

**Program and Fiscal Reviews
For California
Emissions Reduction Incentive Programs**

Policies and Procedures



Mobile Source Control Division
April 2018

Table of Contents

I.	Introduction	- 3 -
II.	General Parameters of Review	- 4 -
A.	<i>Program and Fiscal Review</i>	<i>- 4 -</i>
B.	<i>Scope of Review.....</i>	<i>- 5 -</i>
C.	<i>Frequency and Notification of Review.....</i>	<i>- 6 -</i>
III.	Specifying and Resolving Issues	- 6 -
A.	<i>Findings</i>	<i>- 7 -</i>
B.	<i>Recommendations.....</i>	<i>- 7 -</i>
C.	<i>Commendable Efforts.....</i>	<i>- 8 -</i>
IV.	CARB Program Review Team	- 8 -
A.	<i>Management Team.....</i>	<i>- 8 -</i>
B.	<i>Review Team</i>	<i>- 9 -</i>
V.	Program Review Procedures.....	- 9 -
A.	<i>Preparation.....</i>	<i>- 9 -</i>
B.	<i>On-Site Visit</i>	<i>- 12 -</i>
C.	<i>Document Review.....</i>	<i>- 14 -</i>
D.	<i>Completion of Review.....</i>	<i>- 17 -</i>
E.	<i>Exit Conference.....</i>	<i>- 18 -</i>
VI.	Program Review Procedures for Rural Districts	- 18 -
VII.	Final Reports and District Responses	- 19 -
VIII.	Follow-up Actions	- 20 -
IX.	Recordkeeping.....	- 21 -

I. Introduction

The California Air Resources Board (CARB or the Board) works with California's air quality management districts and air pollution control districts (districts) to administer programs that provide financial incentives that clean the air by advancing lower-emitting engines and technologies. Districts and CARB share a commitment to make these incentive programs work efficiently and effectively to clean the air.

California Health and Safety Code sections 39500, 39808, 44286 and 44291 give CARB the authority and direction to oversee the implementation of incentive programs. The Board works to ensure the programs are conducted in a manner consistent with applicable laws and guidelines and that expected emission reductions are achieved. CARB oversight increases incentive program accountability by providing a mechanism to identify program deficiencies, make corrections, and ensure public funds are spent in a manner consistent with statutory intent. The objectives of this oversight include:

- Identify strengths of district programs that can be shared with other districts, providing stronger outcomes for incentive programs statewide
- Identify training needs for air district staff
- Highlight areas in State guidance that require clarification
- Help CARB understand local challenges in program implementation
- Strengthen the working relationship between State and local entities

To fulfill these oversight duties, in 2006 the Carl Moyer Program Section within CARB's Mobile Source Control Division began conducting program audits of district Carl Moyer Programs. In 2010 the Incentives Oversight Section was created, reflecting the need to include additional incentive programs within the scope of the audits. In October 2011, CARB renamed these program audits as program reviews to better reflect the processes undertaken and outcomes achieved.

Incentive programs currently subject to review include the Carl Moyer Memorial Air Quality Standards Attainment Program (Moyer Program), the Lower-Emission School Bus Program, the Proposition 1B Goods Movement Program, and the Assembly Bill (AB) 118 (Nunez, Chapter 750, Statutes of 2007) Air Quality Improvement Program (AQIP). In future years program reviews will include incentive programs established more recently, including the Funding Agricultural Replacement Measures for Emission Reductions program, and Community Air Protection funds allocated to reduce emissions in our most pollution-burdened communities through incentive projects.

CARB's program review resources were re-focused on the districts receiving the largest grants beginning in 2014. At the same time, CARB staff appreciated the desire of some districts for a more interactive, collaborative review process. Several changes in the review process would improve understanding of CARB expectations, reflect the maturation of district incentive program implementation, and acknowledge the partnership with which incentive programs are implemented. New procedures implemented in subsequent reviews -- including a collaborative initial file review, an

opportunity to provide supplemental information to avoid potential findings that do not require mitigation, and an opportunity for district staff to evaluate the CARB process -- have improved the sense of shared mission in incentive program implementation. Moreover, reviews over the past five years appear to verify that outcomes improve as districts gain more experience with incentive programs. The additional expertise gained with experience results in fewer mistakes.

