



Transmitted via e-mail

November 29, 2011

Mr. Barry Wallerstein, Executive Officer  
South Coast Air Quality Management District  
21865 East Copley Drive  
Diamond Bar, CA 91765

Dear Mr. Wallerstein:

**Final Report—South Coast Air Quality Management District, Fiscal Compliance Review of Carl Moyer, Lower-Emission School Bus, and Goods Movement Emission Reduction Programs**

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance review of the South Coast Air Quality Management District's (District) Carl Moyer, Lower-Emission School Bus, and Goods Movement Emission Reduction Programs for the period July 1, 2005 through June 30, 2010. We also compiled Assembly Bill 923 fund transactions through June 30, 2010.

The enclosed report is for your information and use. The District's response to the report observations are incorporated into this final report. The District agreed with our observations, and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its fiscal compliance with receipts and expenditures of incentive funds. This report will be placed on our website.

We appreciate the assistance and cooperation of your staff and management during our review. If you have any questions, please contact Susan Botkin, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. Chung Liu, Deputy Executive Officer, South Coast Air Quality Management District  
Mr. Michael O'Kelly, Chief Financial Officer, South Coast Air Quality Management District  
Mr. Fred Minassian, Manager, South Coast Air Quality Management District  
Ms. Sujata Jain, Controller, South Coast Air Quality Management District  
Ms. Donna Peterson, Financial Services Manager, South Coast Air Quality Management District  
Ms. Connie Day, Program Supervisor, South Coast Air Quality Management District  
Mr. Robert Cross, Division Chief, Mobile Source Control Division, Air Resources Board  
Ms. Cynthia Marvin, Assistant Division Chief, Stationary Source Division, Air Resources Board  
Mr. Scott Rowland, Branch Chief, On-Road Control Regulations Branch, Air Resources Board  
Ms. Heather Arias, Manager, Air Resources Board  
Mr. David Salardino, Manager, Air Resources Board  
Mr. Charles Kersey, Manager, Air Resources Board  
Ms. Laura Zarembo-Schmidt, Engineer, Air Resources Board

South Coast Air Quality Management District  
Carl Moyer Program  
Lower-Emission School Bus Program  
Goods Movement Emission Reduction Program  
Assembly Bill 923

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

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# BACKGROUND, SCOPE, AND METHODOLOGY

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## Background

The South Coast Air Quality Management District (District) was created under Health and Safety Code sections 40410-40414. The District's mission is to undertake steps to protect public health from air pollution through a comprehensive program of planning, regulation, compliance assistance, enforcement, monitoring, technology advancement, and public education.<sup>1</sup> The District works in conjunction with the California Air Resources Board (Board) in achieving its clean air goals. The Board awards block grants to the District and provides guidance and oversight for the Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), and Goods Movement Emission Reduction Program (GMERP). The Board also has oversight responsibility for use of Assembly Bill 923 (AB 923) funds.

The CMP objective is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment.<sup>2</sup> Public or private entities that operate eligible engines or equipment participate by applying for a grant. Eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units. The Multi-District portion of the CMP provides incremental cost funding for projects operating in more than one local air district. The Board is authorized to reserve 10 percent of CMP funds to finance multi-district projects. The CMP administration funds are provided to local air districts to fund costs associated with program implementation tasks outlined in the CMP Guidelines.

Local air districts participating in the CMP are required to provide \$1 in match funding for every \$2 of CMP funding awarded by the Board, with a cap on statewide match funds of \$12 million. Match fund sources may include AB 923 funds.

The primary goal of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution.<sup>3</sup> The LESBP achieves this goal by funding the replacement of older high-polluting school buses with new buses, and the installation of Board-approved pollution control devices on diesel school bus engines.

The objective of the GMERP is to reduce emissions and health risk from freight operations in California's priority trade corridors.<sup>4</sup> The GMERP is funded by \$1 billion from Proposition 1B Bond funds.

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

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<sup>1</sup> South Coast Air Quality Management District website, [www.aqmd.gov](http://www.aqmd.gov).

<sup>2</sup> California Air Resources Board website, [www.arb.ca.gov](http://www.arb.ca.gov).

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

AB 923 (Chapter 707, Statutes of 2004) provided 2 additional sources of funding for the CMP. AB 923 assessed fees on purchasers of new tires and provided air district governing boards with the authority to approve a \$2 increase in motor vehicle registration fees. These fees provide additional funding to local air districts for 4 incentive programs: (1) the CMP, (2) the LESBP's Replacement Program, (3) light-duty accelerated vehicle retirement or repair programs, and (4) the Agricultural Assistance Program. The last two funding sources were not included in this review.

