funds

Grant Award	Program Year	Award Amount	Expenditures Within Grant Period ⁷	Funds Returned to Air Resources Board	Balance as of December 31, 2011
G07-SB025	2007-08	\$5,447,011	\$1,394,720	N/A	\$4,052,291
G08-DERA-05	FFY 2009	157,170	156,362	808	0

(7) G07-SB025 grant period ends June 30, 2012; G08-DERA-05 grant period ended September 30, 2009.

Schedule 6: LESBP Administration Funds

Grant Award	Program Year	Administration Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ⁸	Expenditures After Grant Period	Balance as of December 31, 2011
G07-SB025	2007-08	\$236,520	\$164,358	N/A	N/A	\$72,162
G08-DERA-05	FFY 2009	11,830	11,436	394	394	0

(8) G07-SB025 grant period ends June 30, 2012; G08-DERA-05 grant period ended September 30, 2009.

Schedule 7: LESBP Match Funds

Grant Award	Program Year	No. of Buses Replaced Requiring Match ⁹	Funding Source	Match Expenditures as of December 31, 2011 ¹⁰
G07-SB025	2007-08	4	School District	\$100,000

(9) LESBP guidelines require a match amount of \$25,000 for each replacement of a model year 1977-1986 bus.

(10) G07-SB025 grant period ends June 30, 2012. The District met the \$25,000 match requirement for each bus requiring match funding as of December 31, 2011.

Schedule 8: LESBP Earned Interest

Grant Award	Program Year	Interest Earned	Expenditures Within Grant Period ¹¹	Balance as of December 31, 2011
G07-SB025	2007-08	\$36,572	\$ 0	\$36,572
G08-DERA-05	FFY 2009	565	565	0

(11) G07-SB025 grant period ends June 30, 2012; G08-DERA-05 grant period ended September 30, 2009.

Schedules 9 through 12 illustrate the GMERP project, administration, match, and earned interest funds.

Schedule 9: GMERP Project Funds

Grant Award	Program Year	Award Amount	Expenditures Within Grant Period ¹²	Balance as of December 31, 2011
G07GMST2	2007-08	\$1,945,000	\$1,600,000	\$345,000 ¹⁴
G07GMSP2	2007-08	4,949,000	4,899,000	50,000 ¹⁴
G08GMST2	2008-09	6,264,095	0	6,264,095
G08GMSH1	2008-09	480,769 ¹³	0	480,769

(12) G07GMST2 grant period ended December 31, 2011; G07GMSP2 grant period ended June 30, 2011; G08GMST2 grant period ends April 9, 2014; G08GMSH1 grant period ends August 9, 2016.

(13) The District had not received the G08GMSH1 project funds as of December 31, 2011.

(14) The remaining unexpended balances for grants G07GMST2 and G07GMSP2 were reallocated to the District's FY 2011-12 grant agreement G11GMST1, executed April 18, 2012.

Schedule 10: GMERP Administration Funds

Grant Award	Program Year	Administration Award Amount	Expenditures Within Grant Period ¹⁵	Balance as of December 31, 2011
G07GMST2	2007-08	\$ 97,250 ¹⁶	\$ 59,288	\$ 37,962
G07GMSP2	2007-08	247,450	236,282	11,168
G08GMSH1	2008-09	19,231 ¹⁶	5,914	13,317
G08GMST2	2008-09	313,205 ¹⁶	105,485	207,720

(15) G07GMSP2 and G07GMST2 administration grant periods end June 18, 2014; G08GMSH1 and G08GMST2 administration grant periods end February 9, 2017.

(16) The District had received \$80,000 of the G07GMST2 administration funds, \$9,615 of the G08GMSH1 administration funds, and \$281,884 of the G08GMST2 administration funds as of December 31, 2011.

Schedule 11: GMERP Match Funds

Grant Award	Program Year	Match Type	Estimated Grant Agreement Match	Match Expenditures Within Grant Period ¹⁷	Remaining Match as of December 31, 2011
G07GMST2	2007-08	Private	\$3,485,600	\$2,513,824	\$ 971,776
G07GMSP2	2007-08	Port	1,400,000	437,141	962,859
		Private	5,607,849	2,851,482	2,756,367
G08GMST2	2008-09	District-Local	1,124,718	0	1,124,718
		Private	6,264,095	0	6,264,095
G08GMSH1	2008-09	Private	480,769	0	480,769

(17) G07GMST2 grant period ended December 31, 2011; G07GMSP2 grant period ended June 30, 2011; G08GMST2 grant period ends April 9, 2014; G08GMSH1 grant period ends August 9, 2016.

Schedule 12: GMERP Earned Interest

Grant Award	Interest Earned	Interest Expenditures ¹⁸	Ending Balance as of December 31, 2011
G07GMST2	\$ 9,026	\$0	\$ 9,026
G07GMSP2	21,925	0	21,925
G08GMST2	730	0	730
G08GMSH1	21	0	21

(18) There is no expenditure deadline for GMERP earned interest.

Schedule 13 illustrates the AQIP project, administration, and match funds. The AQIP grant did not earn any interest.

Schedule 13: AQIP Project, Administration, and Match Funds

Grant Award	Fiscal Year	Grant Project Award Amount	Grant Administration Award Amount	Required District Match	Expenditures Within Grant Period ¹⁹	Balance as of December 31, 2011
G09-AQIP-07	2009-10	\$135,000			\$135,000	\$0
			\$15,000		15,000	0
				\$150,000	150,000	0

(19) G09-AQIP-07 grant period ends June 30, 2012.