Meanwhile, Senate Bill (SB) 513 (Beall, Chapter 610, 2015) enhanced funding opportunities for Carl Moyer Program projects by allowing the Board to establish cost-effectiveness limits to reflect regulatory and technology costs, enabling project co-funding with other grant programs, and permitting the funding of a broader array of infrastructure projects. SB 513 also required an update to Moyer Program guidelines to enable implementation of these changes. CARB took the opportunity to work with air districts to streamline and simplify administrative procedures while maintaining a focus on program accountability. Further legislation signed by the governor in 2017 (AB 1274, O'Donnell, Chapter 633 and AB 134, Committee on Budget, Statutes of 2017) designated more funds for the Moyer Program, underlining the importance of its continued success.

Guidelines for incentive program review are found in Chapter 3, Section R of the 2017 Moyer Program Guidelines, approved by the Board April 27, 2017. This Policies and Procedures document provides districts and the public additional information on how reviews and audits are conducted for Moyer and other incentive programs. The current version of these Policies and Procedures is available to the public on the CARB website. CARB may deviate from these Policies and Procedures with reasonable cause. If this occurs, the district under review will be notified and any significant variations in policy or procedure will be described in the program review report issued by CARB.

II. General Parameters of Review

The incentive program review process is described in general terms below. Although CARB staff directs the process, each review is carried out in close consultation with district staff, as well as third-party auditors where applicable. CARB and district staff carry out review steps in a collaborative manner, as long as they enhance rather than compromise the integrity of the review process.

A. Program and Fiscal Review

Most reviews of district incentive programs are conducted in two parts: a program review and a fiscal compliance audit or fiscal review. CARB staff conduct program reviews that focus on whether funded projects meet requirements of the incentive program. A fiscal compliance audit may be conducted by a qualified third party under arrangement with CARB, either concurrent with or following the CARB program review. In some circumstances, such as for smaller districts with

simpler project funding and accounting systems, CARB staff may conduct a more cursory fiscal review in lieu of a third-party audit.

The eventual outcome of a program review is the final report (addressed in Section VII) developed by CARB staff and posted on the CARB website. CARB may conduct a follow-up review if significant findings result from a program or fiscal review. Follow-up review procedures are tailored to individual circumstances to ensure that air district corrective actions have been timely and effective. A final report also concludes the fiscal compliance audit or fiscal review.

The procedures used for incentive program reviews at small and medium-sized districts may vary from procedures used for larger districts. Rural districts in particular receive smaller grants, have fewer staff, and generally fund a more limited range of project types (see Section VI, Program Review Procedures for Rural Districts). CARB's limited program review resources are directed less often to districts with smaller grants and less overall risk to program funds.

B. Scope of Review

CARB defines the scope of fiscal years, incentive programs, and funding sources to be examined in each program review. The fiscal year scope may cover five years or more; it typically covers some fiscal years currently in progress and those completed since the previous review. For programs that are newer or have fewer grant cycles, fewer years of incentive program participation may be available to review. The funding sources that are reviewed include:

- Grant funds (project and administration) received from CARB and, if applicable, received via redirection from other districts
- Interest earned on balances of unexpended grant funds
- Non-grant revenues that become available for project and administrative expenditures, such as from the sale of salvage
- District match funds expended on projects to meet grant requirements

CARB staff reviews district implementation of grants specified within the scope of each review. Program reviews may be directed to cover all aspects of program implementation required by the grants, but focus in particular on compliance with guidelines, project eligibility, contract enforcement, documentation, and reporting to CARB.

For fiscal reviews, the scope may include a financial compliance audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. For this work, CARB may contract with a fiscal audit contractor (auditor), but the auditor is independent, following its own procedures, coming to its own conclusions, and reporting its results separately.

If CARB performs the fiscal review, that review is usually performed and reported concurrently with the program review.

During a program or fiscal review, the scope may be broadened to allow examination of significant issues that arise from the review but would otherwise be outside its scope. The scope may include review of relevant activities of parties outside of a district's direct purview (e.g., consultants, other governmental agencies) that have participated in implementation of the programs within the review's scope.

Carl Moyer Program match projects, including those funded with the \$2 motor vehicle registration fees authorized by AB 923 (Chan, Chapter 707, Statutes of 2004), are also subject to program and fiscal review. Non-match projects funded with \$2 motor vehicle fees may also be evaluated as part of a CARB review, but such an evaluation is limited to project eligibility.

C. Frequency and Notification of Review

Subject to available resources and timing, CARB conducts one large district program review and fiscal audit each year. Large districts are those over 1 million in population, which include the South Coast AQMD, San Joaquin Valley APCD, San Diego County APCD, Bay Area AQMD, and Sacramento Metropolitan AQMD. This schedule enables a full review of district programs representing 80 percent of Carl Moyer Program funds within each five-year period.