## **Scope**

In accordance with an interagency agreement with the Board, the Department of Finance, Office of State Audits and Evaluations, conducted a limited fiscal compliance review of the District's receipts and expenditures of the CMP, LESBP, and GMERP incentive funds for the period July 1, 2005 through June 30, 2010, and prepared schedules of the District's receipts and expenditures for each program. In addition, we compiled a cumulative schedule of AB 923 Fund receipts, transfers, expenditures, and balance through June 30, 2010.

This limited fiscal compliance review is substantially less in scope than an audit. Therefore, no assurance is provided on District management's overall compliance with California laws, regulations, and grant agreements in its accounting for incentive or AB 923 funds.

## **Methodology**

To complete this review, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the programs and accounting processes.
- Examined program files maintained by the District, the grant agreements, and applicable policies and procedures.
- Reviewed the District's accounting records, vendor invoices, payroll records, and bank statements.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Selected a sample of program income receipts and traced to the supporting income allocation worksheets.
- Compiled schedules summarizing program funds received and disbursed for the period July 1, 2005 through June 30, 2010 using limited accounting reports and schedules provided by the District.

The results of the review are based on our survey of documents, other information made available to us, and interviews with the staff directly responsible for administering the incentive funds. The review was conducted from September 2010 through March 2011.

## Observation

Our review of the District's compliance with Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), and Goods Movement Emission Reduction Program (GMERP) fiscal requirements disclosed the following:

### Observation: Fiscal Controls Should Be Improved

The sub-recipient grant reimbursement process lacks essential controls. Specifically:

**Expenditure Information is Unreconciled:** There are no data reliability and validity controls on the Excel spreadsheets used to monitor sub-recipient expenditures. According to the District, the program and accounting spreadsheets were periodically reconciled; however, the two spreadsheets did not agree. We found the program spreadsheet indicated one of the GMERP block grants had been fully expended by December 31, 2009, while the accounting spreadsheet showed a \$2.8 million balance as of November 3, 2010, almost one year after the grant end date. The discrepancy was due to an unreimbursed loan as described below.

The District loaned \$2.8 million from another fund for the GMERP block grant and had not reimbursed the other fund. The GMERP fund still reflected a \$2.8 million balance in its subsidiary ledger, and the District was not aware of this fact until we brought it to their attention.

Material unreconciled differences within the District's records could impact its ability to timely and effectively fund its emission reduction goals.

**Invoice Review Process is Ineffective:** The District reimbursed Southern California Edison twice for forklift number 30425. The District's claim review and approval process failed to identify this overpayment, potentially costing its programs unnecessary expenditures. The District intends to verify this double payment and seek recovery if appropriate

**Management Override of Controls:** Program management held 4 checks totaling \$505,000 an average of 13 months before deposit, costing the emission reduction program approximately \$12,500 in lost interest income. The District's check handling policies and procedures state it is the "responsibility of management to make sure no checks are kept in any organizational unit while waiting for final resolution" and "checks that require further verification must be turned in to [District] Finance for safe keeping in the Finance vault until resolution is made." The procedures also state that all "checks received must be turned in to accounting for deposit the same day."

## **Recommendation**

Perform an internal risk assessment of the control environment and develop a corrective action plan to prevent the accounting and expenditure deficiencies listed above from recurring. If implemented, it will reduce the risk of lost incentive and interest income funds and minimize reporting errors.

## Schedules

Our review included the Carl Moyer Program (CMP) regular, multi-district, administration, match, and earned interest funds; Lower-Emission School Bus Program (LESBP) retrofit and replacement, and earned interest funds; Goods Movement Emission Reduction Program (GMERP) project, administration, match, and earned interest funds; and compilation of Assembly Bill 923 (AB 923) funds. Schedules detailing the receipts and expenditures during the CMP years 8 through 11, LESBP program years 2005-06 through 2008-09, and GMERP fiscal year 2007-08 (with earned interest for 2008-09 and 2009-10) are illustrated below.

Schedules 1 through 5 illustrate the CMP regular and multi-district, administration, match, and earned interest funds.

