

September 22, 2006

Catherine Witherspoon
Executive Officer
1001 I Street
Sacramento, California 95812

Dear Ms. Witherspoon:

The audit conducted by the Air Resources Board (ARB) of our Carl Moyer Program identified several areas for enhancing program integrity. We appreciate the insights provided by your audit team because the Moyer Program is something our District has always been very proud of, in part because it was first implemented here. I have a very progressive staff managing this program and they are constantly seeking ways to improve it. The information provided by your audit team will help us make a good program even better.

We appreciate the professionalism and courtesy displayed by your staff during the audit of our program. Our Moyer staff has always had a good relationship with the ARB team which has allowed timely communication on many issues to our mutual benefit.

We were pleased to see that the findings in the audit report were restricted to administrative areas that could be easily corrected to bring the District into full compliance with Carl Moyer Guideline revisions for Year 8. Many of the corrections were initiated immediately upon disclosure of the preliminary audit results. The majority of the remaining changes should be implemented no later than October 16, 2006. There are a few changes that need to be amended into existing contracts which could take up to six months but we believe this is an acceptable timeframe for this effort.

Attachment 1 is a response to each of the findings in the audit report, and a commitment to resolving those issues. Although it was not required, my staff appreciated the recommendations provided in the report and prepared comments in response to them as well.

As a result of the long term and substantial funding increase available for future Moyer projects, benefits of this program will be accrued for many years to come. We look forward to working with you and your staff in an effort to continuously improve the Carl Moyer Program to achieve our air quality goals.

Sincerely,



Larry Greene
Air Pollution Control Officer

Attachment 1
Detailed Response to Each of the ARB Audit Findings of the Sacramento Metropolitan Air Quality Management District Carl Moyer Program

The following provides a detailed response to each of the recommendations and findings outlined in the audit report provided by the Air Resources Board (ARB) of the Sacramento Metropolitan Air Quality Management District (AQMD) Carl Moyer Program.

Regarding the timeline comments on page 8, paragraph C, in the audit report, our timeline goals for future projects, are shown in the following table:

Task	Number of Days
Approval of application upon receipt	5 business days
Pre-inspection appointment	5 business days
Pre-inspection.	10 business days (depending on inspector demand no more than 20 business days)
Contract Execution:	10 business days (upon receipt of contract signed by applicant Usually obtained in person after successful pre-inspection)
Project funding approval:	immediately after contract execution (applicant is contacted that original contract is being mailed via certified mail and commitment can be made to purchase approved technology.)
Project completion:	30 – 60 days. After 90 days if projects is not completed a follow-up call is made to determine status, then every 30 days thereafter
Project post inspection:	10 business days (depending on inspector demand no more than 20 business days)
Project Funding:	4-6 weeks upon receipt of final dealer invoices from applicant

The timeline associated with establishing a contract with an applicant when funding is available does not exceed 20 business days once the contract has been signed by the applicant and a successful pre-inspection has been performed. Our goal is to complete the contract within 10 business days upon receipt of the original contracts signed by applicant. However, the average is 13 business days.

The dates in the files reviewed by ARB depicting lengthy responses or approval of funds were associated with gaps in the availability of grants between funding cycles. When operating a program on a "first come, first served" basis, it is difficult to forecast the volume of applications or demand for funding.

Often the SMAQMD has committed their annual funds quickly, only to have to wait several months to petition for additional funds from the next funding cycle.

Response to Recommendations

A. Documentation in Project Files

1. Project Eligibility – The District is implementing a requirement for staff to use a functional check sheet to verify that each file contains all necessary documentation. A copy of this check sheet will be included in the Policy and

Procedures Manual. In addition, the District will include the protocol for file naming and storage of electronic documents in our Policy and Procedures Manual that will be provided to the ARB when the Year 8 Status Report is provided and Year 9 funding is requested around November, 2006.

2. Itemized Invoices – We review items on the invoices from participants which are paid out from Moyer funds. Parts and labor that are needed to make the project a success vary substantially from project to project. However, we will try to develop a methodology and include it in the Policy and Procedures Manual that will describe how the invoice should be reviewed to ensure that payments from the Carl Moyer Program are associated with emission reductions on the project.
3. Annual Reports – The District will include in our Policy and Procedures Manual the procedures for organizing and retaining annual reports for three years after the project ends.
4. Case-By-Case Approval – The District will maintain written approval of case-by-case projects from ARB and any supporting documentation in the project files.

B. Tracking of Interest

The District will determine interest earned on all Moyer funds from Year 1 through year 8 and provide a plan to ARB by November 30, 2006, describing how these funds will be spent in accordance with section VI.E.3 of the 2005 Moyer Guidelines. In addition, the District will set up a separate account with the County of Sacramento to track Moyer funding separate from other District funding.

C. Invoicing Prior to Contract Execution

Beginning with Year 8, the District will include language in our contracts requiring that no work may begin on a project until the contract is fully executed in accordance with section VII.B.1 of the 2005 Moyer Guidelines.

Response to Findings, Conditions and Required Actions

Finding 1: No documentation of incomplete application.

The SMAQMD is adopting a policy to send out letters to applicants asking for missing information. To expedite the process we often contact applicants directly via telephone and fill in the information missing from their application for them.

In response to this concern, when a phone call is placed to obtain information, a note will be included in the project file with the date, contact identification, and the description of the missing information obtained. Additionally, the information will be recorded in the comments section of the database for each applicant that submits an incomplete application.

When a letter is sent requesting missing application information, the letter will indicate that the SMAQMD requires the information in order to determine eligibility for grant funding. A copy of the original letter sent to applicants will be placed in the file.

As a side note, when an application does not have the original initials or signatures, we obtain them in person when we perform the pre-inspection portion of the project evaluation.

Finding 2: Minimum contract requirements for projects funded with Year 8 funds were not included in the District's new contract

The SMAQMD has revised the current boilerplate contract and incorporated all of the missing elements associated with requirements in the new Moyer guidelines and it is under SMAQMD legal review. The revised contract will be provided to the ARB as soon as it is approved by District Counsel, which should be no later than October 16, 2006

The District will send out contract amendments for 8th year Moyer projects that have already been signed using the previous contract. The District anticipates that this process may take up to six months due to the current staff workload and due to the follow up work that may be required to have participants sign off on projects that have already been funded. The District will inform the ARB when this process is complete or if we encounter any difficulties in obtaining the signed contract amendments.

Finding 3: Minimum application requirements were missing from Year 8 applications.

The District will use a supplemental application form for unique projects. For projects that are subject to an ARB in-use regulation, the District will utilize a check sheet to verify project eligibility as part of the supplemental application. Missing information will be added into the application format including the ARB recommended items by October 16, 2006.

- Percent operation requirement in California
- Name of person who filled out the application
- For electric agricultural pump projects; whether applicant is participating in the Ag ICE program and/or whether they are currently under a Moyer contract.

The District will have, in the hardcopy project files, all information requested in the specific minimum application requirements for each source category.

Finding 4: The District did not follow all of the contract requirements for Years 5 and 6 projects.

In all future contracts, starting November 1, 2006, the SMAQMD will begin requiring the participant to maintain adequate records to document all required project information and the District will continue to do, at a minimum, annual surveys to collect some or all of this information. In addition, the District will keep the signed surveys for three years beyond the project life. We will modify the annual survey to include all of the information required in the new Moyer guidelines. The SMAQMD database will continue to be updated with this information to enable quick and easy access to an applicant's project information upon demand.

In addition, all future project files will maintain documentation on the disposition of the old engine(s). The District already has the steps in place to maintain consistency in this area.