Medium and small districts are reviewed on an as-needed basis. Factors considered when scheduling medium and small district reviews include the amount of incentive program funding received, past performance in implementing incentive programs, questions or issues that have arisen specific to individual district programs, availability of resources to conduct the review, and the length of time since the last review.

CARB informally notifies staff of the district or districts chosen for review when the schedule and scope for reviews in the upcoming year are developed, typically during the previous fall. A formal letter of notification is later sent to the district air pollution control officer about 90 days prior to the program review entrance meeting. CARB staff may accelerate notification and review if a serious issue is suspected, such as fraud or routine funding of ineligible projects.

III. Specifying and Resolving Issues

Program and fiscal reviews result in issues that may either be resolved immediately through consultation and district action or included in final reports. For the CARB

program review, such issues are categorized into findings, recommendations, and commendable efforts.

A. Findings

A *finding* is made for a district practice or decision with potentially significant consequence that is found to be inconsistent with a specified program requirement. An example is the funding of ineligible projects. Findings may include *conditions* that detail the district practices that resulted in the problem. Findings also specify any *required actions* the district must take to mitigate them. Specified program requirements are shown below.

- State requirements including those under Health and Safety Code sections as follows:
 - 39625 through 39627.5—Goods Movement Program.
 - 44275 through 44299.2—Carl Moyer Program.
 - 44299.90 through 44299.91—School Bus Program.
- Governor’s Executive Order S-02-07.
- *Carl Moyer Program 2008 Guidelines* (April 21, 2008), *Carl Moyer Program 2011 Guidelines* (December 31, 2014), and *Carl Moyer Program 2017 Guidelines* (May/June 2017) (<http://www.arb.ca.gov/msprog/moyer/guidelines/current.htm>), each as applicable to the scope of the review.
- Lower-Emission School Bus Program Guidelines (<http://arb.ca.gov/bonds/schoolbus/guidelines/2008lesbp.pdf>)
- Carl Moyer and School Bus Program advisories, Mail-outs, and other written communications.
- Carl Moyer and School Bus Program Grant Award and Authorization requirements.
- Goods Movement Program Local Agency Grant Agreements.
- Goods Movement Program Guidelines http://www.arb.ca.gov/bonds/gmbond/docs/prop_1b_goods_movement_2015_program_guidelines_for_implementation.pdf.
- District Policies and Procedures and district forms, including vouchers and contracts with grant recipients.

Findings may also be included in the separate report of a third-party auditor. Final reports are posted on the CARB’s incentive program review website at <http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>.

B. Recommendations

Whether district practices are consistent with specified program requirements or mitigation actions are required, the CARB final report may offer *recommendations* when a change in practices would improve program effectiveness, efficiency, or transparency. Air district staff are requested to

consider program review recommendations to improve the implementation of one or more incentive programs.

C. Commendable Efforts

The CARB final report may also point to one or more *commendable efforts* by air district staff in incentive program implementation. Commendable efforts are district practices that exceed program requirements, result in a new program benefit, or present a method of accomplishing program goals in an exemplary manner that may serve as a model for other districts.

IV. CARB Program Review Team

CARB program reviews will be led by a management team and implemented by a staff review team. The management team includes the Chief of the Incentives and Technology Advancement Branch and incentive program managers, including the manager of the Incentives Oversight Section who directly oversees the review process and is responsible for ensuring regular communication with the district. The staff review team includes a review lead and review team members. Management or staff from CARB's Administrative Services Division or Office of Legal Affairs may join either team to monitor or assist the fiscal review process.

A. Management Team

The management team provides policy direction, reviews scope parameters, finalizes the list of districts to be reviewed, determines staffing resources, and establishes deadlines for completion. Management also reviews all written products (e.g., the review notification letter, the draft and final reports) and attends key meetings with districts as necessary.

The management team meets with key review staff throughout the course of each review to discuss its progress and any issues or concerns that may have arisen. The management team also provides direction throughout the course of reviews and clarifies CARB policies. Overall, the management team ensures that each review meets high standards for quality and integrity.