**Schedule 1: CMP Regular and Multi-District Funds**

CMP Year	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period <sup>1</sup>	Expenditures After Grant Period <sup>1</sup>	Balance as of June 30, 2010
8	2005-06	\$ 34,566,109	\$19,902,851	\$14,663,258	\$10,131,062	\$4,532,196
8 Multi-District	2005-06	1,623,926	1,623,926	0	0	0
9	2006-07	32,972,188	15,047,371	17,924,817	8,672,900	9,251,917
9 Multi-District	2006-07	5,244,252	2,783,721	2,460,531	850,907	1,609,624
10	2007-08	33,127,606	20,743,137	12,384,469	0	12,384,469
10 Multi-District	2007-08	1,751,300	712,931	1,038,369	0	1,038,369
11	2008-09	28,253,047 <sup>2</sup>	7,054,602	N/A	N/A	21,198,445
11 Multi-District	2008-09	3,139,228	0	N/A	N/A	3,139,228
<b>Total</b>		<b>\$140,677,656</b>	<b>\$67,868,539</b>	<b>\$48,471,444</b>	<b>\$19,654,869</b>	<b>\$53,154,248</b>

(1) Year 8 grant period ended June 30, 2008; Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011.

(2) The District received \$21,065,287 of the Year 11 project funds as of June 30, 2010.

\* The District has been allowed to expend funds after the grant period if an agreement with a sub-recipient was in place prior to the grant end date.

### Schedule 2: CMP Administration Funds

CMP Year	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period <sup>3</sup>	Administration Balance as of June 30, 2010
8	2005-06	\$ 800,141	\$ 800,141	\$ 0
9	2006-07	1,727,484	1,727,484	0
9 Multi-District	2006-07	262,212	262,212	0
10	2007-08	1,743,558	1,743,558	0
10 Multi-District	2007-08	87,565	87,565	0
11	2008-09	1,487,002	743,501	743,501
11 Multi-District	2008-09	165,223	82,613	82,610
<b>Total</b>		<b>\$6,273,185</b>	<b>\$5,447,074</b>	<b>\$ 826,111</b>

(3) Year 8 grant period ended June 30, 2008; Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011.

### Schedule 3: CMP Match Funds

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period <sup>4</sup>	Match Expenditures After Grant Period <sup>5</sup>	Remaining Match Requirement as of June 30, 2010
8	2005-06	\$ 5,424,688	\$4,817,992	\$ 606,696	\$ 0
9	2006-07	5,056,114	3,920,723	1,135,391	0
10	2007-08	5,381,352	4,765,753	0	615,599
11	2008-09	5,295,593	794,339	N/A	4,501,254
<b>Total</b>		<b>\$21,157,747</b>	<b>\$14,298,807</b>	<b>\$ 1,742,087</b>	<b>\$ 5,116,853</b>

(4) Year 8 grant period ended June 30, 2008; Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011.

\* The District has been allowed to expend funds after the grant period if an agreement with a sub-recipient was in place prior to the grant end date.

**Schedule 4: CMP Earned Interest**

Fiscal Year	Interest Earned in Fiscal Year	Expenditures <sup>5</sup> in Fiscal Year	Cumulative Balance at Year End
2005-06	\$ 30,666	\$ 0	\$ 30,666
2006-07	37,833	0	68,499
2007-08	914,071	29,201	953,369
2008-09	1,278,878	562	2,231,685
2009-10	938,008	70,194	3,099,499
<b>Total</b>	<b>\$ 3,199,456</b>	<b>\$ 99,957</b>	<b>\$ 3,099,499</b>

(5) There are no expenditure deadlines for the CMP interest.

**Schedule 5: CMP Multi-District Earned Interest**

Fiscal Year	Interest Earned in Fiscal Year	Expenditures <sup>6</sup> in Fiscal Year	Cumulative Balance at Year End
2005-06	\$ 0	\$ 0	\$ 0
2006-07	0	0	0
2007-08	237,790	0	237,790
2008-09	168,635	0	406,425
2009-10	111,805	0	518,230
<b>Total</b>	<b>\$ 518,230</b>	<b>\$ 0</b>	<b>\$ 518,230</b>

(6) There are no expenditure deadlines for the CMP Multi-District interest.

Schedules 6 through 8 illustrate the LESBP retrofit and replacement, administration, and earned interest funds.