Air Pollution Control Board

Greg Cox	District 1
Dianne Jacob	District 2
Pam Slater-Price	District 3
Ron Roberts	District 4
Bill Horn	District 5

October 25, 2012

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Botelho:

On behalf of the San Diego County Air Pollution Control District (District), I wish to express my appreciation of your staff's professionalism and diligence during the audit of the District's implementation of the Carl Moyer Program, Goods Movement Emission Reduction Program (GMERP), Air Quality Improvement Program, and the Lower-Emission School Bus Program. The District continuously strives to increase the efficiency and effectiveness in the management of incentive programs and we are open to new ideas that help us achieve the highest levels of performance.

With that, however, we believe the draft audit report's first observation is inconsistent with the California Air Resources Board (ARB) interpretation of "expenditures." The observation noted that:

"CMP regular and multi-district funds totaling \$1,267,694 were expended after the respective grant periods."

This finding is inconsistent with the ARB's interpretation of when the monies are considered "expended." ARB's Carl Moyer Program Guidelines state that all funds under a project's contract are considered expended when fully liquidated or when an invoice payment covers the grant amount for at least one operational new engine, vehicle or piece of equipment.

The draft audit report states that Carl Moyer funds in the amount of \$1,267,694 were expended after the grant period and that Year 10 and 11 funding in the amount of \$2,365,398 remained unexpended. The District acknowledges some delays in expenditure for these projects but the figures provided in the draft audit report's first observation do not account for District projects that met the ARB's expenditure criteria described above. Additionally, the District received instructions from the ARB stating

the ARB legal staff had determined the District was not obligated to return funds that are under a fully executed contract. The ARB further stated that the then currently executed contracts in an amount in excess of the unexpended funding level met this standard and the District was not obligated to return the funds.

As part of the District's responsibilities under the terms of the grant agreement the District is required to provide the ARB with a cumulative report of expenditures and funding for the multiple Carl Moyer grant years. The current report, covering up to Year 12, shows that the District has met all the funding expenditure requirements of the ARB. Although the District has met the obligations of the agreements with ARB, we remain committed to improving the implementation of the various programs. To address the District's ability to meet the goals of the Carl Moyer Program, the District has significantly streamlined the various internal processes and added staffing to the program.

The second recommendation states "The District should ensure the required match amount specified in the grant agreement is satisfied before the expenditure deadline." Observation 2a notes that \$476,003 of the District match for the Year 11 Carl Moyer Program remained unspent at the end of the two-year period. The report also notes that ARB allows air districts to count total cumulative match expenditures toward an expenditure deadline but that any match funds expended in prior years were not applied to the requirement for this report since they were "outside the scope of this audit." The District acknowledges some delays in expenditures for these match projects but contends that the figures provided in Observation 2a do not account for the prior year funds expended in compliance with ARB Guidelines which allow for cumulative progress tracking of match expenditures.

Observation 2b noted there were GMERP grants which also had unmet match requirements. Correspondence on April 10, 2012, with the ARB has confirmed that there are no specific requirements for match in the GMERP, but rather the statute and the Program Guidelines require that Program funds are leveraged with non-Program funds to cover the full cost of the equipment upgrade. GMERP grant amounts are based on ARB estimates of the costs of equipment upgrades and were intended to allow for leveraging of Program funding at a ratio of 1 to 1. If the actual equipment costs are less than estimated by ARB there is no requirement for the District to provide additional funding or to reduce the grant to the equipment owner in order to maintain the level of non-Program funding at the estimated ratio of 1 to 1. The District contends that it has met all GMERP expenditure requirements under the ARB standards outlined above.

We look forward to continuing to work with you and your staff to improve the implementation of the ARB and District's incentive programs.

Should you have any questions, please feel free to contact Daniel Knowlton, Chief, Administrative Services Division at 858-586-2607.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert J. Kard". The signature is fluid and cursive, with a large loop at the end.

ROBERT J. KARD
Air Pollution Control Officer

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

EVALUATION OF RESPONSE

We reviewed the San Diego Air Pollution Control District's (District) response, dated October 25, 2012, to our draft audit report and provide the following evaluation:

Observation 1: CMP Grant Funds Were Expended or Retained After the Grant Period

The District maintains that according to the Air Resources Board's (Board) interpretation of "expended" in the Carl Moyer Program (CMP) guidelines, it met the CMP expenditure and liquidation requirements. The portion of the CMP guidelines the District refers to is Part 3, section 18(b), which states, in part, "Funds are considered expended when an invoice for that project has been fully or partially paid by the air district...."

However, the Health and Safety Code (HSC) is the ultimate authority that governs this program. As noted in the report, 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." As such, the District has two years from reservation to expend the program funds in their entirety. Our audit disclosed that funds were not expended by the District within the specified timeframes. Therefore, our observation and recommendation remain unchanged.

Observation 2: CMP and GMERP Unmet Match Requirement

- a) The District contends that the match amount in this observation does not account for prior year funds, which would be included under the cumulative progress tracking allowed in the CMP Guidelines. Because this limitation was included in the original observation, the observation remains unchanged.
- b) In its response, the District references correspondence from the Board stating that there are no specific requirements for match in the Goods Movement Emission Reduction Program (GMERP), only that program funds are leveraged with non-program funds. After review of the applicable statute, GMERP Guidelines, and the referenced correspondence from the Board, this observation has been deleted from the report.