

Bay Area Air Quality Management District Incentive Programs



www.baaqmd.gov

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BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

BACKGROUND

The California Air Resources Board (ARB) administers state level incentive programs whose objectives are to reduce emissions from on-and off-road vehicles and equipment. Vehicle and equipment owners apply for funds through their local air quality management districts or air pollution control districts (air districts). While ARB is responsible for program oversight, the air districts implement the incentive programs.

The Bay Area Air Quality Management District (Bay Area) is one of 35 air districts partnering with ARB to improve air quality through implementing ARB’s emission reduction incentive programs. The Bay Area shares responsibility with ARB for ensuring state and federal air quality standards are achieved and maintained, and receives incentive program funds through grants. The grants provide funding to replace or retrofit low emission vehicles or equipment, and requires air districts to follow ARB guidelines for implementing the programs. The Bay Area participates in the following incentive programs.

Incentive Programs¹

CMP	The Carl Moyer Memorial Air Quality Standards Attainment Program’s (CMP) 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 operating eligible engines or equipment within the Bay Area’s jurisdiction participate by applying to the Bay Area for a grant. The Bay Area was responsible for administering \$50 million in CMP funds between July 1, 2007 and June 30, 2014.
LESBP	The Lower-Emission School Bus Program (LESBP) is funded \$200 million from Proposition 1B. The LESBP’s purpose is to reduce school children’s exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement and Retrofit Program. The program funds the replacement of older high-polluting school buses with new low emission buses, and the installation of Board-approved pollution control devices on diesel school bus engines. The Bay Area received \$8.6 million of LESBP funds.
DERA	The Diesel Emission Reduction Act (DERA) authorizes the Federal Environmental Protection Agency to award grants, rebates, and low-cost revolving loans to eligible entities to fund the costs of a retrofit technology that significantly reduces emissions. The DERA program achieves its goal of reducing emissions through implementation of a certified engine configuration for buses (including school buses), medium-duty or heavy-duty diesel trucks, marine engines, locomotives, diesel vehicles, and equipment used in construction, handling of cargo, agriculture, mining, or energy production. The Bay Area received \$378,222 with ARB as the pass-through state agency.
GMERP	The Goods Movement Emission Reduction Program (GMERP) is funded \$1 billion from Proposition 1B. The GMERP’s objective is to reduce air pollution emissions and health risks from freight movement along California’s trade corridors. Air districts apply to ARB for funding, and then use the award to offer financial incentives to owners of equipment used in freight movement to upgrade to cleaner technologies. Projects funded under this program must achieve early or extra emission reductions not otherwise required by law or regulation. The Bay Area received \$90 million of GMERP funds.
AQIP	The Air Quality Improvement Program (AQIP) was established by the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007. It is a voluntary incentive program administered by ARB to fund clean vehicle and equipment projects. The program focuses on funding clean vehicle and equipment projects, research on biofuels production and the air quality impacts of alternative fuels, and workforce training. The Bay Area received \$1 million of AQIP funds.

¹ Excerpts were obtained from Bay Area’s website, www.baaqmd.gov

For purposes of this report, the term *incentive programs* refer to the five programs described above.

SCOPE

In accordance with an interagency agreement with ARB, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a fiscal compliance audit of the Bay Area's incentive programs. Specifically, we focused on grants awarded during the fiscal years shown below.

Incentive Program	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
CMP (Schedule 1)		•	•	•	•	•	
LESBP (Schedule 2)	•					•	•
DERA ² (Schedule 3)			•				
GMERP (Schedule 4)	•	•			•		•
AQIP (Schedule 5)				•			

The Incentive Fund Activity Schedules (Schedules) presented in Appendix A detail the grant revenue and expenditures incurred during the period July 1, 2007 through June 30, 2014.

The audit objective was to determine whether the grant revenue and expenditures complied with applicable program guidelines, grant agreements, federal and state laws and regulations, and accounting principles generally accepted in the United States. We did not assess the efficiency or effectiveness of program operations.

The Bay Area's management is responsible for ensuring accurate fiscal reporting and preparation of the Schedules; and compliance with ARB's grant requirements and program guidelines, applicable state and federal laws and regulations, and accounting principles generally accepted in the United States. The Bay Area and ARB are responsible for the state and local level administration of the incentive programs.

METHODOLOGY

To achieve the audit objective, we performed the following procedures:

- Reviewed the grant award agreements for each incentive program.
- Reviewed applicable criteria to identify significant fiscal compliance requirements, such as ARB Guidelines, Health and Safety Codes, and Bay Area's policies and procedures.
- Obtained the Schedules for each incentive program and performed data-set verification to ensure completeness and accuracy by tracing a sample of transactions to supporting documentation, such as the general ledger, project expenditure reports, administration cost allocation sub-ledgers, and interest earnings allocation sub-ledgers.

² DERA funding corresponds to the federal fiscal year 2009-10 which is October 2009 through September 2010.

- For revenues, traced the grant awards from the Schedules to the general ledger to ensure grant funds were accurately recorded.
- For expenditures, randomly selected a sample of expenditures across all incentive programs, including match expenditures, to determine if costs were grant-related, incurred within the audit period, supported by vendor invoices, and properly recorded in the general ledger, check disbursement ledger, and project files.
- Tested administrative costs to determine if administrative costs were accurately recorded and adequately supported.
- Traced and reviewed interest earnings from earnings statements to allocation worksheets to determine if interest earnings were accurately and reasonably allocated to the various programs and properly recorded in the correct account.