**Schedule 6: LESBP Retrofit and Replacement Funds**

Program Year	Project Award Amount	Expenditures Within Grant Period <sup>7</sup>	Expenditures After Grant Period <sup>8</sup>	Project Funds Returned to ARB	Award Balance as of June 30, 2010
2005-06 Replacement	\$ 2,100,000	\$ 2,100,000	\$ 0	\$ 0	\$ 0
2005-06 Retrofit	6,161,000	6,161,000	0	0	0
2007-08	71,154,435 <sup>8</sup>	271,925	N/A	0	70,882,510
2008-09	835,140	757,989	49,698	27,453	0
<b>Total</b>	<b>\$80,250,575</b>	<b>\$ 9,290,914</b>	<b>\$ 49,698</b>	<b>\$ 27,453</b>	<b>\$70,882,510</b>

(7) FY 2005-06 replacement and retrofit grant period ended June 30, 2008; FY 2007-08 grant period ends June 30, 2012; FY 2008-09 grant period ended September 30, 2009.

(8) The District received \$66,382,254 in fiscal year 2007-08 LESBP project funds as of June 30, 2010.

**Schedule 7: LESBP Administration Funds**

Program Year	Administration Funds Awarded	Expenditures Within Grant Period <sup>9</sup>	Expenditures After Grant Period <sup>8</sup>	Administration Balance as of June 30, 2010
2005-06 Replacement	\$ 0	\$ 0	\$ 0	\$ 0
2005-06 Retrofit	0	0	0	0
2007-08	25,200	25,200	0	0
2008-09	62,860	61,814	1,046	0
<b>Total</b>	<b>\$ 88,060</b>	<b>\$ 87,014</b>	<b>\$ 1,046</b>	<b>\$ 0</b>

(9) FY 2007-08 grant period ends June 30, 2012; FY 2008-09 grant period ended September 30, 2009.

\* The District has been allowed to expend funds after the grant period if an agreement with a sub-recipient was in place prior to the grant end date.

**Schedule 8: LESBP Earned Interest**

Program Year	Interest Earned	Expenditures Within Grant Period	Expenditures After Grant Period*	Ending Balance as of June 30, 2010
2005-06 Replacement	\$ 123,642	\$ 0	\$ 0	\$ 123,642
2005-06 Retrofit	627,656	134,150	492,628	878
2007-08	67,259	0	0	67,259 <sup>10</sup>
2008-09	3,029	0	0	3,029 <sup>11</sup>
<b>Total</b>	<b>\$ 821,586</b>	<b>\$ 134,150</b>	<b>\$ 492,628</b>	<b>\$ 194,808</b>

(10) The District has until June 30, 2012 to expend the fiscal year 2007-08 earned interest.

(11) Per the United States Environmental Protection Agency, the fiscal year 2008-09 earned interest is not required to be returned.

\* The District has been allowed to expend funds after the grant period if an agreement with a sub-recipient was in place prior to the grant end date.

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

**Schedule 9: GMERP Project Funds**

Grant Award	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period <sup>12</sup>	Expenditures After Grant Period*	Balance as of June 30, 2010
G07GMLP1	2007-08	\$ 6,600,000	\$ 6,600,000	\$ 0	\$ 0	\$ 0
G07GMLT1	2007-08	6,550,000	6,550,000	0	0	0
G07GMLP2	2007-08	2,500,000	2,410,000	N/A	N/A	90,000
G07GMLP3-03	2007-08	66,226,000	53,176,000	N/A	N/A	13,050,000
G07GMLL1	2007-08	3,000,000 <sup>13</sup>	0	N/A	N/A	3,000,000
G07GMLT2	2007-08	43,665,075 <sup>13</sup>	0	N/A	N/A	43,665,075
<b>Total</b>		<b>\$128,541,075</b>	<b>\$68,736,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$59,805,075</b>

(12) G07GMLP1 grant period ended December 31, 2009; G07GMLT1 grant period ended December 31, 2009; G07GMLP2 grant period ended December 31, 2010; G07GMLP3-03 grant period ended June 30, 2011; G07GMLL1 grant period ended June 30, 2011; G07GMLT2 grant period ends December 31, 2011.

(13) The District has not received the funds for G07GMLL1 and G07GMLT2 as of June 30, 2010.

**Schedule 10: GMERP Administration Funds**

Grant Award	Fiscal Year	Administration Funds Awarded	Funds Received as of June 30, 2010	Expenditures Within Grant Period <sup>14</sup>	Administration Balance as of June 30, 2010
G07GMLP1	2007-08	\$ 330,000	\$ 165,000	\$ 165,000	\$ 0
G07GMLT1	2007-08	327,500	163,750	163,750	0
G07GMLP2	2007-08	125,000	0	0	0
G07GMLP3-03	2007-08	3,311,300	2,248,750	1,942,392	306,358
G07GMLL1	2007-08	90,000	0	0	0
GM07GMLT2	2007-08	2,181,554	0	0	0
<b>Total</b>		<b>\$6,365,354</b>	<b>\$2,577,500</b>	<b>\$2,271,142</b>	<b>\$ 306,358</b>

(14) G07GMLP1 and G07GMLT1 grant period for administrative funds ends June 16, 2014; G07GMLP3-03 grant period for administrative funds ends September 29, 2015.

