

**Carl Moyer Air Quality Standards Attainment Program  
Audit Report**

**South Coast Air Quality Management District  
Fiscal Years 2002/2003 and 2003/2004**

**Prepared by:  
Mobile Source Control Division  
Air Resources Board**

**October 2006**

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## Executive Summary

The Carl Moyer Air Quality Standards Attainment Program is a voluntary grant program that funds the extra capital cost of cleaner than required vehicles and equipment in order to reduce air pollution. The Carl Moyer Program is implemented through a partnership between the Air Resources Board and California's 35 local air districts. The ARB distributes state funds to local districts, develops statewide guidelines, and conducts periodic oversight. Air districts select and fund clean air projects in their areas that meet the requirements of the Health and Safety Code and the statewide guidelines. Districts also provide local match funds and resources to administer the Program.

The South Coast Air Quality Management District is responsible for air quality in portions of Los Angeles, Riverside, San Bernardino counties and all of Orange County. The region's does not meet federal or California health-based standards for ozone (smog) or particulate matter (soot) and its air quality is among the worst in the nation. The Carl Moyer Program is critical to achieving near term emission reductions for the region and is reflected in the South Coast's federally-required State Implementation Plan – the District's road map for describing how the region will achieve healthful air.

As the most populous District in California, SCAQMD has been awarded more than \$108 million in Carl Moyer Program funds over the first eight years. That is approximately 43 percent of the statewide total. The District has leveraged the state dollars with over \$37 million in local funds.

To meet its oversight responsibilities, ARB staff audited SCAQMD's implementation of the Carl Moyer Program to ensure compliance with state law and applicable guidelines. The audit focused on funds provided by Proposition 40, California's Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act, which cover the 2002/03 and 2003/04 fiscal year funds (Years 5 and 6, respectively). The ARB staff also reviewed Years 7 and 8 to determine if the District is complying with recent law changes and the Carl Moyer Program Guidelines approved by the Board in November 2005.

Our audit found that Proposition 40 funds have not been expended in a timely manner. State law requires all funds to be expended (invoices paid and projects in operation) within a two year timeframe. Approximately half of the Proposition 40 funds were required to be expended by June 30, 2005 and all funds were required to be expended by June 30, 2006. At the time of the audit (July 2006), approximately \$10 million of the \$15.6 million Proposition 40 funds received by the District had not been expended. As a result approximately two-thirds of the anticipated emission reductions, over 300 tons per year of NOx and approximately 15 tons per year of PM, have not yet been achieved.

District staff indicated that the delay in spending Carl Moyer Program funds is due to several factors: lack of resources for adequate project follow-up, contracts falling through because grantees decide not to take funds, and delays in contract execution. SCAQMD has recently expanded its staff resources dedicated to the Carl Moyer Program and is implementing several new procedures to expedite expenditures. The District also guaranteed the ARB that these funds will be expended by July 2007 and anticipated reductions will be achieved by that time.

Under a strict interpretation of funding guidelines, unspent funds would be returned to the ARB for redistribution or remanded to the State's General Fund. However, the ARB recognizes the importance of achieving emission reductions in California's most severely impacted region. Also, we recognize that the Carl Moyer Program funds are vital to achieving that objective. For its own part, the District recognizes the importance of expediting projects to obtain reductions at the earliest, most practicable date. Therefore all funds promised to projects by contracts will remain in the District.

The District is hereby required to report quarterly on its progress for expenditures. ARB will also conduct a follow-up audit of the District to verify that funds are expended and to confirm that the District's new measures indeed expedite expenditures. If the funds have not been fully expended by July 1, 2007 then the SCAQMD will be deemed an "at-risk" district, and the ARB will look to recapture funds.

The ARB is making two additional findings as a result of its audit. These findings relate to miscalculations of cost-effectiveness for two projects resulting in the required reprogramming of \$10,000 and missing contract language requirements. The District has already taken steps to mitigate or correct these issues.