The manager of the Incentives Oversight Section is responsible for overseeing reviews and coordinating the work of staff to ensure that the process is consistent and that CARB objectives are achieved. The manager oversees a wide variety of tasks, including:

- Recommending which districts are to be reviewed
- Ensuring regular communication with air districts under review
- Informing the management team of progress and emerging issues
- Collaborating with review leads to establish timelines and complete tasks

- Coordinating the participation of fiscal reviewers
- Responding to requests made by other agencies regarding reviews
- Training review team members
- Updating administrative documents such as Policies and Procedures and forms
- Reviewing documents such as reports and formal correspondence with the district
- Assisting other team members in completing tasks as needed to ensure reviews are completed in a timely manner

B. Review Team

The CARB management team assigns an overall review lead to manage each incentive program review. The review lead is responsible for ensuring that all tasks associated with a particular review are completed. For program reviews at large districts, program leads are also assigned to lead the review of each incentive program. The review and program leads coordinate with each other as necessary to draft documents (e.g., notification letter, report) and to communicate with district incentive program staff. The review and program leads also help train staff for file review and inspections, conduct management briefings, and lead discussion during meetings with the district.

Review team members, under the direction of appropriate program leads, collect and compile information, perform project file reviews, conduct engine or equipment inspections, and assist the review lead with other tasks as needed. Team members are typically drawn from CARB incentive program staff.

Review team members usually do not include the CARB incentive program liaisons to the air district. This helps to maintain the independence and objectivity of the review. Air district liaisons are invited to key meetings and kept informed of review progress. Because liaisons have access to information regarding district procedures, projects, and expenditures, they may assist with compiling necessary documents and information for the review team.

V. Program Review Procedures

The program review procedures described in this section were developed for larger and medium population districts. Program and fiscal reviews of each incentive program are coordinated to maximize the efficiency of the overall process and reduce resource impacts on the districts and CARB. When possible, similar procedures are used for all programs.

A. Preparation

Review team members complete a number of tasks before the first on-site visit, including team planning, district notification, and selection of specific projects for

review. The overall review lead prepares an entrance conference agenda and sign-in sheet.

1. Team Planning

For each program review, CARB management assigns an overall review lead and individual program leads. The Incentives Oversight Section manager meets with the review lead and team members to discuss the upcoming assignments. Training and equipment needs are discussed and scheduled or ordered, as needed. The Incentives Oversight Section manager and the review lead also examine relevant prior program review and audit reports for a district, such as those conducted by CARB, the California State Auditor, California Department of Finance, air district auditor, or others, to gain an understanding of any past issues of concern and refine the scope of the coming review.

2. Notification

Generally, a member of the CARB management team makes initial contact with the district manager of incentive programs to discuss the upcoming review. CARB's review lead then asks the district for a primary contact to coordinate review arrangements. The review lead creates a communications file that documents contact between the review team and the district.

Several months prior to the estimated date of the first on-site visit, the review lead calls the district contact to discuss the dates of that visit. Once the dates are agreed upon, the review lead drafts a letter for Branch Chief signature that formally notifies the district. CARB sends the notification letter to the district's Air Pollution Control Officer (APCO) approximately 90 days prior to the entrance meeting. The letter includes:

- CARB's incentive programs oversight authority
- Scope of the review (incentive programs and fiscal years covered)
- Date(s) scheduled for the first on-site visit
- Contact information for CARB staff

A summary of the program review process is attached to the notification letter. The process summary provides a tentative agenda for the entrance meeting and additional information. Additional information may include a request for needed facilities and equipment for the review, specific documents, or database updates from the district. The district may be asked to fill out a fiscal questionnaire and return it to CARB or a third-party auditor by a specified date prior to the entrance meeting.

Following the mailing of the notification letter to the APCO, the review lead sends an electronic copy of the letter to the district contact. The review lead

follows up with the district contact to discuss plans for the entrance meeting and dates by which documents and database updates are needed.

Verbal communications with the district are followed by an email sent to the district contact and copied to the Incentives Oversight Section manager. Copies of key written correspondence and records of verbal communications are placed in the program review files. The review lead also creates a documentation log that lists the documents requested, when they were received, who supplied them, and where in CARB's offices they are located.

3. Selection of Projects to be Reviewed

Each program lead selects projects for file review in consultation with CARB management. Final project lists are provided to the district during the first on-site visit, after which the pertinent project files are pulled by district staff and photocopied by the review team or a copy contractor. The process used to select specific projects to be reviewed differs somewhat among incentive programs.