\* The District has been allowed to expend funds after the grant period if an agreement with a sub-recipient was in place prior to the grant end date.

**Schedule 11: GMERP Match Funds**

Grant Award	Fiscal Year	Match Type	Required District Match	Match Expenditures Within Grant Period <sup>15</sup>	Remaining Match Requirement as of June 30, 2010
G07GMLP1	2007-08	N/A	\$ 0	\$ 0	\$ 0
G07GMLT1	2007-08	N/A	0	0	0
G07GMLP2	2007-08	Private	2,500,000	2,461,461	38,539
G07GMLP3-03	2007-08	District/Federal	7,500,000	5,430,000	2,070,000
		Ports	17,500,000	12,670,000	4,830,000
		Private	89,086,670	52,042,425	37,044,245
G07GMLL1	2007-08	Private	3,000,000	0	3,000,000
G07GMLT2	2007-08	Private	62,235,910	0	62,235,910
<b>Total</b>			<b>\$181,822,580</b>	<b>\$72,603,886</b>	<b>\$109,218,694</b>

(15) G07GMLP1 grant period ended December 31, 2009; G07GMLT1 grant period ended December 31, 2009; G07GMLP2 grant period ended December 31, 2010; G07GMLP3-03 grant period ended June 30, 2011; G07GMLL1 grant period ended June 30, 2011; G07GMLT2 grant period ends December 31, 2011.

**Schedule 12: GMERP Earned Interest**

Fiscal Year	Interest Earned in Fiscal Year	Expenditures <sup>16</sup>	Cumulative Balance at Year End
2008-09	\$ 106,209	\$ 0	\$ 106,209
2009-10	313,472	0	419,681
<b>Total</b>	<b>\$ 419,681</b>	<b>\$ 0</b>	<b>\$ 419,681</b>

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

Schedule 13 illustrates Assembly Bill 923 (AB 923) funds.

**Schedule 13: AB 923 Funds**

Total Receipts through June 30, 2010 <sup>17</sup>	Transfers In through June 30, 2010	Transfers Out through June 30, 2010	Total Expenditures through June 30, 2010	Administration Charges	Balance as of June 30, 2010 (Excluding Interest)	Earned Interest through June 30, 2010	Balance as of June 30, 2010 (Including Interest)
\$121,863,193	\$55,568,256	\$37,698,605	\$69,092,596	\$4,581,021	\$66,059,227	\$6,617,033	\$72,676,260

(17) Receipts based on fee collections beginning in May 2005.





# South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178  
(909) 396-2000 • www.aqmd.gov

October 26, 2011

Mr. David Botelho  
Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Mr. Botelho:

AQMD is in receipt of your draft report of the Fiscal Compliance Review of Carl Moyer, Lower-Emission School Bus, and Goods Movement Emission Reduction Programs for the period July 1, 2005 through June 30, 2010. We believe AQMD has been very successful in the timely implementation of all these programs, resulting in significant and cost-effective emissions reductions within our Basin. The funding amounts and the size of the implemented programs are the largest and the most diverse emissions reductions incentive programs within the State of California. For the audited program years, the AQMD was able to comply with the California Air Resources Board's program requirements and guidelines. These included implementation of \$77.2 million in the Lower-Emission School Bus and the Proposition 1B-School Bus Programs, \$128.5 million in the Proposition 1B-Goods Movement Program, and \$158.5 million in the Carl Moyer Program totaling over \$364 million covering around ten thousand on- and off-road vehicles, engines, and control equipment. In addition and although not required, AQMD, in close cooperation with the Ports of Los Angeles and Long Beach, leveraged the Proposition 1B-Goods Movement Program funds with additional \$26.6 million in federal and local funds for implementation of liquefied natural gas trucks at the Ports with certified emission levels of six times lower than those allowed in the Goods Movement Program.

Per the letter dated October 14, 2011, please find the following responses to your Observation contained on Page 3 of your report:

## **Expenditure Information**

Response: The reimbursement between funds was processed on November 3, 2010. The timing of the reimbursement did not result in any negative effects on the timely or effective management of these programs, as the program staff was fully aware of the state's notice regarding the removal of the funding freeze on the Proposition 1B Program funds.