The ARB's audit also found that the District program encompasses a number of commendable efforts that noticeably go above and beyond the basic Moyer requirements. Most noteworthy is that the District has designed their program to fund the widest diversity of projects in California - achieving significant participation by public and private fleets, construction companies, railyards, port operators, marine operators, and farmers. A necessary corollary to this is that the District has one of the most extensive outreach programs in the State. Finally, the SCAQMD has spent considerable effort in developing a robust Environmental Justice program, and the District ensures that the minimum Environmental Justice requirements are clearly exceeded each year. In these areas, the District's program may serve as a model for the Moyer program in other districts.

The California Department of Finance (DOF) conducted a simultaneous audit of the SCAQMD's administrative process for expenditures of Proposition 40 funds (years 5 and 6) of the Carl Moyer Program and Lower Emission School Bus Program. The ARB staff worked closely with the DOF during its audit to assist with DOF inquiries regarding the statewide Carl Moyer Program. The DOF established and followed independent protocol and procedures for their audit and is currently drafting an audit report that will also be available to the general public upon completion.

## I. Background

The Carl Moyer Program funds the incremental cost of purchasing cleaner-than-required engines and equipment. The multiple benefits of the Program include: accelerating the commercialization of advanced emission controls, accelerating turnover of old equipment, and helping to reduce costs to the regulated community. The Carl Moyer Program is implemented by a partnership of the ARB and local air districts. Local districts solicit applicants and select, fund and monitor projects. The ARB oversees the statewide program to ensure funds are expended as required by law and the Carl Moyer Program Guidelines ([www.arb.ca.gov/msprog/moyer/moyer.htm](http://www.arb.ca.gov/msprog/moyer/moyer.htm)). The ARB audits each district periodically to ensure funds are expended as required. The audits also provide the ARB with a mechanism for identifying potential improvements to the statewide program.

The SCAQMD is the largest local air quality district responsible for air quality in portions of Los Angeles, Riverside, San Bernardino counties and all of Orange County. Due to large number of sources such as ports, airports, trucks, passenger vehicles, and railyards, the South Coast region's air quality does not meet federal or California health-based standards for ozone (smog) or particulate matter (soot) and is among the worst air quality in the nation. Emission reductions from the Carl Moyer Program are critical to achieving near term air quality improvements in the region. These reductions are also reflected in the region's federally-required State Implementation Plan – the District's road map for describing how the region will achieve healthful air.

As the District with the largest population, SCAQMD has been awarded more than \$108 million in Carl Moyer Program funds for years 1 through 8, approximately 43 percent of the total statewide funds. The District has leveraged the state dollars with over \$37 million in local funds.

The ARB's audit of the SCAQMD's Carl Moyer Program satisfies the requirements of Health and Safety Code section 44291 with regard to the ARB's audit responsibilities. This audit focuses on Year 5 and 6 projects that drew on Proposition 40 funds, California's Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act. The ARB reviewed the District's program for Years 5 and 6 to determine if the District followed the Health and Safety Code as well as the 2003 Carl Moyer Program Guidelines, the required Guidelines for these two program years. This audit also reviewed implementation of Year 7 and 8 funds, when SB 1107 and AB 923 went into effect and the Program experienced a significant influx of funding. Although year 7 and 8 funds are not required to be fully expended until June 30, 2007 and June 30, 2008, respectively, the ARB staff reviewed these funds to evaluate the impacts of the expanded program and the 2005 Carl Moyer Program Guidelines.