For the Carl Moyer Program, the program lead assesses risk relative to the projects funded by the district during the years within the review scope. Risk factors may include:

- Grant amounts and funding sources
- Types of equipment in a project
- Source categories
- Level of concern with the determination of the surplus nature of emission reductions
- Grantee participation history

CARB's Moyer Program lead also chooses projects that reflect the overall mix of source categories and project types within the scope of the review. Typically, projects are chosen that appear higher in risk within various source categories. The selection process also considers differences in funding years, with associated changes in guideline requirements, staffing and procedures. Review and program leads may also use personal judgment or randomly select additional projects to enhance the sufficiency of the review.

The selection process for the Proposition 1B Goods Movement Program uses a risk-based approach to select a sample of projects that reflect the diversity of project types and solicitations conducted.

Because the School Bus Program has less project diversity than other incentive programs, the School Bus Program lead uses a more streamlined process to select projects for review. The process typically selects a project

sample that reflects the diversity of project types and funding sources used in a district's program.

The AQIP program has relatively few grants to districts; generally larger grants are selected for file review. If additional incentive programs are included in program reviews, each program lead will review applicable program guidelines to identify risk factors and develop an appropriate selection methodology.

4. Preparation for Entrance Conference

Approximately two weeks prior to the scheduled entrance conference, the review lead prepares a final agenda, making changes as needed to the tentative agenda, and a process summary which is included with the notification letter. After management approval, a final agenda is provided to the air district contact during the week before the entrance conference. The review lead also prepares a sign-in sheet and makes final arrangements in coordination with the district contact.

B. On-Site Visit

The on-site visit includes an entrance conference with district management and staff associated with the incentive programs under review, process briefings by air district program staff on incentive program processes, and information gathering to facilitate project file review.

The entrance conference typically includes key members (including managers) of the review team, the district APCO or designee, the chief or manager of the district's administrative and/or fiscal section, district incentive program managers, and other relevant district staff. A member of the CARB review team (typically the review lead) conducts the meeting. Representatives of the fiscal compliance auditor team may also participate. The agenda includes:

- Introductions of all CARB staff, district staff, and staff from the organization conducting the fiscal audit, including any staff joining by conference call
- Review of CARB's oversight authority and obligations
- Goals of the review
- Review scope and processes
- Confirmation of the district contact person and preferred briefing procedure, including mode and frequency of communication
- Plans for the fiscal compliance audit

1. Process Briefing

District program staff are asked to meet with the CARB review team and fiscal audit team representatives to guide them through the day-to-day processes

the district uses to run its incentive programs. Process briefings are conducted in turn by the leads for each incentive program. District staff may present information or otherwise respond to questions related to the following, as applicable to each program.

- Acceptance of funds from CARB
- Solicitation for applications
- Outreach
- Environmental justice policies and their implementation
- Application evaluation process
- Ranking and selection of projects
- Obligation of funds
- Contracts
- Inspections
- Invoices
- Reports from grantees
- Documentation
- Reporting to CARB
- Recapture of funds
- District audits of projects
- Interest earned on incentive program funds
- Non-grant program funds earned from sale of scrap
- AB 923 funds
- Match funds
- Administrative expenses
- Opportunity for district staff to ask questions

2. Information Gathering

During the on-site visit, district program staff are asked to provide specific program documents and access to district files. District staff pulls the individual project files requested by the CARB review team and provides access to related or additional electronic files. The review team or a contractor photocopies or scans the files, as well as general program files that may be requested before or following the district process briefing. Some project files may be selected at random for copying or scanning.

Each program team may begin file review during the on-site visit, sitting alongside district staff who can provide file orientation and gain understanding of the information sought by program leads. In some circumstances, a program team may elect to return to the district at a later date to conduct further file review, but most file review occurs at CARB offices using the copies obtained on-site.

C. Document Review

In the months following the entrance conference, CARB review team members conduct a desk review of the project files and district program documents obtained from the district. The review lead remains in communication with the district contact throughout this process, conveying in writing the questions raised by program leads to clarify issues, scheduling periodic teleconference meetings, and requesting additional materials as needed. District's answers to review team questions, review team's requests for additional materials, and district responses are documented and included in the program review file.

1. Project File Review

To ensure the quality and consistency of the file reviews, each program lead first meets with the reviewers and briefs them regarding the review process. They discuss specific topics such as applicable guidelines, dates of adopted regulations, release dates of advisories and mail-outs, and relevant local requirements.

For each project file, reviewers first check whether all key documentation is present. Next, reviewers check key program elements including project eligibility for funding, enforceability of the contract, payment of invoices, and reporting of project details to CARB. To conduct this review, the reviewers evaluate information contained in project documents, including applications, contracts, and cost-effectiveness data and calculations. Staff may also consult program guidelines, statutory and regulatory requirements, advisory and mail-out requirements, and relevant district requirements. Reviewers complete an evaluation form for each project and contribute information to an electronic summary spreadsheet.