AQMD received \$13.5M in "Early Grant" funds for the expeditious implementation of goods movement truck projects per Governor's decree. After receiving the funds, AQMD received a letter with instructions that a freeze on expenditures from these funds was in place. In accordance with a Department of Finance Budget Letter regarding the freeze, AQMD was allowed to use its own funds to continue implementation of the program. AQMD received approval from its Board to use its own funds as a means of actively supporting the Goods Movement program and to further the efforts of the Board in cleaning the air. However, the Board stated in its motion, "Upon receiving approval from CARB for the \$2.8 million Proposition 1B 'Early Grant' funds, reimburse the Clean Fuels Fund for any incurred expenditures."

On June 29, 2009, AQMD received a letter indicating that the freeze on the "Early Grant" funds was lifted and expenditures could continue. AQMD did not immediately reimburse itself for the expenditures that occurred during the freeze period due to the unique and unusual circumstances surrounding these "Early Grant" funds. More specifically, the accounting transactions related to program expenditures being paid from AQMD funds with a reimbursement to occur from another fund at some unspecified later date are not common at AQMD, particularly when the reimbursing funds have already been received. Since the Board approval did not constitute a "loan" of monies from one fund to another, a receivable and liability were not booked into the accounting system. At the time CARB authorized the continued expenditures of grant monies, program staff at AQMD were satisfied that the \$2.8M in expenditures were appropriately spent under the applicable grant agreement while finance staff were not expressly aware of CARB's authorization to continue expenditures under the grant, so the reimbursement transfer was not processed. In prior circumstances, the reimbursement transfer would have been triggered by a check or payment from the funding source being received by AQMD, but in this case CARB already fully funded the grant before freezing the use of the funds, so this normal trigger mechanism did not occur.

AQMD will prevent this specific condition from occurring in the future by establishing loans between funds as opposed to expending funds with subsequent transfers at a later date. Loans between funds require accounting entries that establish receivables and liabilities between funds within AQMD's accounting system. These receivables and liabilities are reviewed on an annual basis, at a minimum, and will ensure that outstanding receivables/liabilities balances between funds are liquidated in an appropriate and timely manner.

### **Invoice Review**

Response: AQMD contracted with Southern California Edison (SCE) for implementation of fifteen electric forklift units for the total amount of \$180,954. Post-inspections of the electric forklifts were conducted by an AQMD inspector as the units were delivered in batches. As such one of the units that had already been post-inspected was inadvertently displayed again in a following post-inspection as the equipment's serial number had been changed and had resulted in the confusion to wrongly display of the equipment for post-inspection again. Hence, when

invoices were received for fifteen units, they were believed to be correct. When the mistake by the SCE was discovered due to the audit process, AQMD took the corrective action of contacting them and requesting a refund of the excess payment amount. As a result, SCE sent a letter of apology for their inadvertent mistake together with a refund check in the amount of \$15,852, which was deposited in the Carl Moyer Program Fund.

The mistake occurred due to human error at the time the forklifts were inspected, rather than as a result of systemic weakness in the billing review process. The same forklift unit was shown on two different occasions by the contractor with different serial numbers. For reducing this type of mistake in the future, AQMD will hold refresher training meetings with the inspectors and project officers to review and discuss possible weak links encountered during the inspection and billing processes of the projects.

### **Management Override**

Response: The check handling policies and procedures should be adhered to and are currently being reviewed for improvement. Additional training will take place to ensure that any checks awaiting further resolution are processed in accordance with these policies and procedures.

In this specific instance, CARB's guidelines for payments to school districts for maintenance of particulate traps were ambiguous. The guidelines allowed payments of up to \$4,000 per bus upfront to schools for maintenance of their particulate traps for 11 years without any further specificity. AQMD considered this to be an inefficient methodology for expenditure of funds, and after consultation with CARB, proposed to instead pay for the actual purchase and installation of the traps cleaning equipment so that schools could use them as often as needed. Although the payments could have been made upfront, but since this was being implemented for the first time without prior precedent, the program management staff withheld the checks until the cleaning equipment was installed and operational to schools' satisfaction. This initiative proved to be much cheaper than the allowed upfront payments of \$4,000 per bus and saved the program approximately \$1.5 million, offsetting the loss of \$12,500 in interest associated with these checks.

Should you have any questions, or require further information, please contact me at 909-396-2100.

Sincerely,

Original signed by:

Barry Wallerston, DEnv.  
Executive Officer