Staff from both the ARB and SCAQMD participated in this audit. The ARB audit team included ARB management – Robert Cross, Jack Kitowski, Edie Chang, Lucina Negrete and John Kato - and the Carl Moyer Program staff – Heather Arias (district liaison to SCAQMD), Bruce Tuter, Dave Salardino, Joe Calavita, Susan Levenson-Palmer, Bob

Nguyen, Araliza Manuel, Margaret Sanchez and Jesse Lopez. The ARB audit team wishes to thank the participating SCAQMD management and staff – Barry Wallerstein, Chung Liu, Kurt Wiese, Barbara Baird, Rick Pearce, Fred Minassian, Dean Saito, Elisa Virgo, Dean Hughbanks, Mike Harris, Connie Day, Drue Ramirez, Lani Montojo, Cheryl Wade, Haydee Pearce and Penny Shaw Cedillion.

## **II. Audit Procedure**

The ARB's audit of SCAQMD's Carl Moyer Program was conducted in two phases: a desk review and an on-site review. The desk review began on May 30, 2006 and the on-site review began on July 6, 2006. The desk review included the District's request for proposal (RFP), application, draft policies and procedures, contract language, outreach, and selection process of projects for Years 5 and 6. During the desk review the ARB staff also analyzed the implementation of the expanded Carl Moyer Program by reviewing the same documents for Years 7 and 8. The following documents were reviewed to determine if the District is following the new administrative procedures with their Year 8 funds as required in the 2005 Carl Moyer Program Guidelines:

- Draft Policies and Procedures Manual which describes District practices for Carl Moyer Program Implementation (final version is required to be submitted to the ARB by November 15, 2006 as described in section IV.G. of the Guidelines)
- Year 8 Request for Proposal, including the District application
- Engine Inspection Forms
- Boiler Plate Contract Language for Year 8 projects

The desk review included selecting a sample of projects for the file review that would receive a thorough on-site review. The sample was taken from projects that were paid for with state funds and District local match funds under the Carl Moyer Program and included:

- Ten Year 5 projects, representing the on-road, off-road, marine, and locomotive source categories, and infrastructure (funded with match funds)
- Twelve Year 6 projects, representing the on-road, off-road, marine, locomotive, idle reduction, and forklift categories and infrastructure (funded with match funds)

While at the District's office, the ARB staff randomly selected two additional projects to evaluate the district's implementation of year 7 funds and to assess the District's implementation of the additional requirements in the 2005 Guidelines.

The ARB audit team completed a review of the program and fiscal files for 24 projects. Field visits were conducted for 12 of the projects because only 12 of the 24 projects selected were completed and in operation at the time of the audit. To provide District staff with sufficient time to set up the field visits, the ARB staff notified District staff of the 12 projects with field visits on June 28, 2006. Attachment 1 contains a list of the sampled projects reviewed.

During the on-site review, the ARB audit team reviewed fiscal files to document the District's practices for tracking and documenting state and local match funds expended, interest earned and beginning with Year 7, state funds used for outreach and program administration.

The California Department of Finance (DOF) conducted a simultaneous audit of the SCAQMD's administrative process for expending Proposition 40 funds (years 5 and 6). ARB staff worked closely with the DOF during its audit to assist with DOF inquiries regarding the statewide Carl Moyer Program. The DOF established and followed independent protocol and procedures for their audit and is currently drafting an audit report that will also be available to the general public upon completion.

The results of the ARB audit are presented below. Section III describes the SCAQMD's Carl Moyer Program. Section IV identifies commendable efforts in the District. Section V outlines recommended improvements for the District's continued success. Section VI provides the findings, conditions and required actions based on ARB audit team's review of District's files and project site visits. "Findings" are practices that are inconsistent with state guidelines and/or the District's written policies and procedures. "Conditions" are more detailed descriptions of the practices the ARB audit team observed during the audit period. "Required Actions" are the minimum actions the District must take to remedy the findings. The District must respond to the findings detailed in Section VI within 30 days of notification, but may also respond to any recommendation provided in this report.