In planning our audit, we obtained an understanding of the Bay Area's internal controls, including any information systems controls we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control identified during the audit and determined to be significant within the context of our audit objectives are included in this report.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objective.

RESULTS

Based on the procedures performed, the Bay Area's Schedules, included herein, are in compliance with applicable laws, regulations, grant agreements, guidelines, and accounting principles generally accepted in the United States. In addition, we found no significant internal control deficiencies within the context of our audit objective.

APPENDIX A
INCENTIVE PROGRAM FUND
ACTIVITY SCHEDULES

**Carl Moyer Memorial Air Quality Standards Attainment Program
July 1, 2008 through June 30, 2014
Schedule 1**

Transaction Class	District Projects	Multidistrict Projects	Administration	Total
Revenue				
Grant Revenue				
G08-M003	\$ 8,885,545	\$ -	\$ 467,660	\$ 9,353,205
G08-M033		1,232,783	64,883	1,297,666
G09-M003	8,207,151		431,955	8,639,106
G09-M032		604,745	31,829	636,574
G10-M004	7,668,499		403,605	8,072,104
G10-M033		1,190,277	62,646	1,252,923
G11-M003	8,297,495		436,710	8,734,205
G11-M033		1,129,389	59,442	1,188,831
G12-M003	6,819,109		358,901	7,178,010
G12-M035		2,831,909	149,048	2,980,957
Total Grant Revenue	39,877,799	6,989,103	2,466,679	49,333,581
Interest Revenue	219,240 ¹	-	-	219,240
Total Revenue	40,097,039	6,989,103	2,466,679	49,552,821
Expenditures				
District Projects	36,041,494		1,944,553	37,986,047
Multidistrict Projects		6,627,194	298,800	6,925,994
Total Expenditures	36,041,494²	6,627,194	2,243,353	44,912,041
Revenues over Expenditures	4,055,545	361,909	223,326	4,640,780
Beginning Fund Balance	1,699,576	-	-	1,699,576
Ending Fund Balance	\$ 5,755,121	\$ 361,909	\$ 223,326	\$ 6,340,356

¹ In its June 30, 2009 Independent Auditor's Report, the Bay Area disclosed in Note 16 an investment write-down from an external investment pool account related to the September 15, 2008 Lehman Brothers Holdings Inc.'s (Lehman) bankruptcy. The Bay Area's share of the write-down equaled \$932,033, which was recorded as negative interest income revenue. The \$219,240 is the net interest revenue recorded for the 7-year audit period.

² Total Expenditures includes \$6.6 million in match expenditures as required by the grants ending in -003.

**Lower-Emission School Bus Program
July 1, 2007 through June 30, 2014
Schedule 2**

Transaction Class	Projects	Administration	Total
Revenue			
Grant G07-SB03	\$ 8,087,383	\$ 435,826	\$ 8,523,209
Interest Revenue	131,418	-	131,418
Total Revenue	8,218,801	435,826	8,654,627
Total Expenditures	8,213,145	435,826	8,648,971
Ending Fund Balance	\$ 5,656	\$ -	\$ 5,656

**Diesel Emission Reduction Act
July 1, 2009 through June 30, 2014
Schedule 3**

Transaction Class	Projects	Administration	Total
Revenue			
Grant G08-DEIRA-03	\$ 359,940	\$ 22,060	\$ 382,000
Interest Revenue	-	902	902
Total Revenue	359,940	22,962	382,902
Total Expenditures	359,940	22,962	382,902
Ending Fund Balance	\$ -	\$ -	\$ -

Goods Movement Emission Reduction Program
July 1, 2007 through June 30, 2014
Schedule 4

Transaction Class	Projects	Administration	Total
Revenue			
Grant Revenue			
G07GMBS1	\$ 2,374,794	\$ 47,496	\$ 2,422,290
G07GMBP1	13,835,135	691,756	14,526,891
G07GMBT1	9,964,000	498,200	10,462,200
G08/11 GMBT1	17,313,000	865,650	18,178,650
G08GMBS1	19,244,834	463,904	19,708,738
G11GMBP1	9,820,000	491,000	10,311,000
13GMB01	12,546,547	623,383	13,169,930
Interest Revenue	803,838	-	803,838
Total Revenue	85,902,148	3,681,389	89,583,537
Total Expenditures	68,820,406	2,993,681	71,814,087
Ending Fund Balance	\$ 17,081,742	\$ 687,708	\$ 17,769,450

Air Quality Improvement Program
July 1, 2010 through June 30, 2014
Schedule 5

Transaction Class	Amounts
Grant Award	
G10-AQIP-07	\$ 165,643
G10-AQIP-011	165,000
G10-AQIP-012	229,830
G10-AQIP-013	510,810
Total Award Available	1,071,283
Total Project Expenditures	932,324
Ending Award Balance³	\$ 138,959

³ The balance represents funds available to the Bay Area to claim as a reimbursement for eligible project expenditures and does not represent cash in its account.