



Transmitted via e-mail

December 3, 2012

Mr. Seyed Sadredin, Air Pollution Control Officer
San Joaquin Valley Air Pollution Control District
1990 East Gettysburg Avenue
Fresno, CA 93726

Dear Mr. Sadredin:

Final Report—San Joaquin Valley Air Pollution Control District, Fiscal Compliance Audit of Carl Moyer, Lower-Emission School Bus, Goods Movement Emission Reduction, and Air Quality Improvement Programs

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the San Joaquin Valley Air Pollution Control District's (District) Carl Moyer, Lower-Emission School Bus, Goods Movement Emission Reduction, and Air Quality Improvement programs for the period July 1, 2006 through June 30, 2011.

The enclosed report is for your information and use. The District's response to the report observations and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Susan Botkin, Manager, or James Kong, 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. Scott Rowland, Chief, On-Road Control Regulations Branch, California Air Resources Board
Mr. Doug Thompson, Manager, Incentives Oversight Section, California Air Resources Board
Mr. Timothy Hartigan, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Mr. William O'Brien, Chair, Board of Governors, San Joaquin Valley Air Pollution Control District
Mr. Rick McVaigh, Deputy Air Pollution Control Officer, San Joaquin Valley Air Pollution Control District
Mr. Samir Sheikh, Director of Strategy and Incentives, San Joaquin Valley Air Pollution Control District
Ms. Cindi Hamm, Director of Administrative Services, San Joaquin Valley Air Pollution Control District
Mr. Todd DeYoung, Strategies and Incentives, San Joaquin Valley Air Pollution Control District
Mr. Aaron Tarango, Grants Supervisor, San Joaquin Valley Air Pollution Control District
Ms. Mehri Barati, Finance Manager, San Joaquin Valley Air Pollution Control District

AUDIT REPORT

San Joaquin Valley Air Pollution Control District
Carl Moyer Program
Lower-Emission School Bus Program
Goods Movement Emission Reduction Program
Air Quality Improvement Program

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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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

Background

The San Joaquin Valley Air Pollution Control District (District) was created under Health and Safety Code sections 40600-40608. The District's mission is to improve the health and quality of life for all valley residents through efficient, effective, and entrepreneurial air quality management strategies.¹ 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), Goods Movement Emission Reduction Program (GMERP) and Air Quality Improvement Program (AQIP).

The CMP's 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.² 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 ten 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.

The primary goal of the LESBP is to reduce schoolchildrens' exposure to cancer-causing and smog-forming pollution.³ 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. In addition to administering their own program, the District is currently administering the LESBP for 18 other air districts that opted not to administer the program themselves.

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

The AQIP is a voluntary incentive program to fund clean vehicle and equipment projects, research on biofuels production and the air quality impacts of alternative fuels, and workforce training.⁵ The AQIP uses multiple types of projects to achieve program goals.

¹ San Joaquin Valley Air Pollution Control District website, www.valleyair.org

² California Air Resources Board website, www.arb.ca.gov.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

The District receives funding for the Lawn and Garden Equipment Replacement Project and the Zero-Emission All-Terrain Agricultural Work Vehicle Rebate Project.

The Board advances CMP, LESBP, GMERP, and AQIP 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.

Scope

In accordance with an interagency agreement with the Board, the Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of the District's CMP, LESBP, GMERP, and AQIP incentive grant funds for the period July 1, 2006 through June 30, 2011.

The audit objectives were to determine for the CMP, LESBP, GMERP, and AQIP:

- The amount of grant funds awarded, the grant program and administrative funds expended within and after the grant period, and the remaining award amount at June 30, 2011.
- The match funding requirement, the matching funds expended within the grant period, and any remaining match requirements at June 30, 2011.
- The amount of interest revenue earned on grant funds, the amount of interest revenue expended, and the interest balance as of June 30, 2011.
- Whether the grant expenditures complied with applicable laws, regulations, grant agreements, and Board program guidelines.
- Whether grant expenditures were recorded accurately in the District's accounting system and Grant Management System.