### **III. SCAQMD's Implementation of the Carl Moyer Program**

For each funding year, the SCAQMD develops a request for proposal (RFP) with specific dollar amounts allocated to selected equipment categories. The RFP goes to the District's Technical Committee for consideration and, once approved, is forwarded to the District Governing Board for approval. Approved RFPs are posted at [http://www.aqmd.gov/tao/implementation/carl\\_moyer\\_program\\_2001.html](http://www.aqmd.gov/tao/implementation/carl_moyer_program_2001.html). Hardcopy format can be obtained at SCAQMD's Diamond Bar facility and applicants can request a copy to be mailed to them by contacting SCAQMD staff. Following the release of the RFP, SCAQMD begins extensive outreach efforts per its Procurements Policy and Procedures. A public notice advertising the RFP and inviting applications is published in the Los Angeles Times, the Orange County Register, the San Bernardino Sun, and the Riverside County Press Enterprise newspapers. Outreach efforts also include workshops, advertising in multiple publications, letters to mailing and e-mail lists, web postings, a 24-hr message line, presentations to groups, and program brochures. The District's RFP outlines eligibility requirements, how to calculate cost-effectiveness, boiler plate contract language, applications and a list of required documentation including a form for the applicant to indicate if it qualifies as a small business or as a Disabled Veteran. Although funds are not specifically set aside to pay for small business projects, SCAQMD will meet with small businesses and work directly with them in completing an application.

The District's RFP states its policy that only alternative fuel projects are eligible for on-road engine repowers and purchase of new on-road vehicles. New on-road diesel purchases or repowers are not funded by SCAQMD. Beginning in Year 7, retrofit of in-use diesel vehicles with the highest available verified level particulate matter traps or diesel oxidation catalysts verified by ARB are allowed. In the off-road categories, both alternative fuel and diesel to diesel projects are eligible. In addition, SCAQMD has implemented a low emission engine/vehicle, zero emission vehicles (ZEV) and other alternative fuels, preference policy.

SCAQMD staff evaluate projects under the Carl Moyer Program Guidelines and any additional requirements specified in the RFP. In addition, applications are ranked for Environmental Justice (EJ) per AB 1390. A list of eligible projects categorized by equipment type is sorted based on EJ ranking, followed by cost-effectiveness. Selected projects are considered by the Technical Committee and then forwarded to the District Governing Board for approval. Once approved, a contract is executed and work can begin. When projects are completed, the engine owner submits an invoice to the District. District staff ensure the project is complete and invoiced as required. Beginning with Year 7 projects, staff also conduct a post-project inspection. Approved invoices are submitted to the District's Finance Department for check generation and disbursement.

Throughout the term of the contract, the District requires grantees to report quarterly and annually. Quarterly status reports are required until the project has been accomplished and include information on any problems encountered and how they were resolved, changes in schedule, and recommendations for project completion. Once the project is in operation annual reports are required from participants. These reports include information on usage, location of operation, and operation and maintenance issue encountered and how they were resolved.

As an example timeline for this process, the RFP for year 8 funds was released on February 3, 2006. Applications were due to the district approximately three months (May 5, 2006) after the release of the RFP. SCAQMD Technical Committee's consideration of the selected projects is currently scheduled for September 22, 2006. If approved, the project selection list will then be forwarded to the District Governing Board for consideration on October 6, 2006, approximately five months after applications were due. Fully executed contracts should be in place early 2007. Projects must be in operation and paid for no later than June 30, 2008.

Based on the Year 5 and 6, project files reviewed by the ARB staff during the 2006 Program audit of SCAQMD, the average time from application submittal to project completion (invoice paid and project in operation) is 30 months for those projects that have been completed. However as noted in Section VI, two-thirds of the projects have not yet been completed. Part of this delay may be a result of delays in contract execution (contracts signed by SCAQMD and applicant). For SCAQMD, achieving fully executed contracts for Years 5 and 6 took anywhere from two to 25 months.

Once Years 1 through 7 funds are spent, it is anticipated that the District's program will pay for 3,061 cleaner engines. The ARB anticipates these projects will reduce NOx emissions by over 2,800 tons and PM by over 100 tons annually. SCAQMD leveraged Years 1 through 7 funds with over \$32 million of District match. Through Year 8, the SCAQMD has been allocated a total of \$108.5 million in Carl Moyer Program funds leveraged with over \$37.3 million of District match.