Each program lead evaluates all file review forms and summary spreadsheets and works with the reviewers for further clarification, if needed. On a regular basis, the program lead compiles a list of pertinent questions and any further documentation requests for the district. These are conveyed to the district contact via the review lead (See "Resolving Issues and Questions" below). As additional information is provided by the district, the program leads provide it to the appropriate reviewers for completion of the file review. By mutual agreement, follow-up may occur on a program-specific basis, but the district contact and CARB review lead are kept informed via email.

2. Program Document Review

The review lead and review team members evaluate key district program documents to ensure that they meet or exceed the requirements as established in the Health and Safety Code, applicable program guidelines, advisories and mail-outs, and relevant eligibility requirements established by

the district. The reviewed documents typically include but are not limited to the following:

- Policies and Procedures manual
- Environmental justice policy and procedures for project selection
- Documentation of district governing board acceptance of funds
- Memoranda of understanding between districts regarding implementation of CARB incentive programs or transfers of CARB incentive program funds
- Solicitation documentation
- Outreach materials
- Application forms for relevant fiscal years and source category types
- District rating and ranking materials, including final rankings of selected projects as applicable
- Obligation of funds
- Project inspection forms
- Contract language for different years and source category types
- Grantee reporting forms and other tools used to monitor projects
- Payment documentation
- Records of district project audits

CARB review teams may review grant expenditures using district payment documentation and expenditure tracking sheets and CARB records. Funds reviewed may include incentive program grants, local match funds, funds authorized by AB 923, earned interest and other non-grant program funds expended on projects or administration. CARB may also seek clarification of district responses to the fiscal questionnaire, if applicable.

3. Resolving Issues and Questions

Over the course of the program review, the review lead compiles a list of issues and questions that require district responses. To clarify issues or questions, review staff include supporting documentation such as district project file pages and notes taken with specific examples (including project and vehicle/equipment/engine numbers). Review staff may also refer to Health and Safety Code requirements, program guidelines, advisories, mail-outs, grant agreements, or other written communications either in emails or letters that relate to the issue or question.

The CARB program leads work with the overall review lead to compile the issues and questions into a Questions and Responses document (Q&R), which is provided to the district contact periodically as the review proceeds. The district enters its responses and returns the Q&R to the CARB review lead. Review staff may add new questions to the list or follow up on existing questions and request additional district responses. The Q&R records this process and indicates whether the questions have been answered, if further

information is requested, or if the issue has not yet been resolved to the satisfaction of the program lead. This process provides the district knowledge of and the opportunity to address issues as they emerge.

D. On-site Project Inspections

A subset of the projects selected for file review may also be inspected by CARB reviewers at grantees' places of operation or an alternate location in order to check that funded engines and equipment are in proper working order and consistent with information in the project file such as the contract, post-inspection records, and invoices.

In selecting projects for on-site inspection, program leads consider the range of project types funded and information from the file reviews. Once a list of recommended project inspections is approved by management, the review lead notifies the district contact of the selected projects for each incentive program. The review lead asks the district's preference for arranging inspections and accompanying the review team on the visits. Usually district staff accompanies CARB staff on project inspections. If the district chooses not to participate, the review lead contacts the project grantees directly to schedule the inspections. The review team makes every effort to accommodate the schedules of the grantees.

Grantees are informed by the district or CARB staff member scheduling the inspection that the inspectors must have:

- Access to the engine or equipment
- The ability to witness the engine's operation for at least a few seconds
- Permission to take photographs
- Financial records, if necessary
- Access to usage records (fuel, hours, maintenance). If these are at an alternate site, the review team needs to be notified of that as well.

Each inspection team is comprised of at least two CARB staff. Prior to each inspection, the inspection team verifies the following with the review lead, or another person designated as the inspection lead:

- Location of the equipment/engine and site to be visited
- Grantee contact name and phone number for the day of the site visit
- Any specific safety or facility requirements
- Specific concerns with the project arising from the file review, if any
- An inspection review sheet/site visit checklist that includes information from the project file, to be verified by the inspection team

Prior to the inspection, the inspection team reviews current CARB safety practices and gathers the required safety equipment to be used or worn during

the inspection. At a minimum, each inspection team member wears a safety hat, safety glasses, a reflective vest, gloves, hearing protection, and steel-toed boots during all inspections. The inspection lead ensures that water and a first-aid kit are available. A flashlight or other equipment may also be appropriate depending on the specific project to be inspected or requirements of the grantee.