#### **IV. Commendable Efforts**

The commendable efforts included in this section are noteworthy accomplishments by the District. Commendable efforts are exceptional practices that should serve as a statewide model for the Carl Moyer Program.

##### **A. Diversification of Projects**

SCAQMD is dedicated to funding a diversified range of projects. It is notable that the District's project selection is broader than any other district in the state, spanning over all possible source categories (on-road, marine, off-road, forklift, locomotives, agricultural engines, ground support equipment, truck stop electrification and auxiliary power units). This requires SCAQMD to take on a higher burden as staff must be knowledgeable in many more source category areas.

##### **B. Outreach**

Outreach efforts for the SCAQMD Carl Moyer Program have proven to be successful as directly reflected in the number of applications received, which for funding Years 5 through 7 exceeded funding available by six times. SCAQMD outreach includes both extensive publications as well as personal outreach. SCAQMD advertises the RFP in multiple publications and local newspapers, conducts workshops, and provides presentations to small businesses and industry organizations. Letters and brochures are also sent to mailing lists, electronic notifications are sent to personal lists and lists compiled from SCAQMD sponsored meetings/conferences, information is posted on SCAQMD's website as well as industry websites and is available through a 24-hr message line.

##### **C. Environmental Justice**

Each Year SCAQMD has exceeded the requirements of AB 1390 which requires at least 50 percent of Carl Moyer Program funds be spent in areas that are significantly impacted by air pollution and are low income or communities of color, or both. SCAQMD has defined eligible projects to include those in areas with the highest 15 percent of particulate matter (PM) concentrations, projects in areas with a cancer risk of 1,000 in a million and above, and projects in areas where at least 10 percent of the population falls below the federal poverty level. EJ scores are comprised of 40 percent for poverty level, 30 percent for PM and 30 percent for toxic exposure. It is SCAQMD's policy to first fund projects based on highest AB1390 EJ ranking, until 50 percent of the

funding is earmarked to qualifying projects. After that, funds are continually earmarked to additional projects using the cost-effectiveness ranking. Historically 10-25 percent of these additional projects have also qualified as AB1390 projects, exceeding the District's 50 percent funding requirement on EJ projects. A project's EJ score is filed electronically at SCAQMD and SCAQMD's guidance for implementing the requirements of AB1390 and qualifying areas may be found at [http://www.aqmd.gov/tao/implementation/disproportionate\\_impact\\_areas.htm](http://www.aqmd.gov/tao/implementation/disproportionate_impact_areas.htm).

#### **D. Responsiveness to Audit**

During the period of this audit, SCAQMD staff made considerable efforts to address issues identified by the ARB staff. Because of this responsiveness, a number of the items listed under the recommendations and findings sections include information on modifications and improvements the District has already or is in the process of implementing.

#### **E. Policies and Procedures Manual**

The 2005 Carl Moyer Program Guidelines require districts to submit their local policies and procedures manual for implementation of their local programs to the ARB by November 15, 2006. The Guidelines also outline minimum information that districts must include in these policies and procedures. During the audit, the District supplied the ARB with a proposed policies and procedures manual for review. The District's effort to submit this to the ARB during the audit period, in advance of the required deadline and before the District received a sample policies and procedures manual from the ARB, is noted as commendable.

#### **V. Recommendations for Future Program Improvement**

SCAQMD should consider improving the current implementation of the Carl Moyer Program as noted below. A number of these improvements are required starting with Year 8 funds as noted in the corresponding 2005 Guidelines section which are cited in parenthesis. These recommendations do not require a response from the District, although the District may comment on the recommendations in the District's written response.

##### **A. Documentation**

During the audit the ARB staff observed that the hard copy project files did not consistently include cost-effectiveness calculations, documentation of inspection, eligibility determinations and environmental justice analysis. Beginning with Year 8, districts are required to maintain documentation in each of the Carl Moyer Program project's hard copy files of the project's eligibility verification and compliance with program requirements (sections V.D.2. and V.E.).

As a large agency, SCAQMD has departmentalized various tasks. As a result documentation for projects is not always located in the project file. However in every instance, the ARB staff was taken to and able to access necessary documentation. The ARB recommends that SCAQMD incorporate these departmentalized tasks into its *Carl Moyer Program Policies and Procedures Manual* due to ARB by November 15, 2006. SCAQMD is already in the process of accomplishing this task and is on track to present their Policies and Procedures to their Technology Committee for review on September 22, 2006 and forwarded to the SCAQMD Governing Board for consideration at their October 6, 2006 board hearing.

The ARB also found areas in which the District assist small businesses and has established a preference policy for low emission engine/vehicle, zero emission vehicles and other alternative fuels. The ARB encourages the District's solicitations of future funds to expand and document outreach and obligation to zero- emission and small business (section V.A.). The ARB also encourages the District to institutionalize these efforts in the District's policies and procedures manual.

## **B. Itemized Invoices**

The District currently includes invoices in its hard copy project and fiscal files from participant. However, in some cases an itemized invoice is not provided with the participant invoice. There are also cases in which an itemized invoice was provided yet it is unclear which items on the invoices are being paid for with Carl Moyer Program funds. The 2005 Carl Moyer Guidelines (section X.) require all project files to have itemized invoices that clearly delineate eligible expenses the District approves to be paid. The ARB staff recommends the District include the itemized invoice in the project file along with a clear delineation of the costs that were reimbursed with Carl Moyer Program funds. In addition, the practice for this delineation should be included in the District's policies and procedures manual (see Recommendation A. above).

### **C. Quality Assurance/Quality Control**

During the audit, file discrepancies and miscalculations were observed. With the recent expansion of the Carl Moyer Program funding and requirements an increase in quality control/quality assurance of program related documents is also necessary. Therefore, the ARB staff recommends the District develop an approach to ensure quality control/quality assurance and include it in the District's policies and procedures manual.

### **VI. Findings, Conditions and Required Actions**

This section specifies findings, conditions and required actions as a result of the ARB's review of SCAQMD's Carl Moyer Program. "Findings" are brief descriptions of practices that are inconsistent with state requirements under the Carl Moyer Program Guidelines and/or the District's written policies and procedures, including its contract with the engine owners. "Conditions" are more detailed descriptions of the practices the ARB audit team observed during the audit period. "Required Actions" are the minimum actions the District must take to remedy the findings. The District must provide the ARB with a written response to required actions by submitting a plan to remedy the respective findings listed below or will be "at-risk" as defined in section XI.B. of the 2005 Guidelines. The District's written response must be submitted to the ARB within 30 days of notification of the findings.

#### **Finding 1: Expenditures Not Meeting Deadline.**

Condition: SCAQMD fiscal records indicate that at least \$10,043,180 of the \$15,596,747 Proposition 40 funds have not been expended by the District within the two year timeframe required under State law (see sections 44299.2 (c) and 44287 (k) of the Health and Safety Code). As a result, two-thirds of the anticipated emission reductions, over 300 tons per year of NOx and approximately 15 tons per year of PM, have not yet been achieved. A two year timeframe is required so funds are expended, projects are completed and near term emission reductions are achieved.

H&SC 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 June 30, and shall be deposited in the Covered Vehicle Account established pursuant to section 44299".

Since the inception of the Program, Health and Safety Code sections 44287 (k) and 44299.2 (c), the Carl Moyer Program guidelines, and grant applications pertaining to each program year have all specified that funds must be expended within two years of June 30 for the year in which funds were reserved. Year 5 and 6 funds were reserved in June 2003 and June

2004, respectively. Therefore, June 30, 2005 and June 30, 2006 were the deadlines for expending all Year 6 funds.