At the project site, the inspection team members identify themselves with photo identification and provide a business card. Team members confirm permission to conduct the inspection and take photographs. Team members may ask the grantee to start the engine or otherwise confirm the engine or equipment are in working order, take photographs, inspect documents such as maintenance and usage records, and complete the information required in the inspection review sheet/site visit checklist. The inspection team may discuss issues identified during the inspection, but care is taken to not conduct such discussions in the presence of the grantee.

When the inspection team returns to the CARB offices, a team member adds information noted on the inspection review sheet/site visit checklist into an electronic summary spreadsheet, comparing it again with information compiled from the project file review. The inspection team and the review lead discuss any issues or concerns revealed by the inspections. Any unresolved issues or questions are then discussed with the district contact, who may address questions or provide additional information to resolve concerns.

D. Completion of Review

The purpose of a fully interactive, collaborative review process is to ensure that district staff is fully aware of potential concerns that arise during the course of the program review and has a chance to resolve them. Often, concerns are resolved through provision of additional information, either as minor process corrections or a specific program or fiscal action plan. Sometimes a review may bring to light more persistent concerns, such as the funding of ineligible projects, which require mitigation action by staff and management at the district.

Prior to the exit conference, the CARB review team discusses any potential program review findings, as well as recommendations and commendable efforts, which became apparent during the program review process. This information is then shared with district contact and program staff. To address potential findings, the district is provided an opportunity to provide additional relevant information that may have been overlooked or not included in the documents already obtained. At the district's request, CARB staff may provide up to 90 days for district staff to compile additional information to resolve potential findings before the exit conference.

Depending on the circumstances, the review team may choose to evaluate areas not yet reviewed. This may include reviewing additional project files, tracking

sheets or electronic files, such as databases. The review team may conduct follow-up interviews of district staff and managers to better understand how the programs are implemented as related to potential findings.

E. Exit Conference

Once CARB management has approved proposed findings, recommendations, and commendable efforts and the results have been shared with the district contact, the review lead prepares an agenda for a program review exit conference. The primary goal of the exit conference is to inform district management of the results of the program review. The exit conference is attended by representatives of CARB management and the review team, the district APCO, and other district management and staff. The fiscal auditor may also attend, particularly if the fiscal compliance audit is complete or nearing completion.

The exit conference also provides an opportunity to clarify remaining issues at management level. It may include a policy-level discussion regarding the remaining concerns and their implications for district incentive programs.

The agenda for the exit conference typically includes the following:

- Introductions
- Discussion of potential findings by CARB, including specific examples
- Discussion of any recommendations proposed by CARB
- Recognition of any commendable efforts by the district
- Review of next steps and timeline
- Request for comments from the district

The district has ten working days after the exit conference to provide CARB with additional information to consider prior to finalizing the review results and writing the report. If the district provides information that mitigates issues or provides a plan for mitigating issues, the information is reflected in the report.

VI. Program Review Procedures for Rural Districts

Rural districts, as defined by the California Air Pollution Control Officer's Association, comprise 22 districts of the 35 districts in the State¹. The program review process described above was developed for large and medium-sized air districts. However,

¹ Amador County APCD, Antelope Valley AQMD, Butte County AQMD, Calaveras County APCD, Colusa County APCD, El Dorado County AQMD, Feather River AQMD, Glenn County APCD, Great Basin Unified APCD, Imperial County APCD, Lake County AQMD, Lassen County APCD, Mariposa County APCD, Mendocino County AQMD, Modoc County APCD, North Coast Unified AQMD, Northern Sierra AQMD, Northern Sonoma County APCD, Shasta County AQMD, Siskiyou County APCD, Tehama County APCD, and Tuolumne County APCD

rural districts typically receive smaller grants, have fewer staff, and fund a more limited range of project types. Considering these factors, CARB modifies the review process for rural districts in the following ways:

- If a district has not administered its own incentive programs every year, the scope typically covers the two most recently-completed years of active participation and one subsequent year to monitor progress
- The on-site visit is shorter and may be one day or less
- Fewer project files may be selected for review
- The desk review focuses on a district's current program documents
- There may or may not be on-site project inspections
- CARB staff perform the fiscal review in lieu of a third-party audit
- The exit conference may be conducted via conference call

In planning for the review or if concerns arise during the course of the review, any area can be revised or expanded at the review team's discretion.