SCAQMD staff have identified a number of factors that have led to delays in expending funds. These include a shortage of staff, delays in contract execution, projects being withdrawn from the program, and lack of back-up projects available for immediate use. SCAQMD has recently implemented several steps to help expedite expenditures, including increasing staff, shortening deadlines for grantees to fully execute contracts, and shortening deadlines for grantees to complete projects. Moreover, SCAQMD now has the authority to select backup projects from a Governing Board approved list.

During Years 5 and 6 of the Carl Moyer Program, SCAQMD staffing was limited to three full time employees. Beginning in Year 7 staffing was increased to seven full time employees and continues to increase.

After SCAQMD's Governing Board approved projects for Years 5 and 6, achieving a fully executed contract between the grantee and SCAQMD took anywhere from two to 25 months. Beginning in Year 7, SCAQMD required full execution of all contracts by June 30, 2006, five months after Governing Board Approval.

Required  
Actions:

The ARB recognizes the importance of ensuring that anticipated emission reductions are achieved in California's most severely polluted region and that the Carl Moyer Program funds remain in the District to achieve the much needed reductions. The District also recognizes the importance of expediting projects to obtain reductions at the earliest, most practicable date. Since all Year 5 and 6 funds advanced to SCAQMD have been awarded to approved projects and are currently bound by fully executed contracts, the ARB has decided that it will not recapture these funds. However, the district is required to provide quarterly reports and provide updated annual reports and cost-effective calculations for all years of funding. Further, the District will not receive any additional disbursements of funds until full expenditures can be documented. The ARB will audit the District again in 2007.

Quarterly Reports:

The District must provide quarterly expenditure reports to the ARB for any funds that are past expenditure deadlines. The reports must discuss the following:

1. Current status of expenditures
2. Current status of project selection, contract execution and expenditures of turn back funds

3. Current status of project selection, contract execution and expenditures of interest

The report must also have the following attachments:

1. Copies of Carl Moyer Program project invoices SCAQMD has paid
2. Updated cost-effective calculations reflecting changes in existing projects or new projects selected as a result of turn back funds

The quarterly reports are due as follows:

1. 60 days from date of the audit report cover letter
2. Six months from date of the audit report cover letter
3. Nine months from date of the audit report cover letter
4. One year from date of the audit report cover letter

Annual Reports and Revised Cost-effective Calculations:

As a result of the expenditure finding, the ARB believes the reports on file regarding the SCAQMD Carl Moyer program are not accurate. The District has agreed to provide updated annual reports and updated cost-effective calculations for Years 1 through 7 in September 2006.

Holding of Additional Funds:

SCAQMD requested and received an initial disbursement of \$1,328,443 of Year 7 funds in 2005. SCAQMD has also requested a check for the remaining Year 7 funds (\$10,853,540) and an initial disbursement of their reserved \$35,366,250 Year 8 funds. However, as a result of the late expenditures, the ARB is holding these funds until SCAQMD can document full expenditures for Years 1 through 6.

Once the ARB has received expenditure documentation for these funds SCAQMD will be allowed to submit another request for the remaining Year 7 and 8 funds. In addition, as long as the SCAQMD is not deemed an "at-risk" district they will be allowed to reserve Year 9 funds later this year.

Follow-up Audit in 2007:

The District has ensured the ARB that all funds through Year 7 will be fully expended by July 1, 2007. Over the next year the ARB will work closely with SCAQMD to track expenditure progress. In addition, the ARB will return to the District in August of 2007 to conduct a follow-up audit to verify full expenditure of these funds. If the funds (including turn back funds as a result of a project change) have not been fully expended by July 1, 2007 then the SCAQMD will be deemed an "at-risk" district as defined in section XI.B.1. of the 2005 Guidelines and the ARB will look to recapture funds.

**Finding 2: Miscalculations for Projects.**

Condition: During the audit several miscalculations of cost-effectiveness were found. Two of the miscalculations (contract numbers 5237 and 6126) resulted in the execution of contracts for amounts that did not meet the cost-effectiveness threshold. This finding requires repayment of \$6,317 from contract 5237 and an amendment to contract 6126 to decrease the contract amount by \$3,703. This finding also requires the reprogramming of these funds, totaling \$10,020 in Carl Moyer Program State funds.

In response to this finding, SCAQMD is in the process of requesting reimbursement of the overpaid amount of contract 5237 and is modifying contract 6126 to reduce the award amount. In addition, SCAQMD has reprogrammed these funds to a project approved by the SCAQMD Governing Board on July 14, 2006.

Required

Action: The District must provide documentation proving reimbursements for the overpayment of contract 5237. The District must also provide ARB with a copy of the fully executed amendment for contract 6126. District staff must provide ARB with revised annual reports and cost-effective calculations for all affected years. The reports must contain the pertinent information for the new, qualified Carl Moyer Program project and update the calculations for contracts 5237 and 6126.

**Finding 3: Minimum contract requirements for projects funded with Year 8 funds were not included in the District's new contract.**

Condition: The contract template language (between the District and engine owners) used to obligate Year 7 and 8 funds do not include one of the minimum requirements outlined in the 2005 Carl Moyer Program Guidelines. The specific requirement not included in the boilerplate contract includes a disclosure of funds statement for the owner to complete and sign. This requirement is specified in section VIII.C.3. of the 2005 Guidelines.

During the audit period the District prepared a disclosure of funds statement that was reviewed by the ARB and sent to all Year 7 awardees for signature. The District has also submitted a revised copy of the contract boilerplate language for Year 8 contracts to the ARB, which includes the disclosure of funds statement.

Required

Actions: The District must ensure receipt of signed copies of the disclosure of funds statement for all Year 7 applicants and include appropriate copies in the project file with the original contract. Once this is complete the District

shall provide the ARB with written notification of completion. The District must also ensure use of the revised Year 8 boilerplate contract language that includes the disclosure of funds statement for all Year 8 contracts.

## ATTACHMENT

### South Coast Air Quality Management District 2006 Carl Moyer Program Audit List of Projects Reviewed

<b>Contract Number</b>	<b>Project Name</b>	<b>Source Category</b>	<b>File Review</b>	<b>Site Visit</b>
<b>Year 5</b>				
4187	Altfillisch Contractors	Off-road	X	X
5038	City of Redlands	On-road	X	X
51341	Clean Air Partner Transportation Systems. Inc.	Locomotive	X	
3099	LA County Sanitation District	Infrastructure	X	X
4139	Nationwide Environmental Services	On-road	X	
4140	Pacific Harbor Line, Inc.	Locomotive	X	
4176	Railpower Technologies	Locomotive	X	X
4160	Railsolve	Locomotive	X	X
5020	Two Harbors	Marine	X	X
4156	Yusen Terminals Inc.	Off-road	X	
<b>Year 6</b>				
5170	Ameron International	Off-road	X	
6011	City of Whittier	On-road	X	
52381	Clean Air Partner Transportation Systems, Inc.	Locomotive	X	
6030	Clean Energy, Foothill Transit	Infrastructure	X	X
5167	Fontana Steel	Off-road	X	X
5237	Frontier Aluminum Corporation	Forklift	X	
6041	IdleAire	Idle Reduction	X	
6223	Kimberly Salas	Marine	X	
5167	Peed Equipment	Off-road	X	X
5209	Shaw Diversified Services Inc.	Forklift	X	X
5168	TAMCO Steel	Off-road	X	X
52451	Varner Construction Inc.	Off-road	X	X
<b>Year 7</b>				
6126	City of Newport	On-road	X	
6151	Norwalk – La Mirada Unified School District	On-road	X	

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