VII. Final Reports and District Responses

CARB endeavors to provide the district with a final program review report within 60 days of the exit conference, although this time period may vary depending on circumstances. The report is drafted by the incentive program review lead, reviewed by the management team, and approved by CARB's Executive Officer, who also signs the cover letter that accompanies the report. The review lead typically sends an electronic copy of the report and cover letter to the district contact at the same time those documents are mailed to the APCO.

The program review report outlines the review processes used by CARB, any findings and actions required to mitigate them, and any recommendations for program improvements. The report acknowledges any commendable efforts by district staff and management. If significant deficiencies were discovered by the review and CARB management determines that one or more follow-up reviews are appropriate to ensure their correction, the report will indicate this.

Thirty days following delivery of CARB's program review report to the district, CARB posts the report to its incentives oversight web page, along with any written response provided by the district during that period. The district's response becomes an addendum to the report but does not modify its conclusions. Copies of the report and the associated district response are placed in district program files at CARB.

CARB encourages districts to also make these documents available via the air district website, and to present program review results to its governing board. CARB management is available to discuss the report with the district's governing board if requested.

When a third party conducts a fiscal compliance audit, the auditor prepares a separate final report regarding the methods and the results of the audit, which may be released before or after the CARB report. In the case of the CARB report, both the fiscal audit report and any district responses are posted to the CARB website.

VIII. Follow-up Actions

After circulation of the final report, the review lead sends the district contact an evaluation form to invite comments from the district's perspective. The evaluation is returned to the Chief of the Incentives and Technology Advancement Branch and is available to CARB management. CARB's objective is to consider district input to help ensure that incentive program reviews continue to be conducted in a professional, courteous, and effective manner.

For follow-up on the final report, the CARB district liaison, review lead, or program lead contacts the district to monitor the mitigation of findings as required. Follow-up steps, as specified in the report and highlighted in the cover letter to the district that accompanies the report, may require the district to provide written reports on its progress. This may be required at specified time points (e.g., 60 days, 6 months, and 1 year) after the report. CARB may, if appropriate, require more frequent reporting by the district or schedule on-site visits.

If needed, follow-up reviews are scheduled at the discretion of CARB management to ensure timely and effective actions to correct program review findings. Because follow-up reviews focus on specific areas that require correction by a district, the process used for follow-up reviews is unique to each district's situation. In general, the review team first meets with the district for an entrance conference where the nature and scope of the follow-up review are discussed. The review team next conducts the review and consults with the district before scheduling an exit conference to discuss results.

If CARB determines that the district has not taken adequate corrective action or did not provide an adequate mitigation plan as specified in a report, CARB will take appropriate actions. Such actions are tailored to specific circumstances, but may include adding stipulations to future grant awards to the district.

The results of a follow-up review are formally reported to the APCO of the affected district in the form of a letter signed by the CARB Executive Officer. The letter summarizes the results of the review and procedures used to conduct it. The district typically has 30 calendar days to respond to the letter.

If a third-party fiscal auditor is involved in a follow-up review regarding mitigation measures related to fiscal issues, it conducts its investigation separately from but in coordination with CARB, and reports results in a separate letter. All letters and responses resulting from follow-up reviews are posted on CARB's incentives oversight web page. Districts are also encouraged to make such documents available to the

public by posting them on the district website and by presenting them to their governing board.

IX. Recordkeeping

The review lead is responsible for maintaining complete and up-to-date electronic and hard copy program review files. A separate electronic folder is maintained for each program review on CARB's computer network. The program review folder on CARB's internal server is considered the master file and reflects the latest versions of documents. The review lead is responsible for ensuring that the master file is up-to-date.

Hard copy files contain all written materials associated with a review and are organized in two parts, one that contains information that can likely be shared with the public and one that contains material presumed to be confidential. The first, public, part of the file includes the following types of documents:

- Formal correspondence between CARB and the district such as the program review notification letter, the report, and the district's response.
- Final documents (not draft, deliberative documents) that support the recommendations and findings.

The second part of the file includes all other program review materials, which are routinely treated as confidential. An example is specific information related to a grant recipient who may be the subject of follow-up actions.

All program review files are retained in the Incentives Oversight Section's office area or another secure area on CARB's premises for eight years after each program review has been completed. Paper copies of documents that are already stored electronically are destroyed via a confidential destruction method at the time the program review report is made final. Electronic postings of reports and district responses are maintained on CARB's incentives oversight web page for as long as the incentive programs that were reviewed remain active plus seven years.