As part of planning our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

Methodology

To complete this audit, we performed the following procedures:

- Interviewed key personnel, observed processes, reviewed policies and procedures, and reviewed systems information documentation to obtain an understanding of the programs and internal controls over relevant information systems and accounting processes.
- Reviewed the programs' grant award agreements and reviewed the Board's program guidelines and applicable Health and Safety Code sections to determine the District's fiscal compliance requirements regarding the incentive grants being audited.
- Compiled schedules to summarize CMP, LESBP, GMERP, and AQIP project, match, administration, and interest grant funds activity for the period July 1, 2006 through June 30, 2011 from District accounting and project records, including the District general ledger, Grants Management System project expenditure reports, District administration cost allocation worksheets, and District interest earnings allocation worksheets.

- Selected a sample of CMP, LESBP, GMERP, and AQIP project and match expenditures, and CMP interest funded project expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported, and properly recorded, by tracing to District general ledgers, vendor invoices, payroll records, check disbursement information, and project file documentation.
- Analyzed District administration cost worksheets to determine whether administrative costs were accurately calculated and adequately supported by labor information system reports.
- Analyzed District interest earnings and disbursement allocation worksheets to determine whether interest earnings were accurately allocated to the various programs using a reasonable allocation methodology applied consistently.
- Selected a sample of program award receipts and traced to accounting records and bank statements to verify amount of program award revenue received, and determine the timeliness of the deposit of funds and accuracy of recording in the accounting records.
- Compared amounts reported in the District's general ledger to amounts in the Grant Management System to determine if accounting and program records reconcile.

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

Observations

The results of the audit are based on our review of documents, other information made available to us, and interviews with staff directly responsible for administering incentive funds.

Based on the testing performed, the San Joaquin Valley Air Pollution Control District's (District) grant expenditures related to the Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), Goods Movement Emission Reduction Program (GMERP), and Air Quality Improvement Program (AQIP) were accurately recorded in the District's accounting and grants management systems. Except as noted below, the District's grant expenditures complied with applicable laws, regulations, grant agreements, and the California Air Resources Board (Board) guidelines.

Observation 1: CMP Grant Funds Were Expended or Retained After the Grant Period

CMP regular, multi-district, and Antelope Valley funds totaling \$1,534,578 were expended after the respective grant periods. Specifically, year 9 regular and multi-district funds totaling \$526,715 and \$59,933, respectively, were expended after June 30, 2009. Year 10 regular and Antelope Valley funds totaling \$854,070 and \$93,860, respectively, were expended after June 30, 2010. While these payments were for valid projects, the claims were not approved for payment within the respective grant periods as required by statute.

Additionally, as of June 30, 2011, year 10 Mojave Desert and Antelope Valley funds totaling \$647,613 and \$190,620, respectively, remained unexpended. Year 11 regular, multi-district, and Mojave Desert funds totaling \$6,000,122, \$656,637, and \$144,258, respectively, remained unexpended.

Health and Safety Code 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 that June 30."

Recommendation:

Ensure projects are completed and funds expended within the respective grant periods. Final determination as to the treatment of the unexpended funds and funds expended outside the grant period will be made by the Board.

Observation 2: GMERP Grant Funds Were Expended After the Grant Period

GMERP funds totaling \$250,000 for grant G07GMCT1 were expended after the grant period, which ended October 31, 2010. The District received 2 of the 3 late claims before October 31, 2010; however, the District did not complete the inspection, review, approval, and payment process prior to the grant deadline. The third late claim was received, approved, and paid after the grant deadline.

The Board's 2010 Goods Movement Emission Reduction Guidelines state "FY 2007-08 funds must be obligated and expended by local agencies according to the timelines defined in the applicable grant agreement, including any amendment(s)."

The G07GMCT1 grant agreement amendment 1, dated August 31, 2010, states "the local agency shall verify project completion and close out payment for all equipment projects no later than October 31, 2010."

Recommendation:

The District should consider revising its claim approval and payment process to ensure project completion and close out payment for equipment projects is completed no later than the specified expenditure deadlines. Final determination as to the treatment of the funds expended outside the grant period will be made by the Board.

Incentive Grant Fund Activities Schedules

Our audit included the CMP regular, multi-district, administration, match, and earned interest funds; LESBP project, administration, match and earned interest funds; GMERP project, administration, match, and earned interest funds; and AQIP project, administration, match, and earned interest funds. Schedules detailing the grant awards and expenditures for CMP years 9 through 12, LESBP program years 2007-08 and Federal Fiscal year (FFY) 2009, GMERP program years 2007-08 and 2008-09, and AQIP program year 2009-10 are illustrated in the following schedules.

CMP Schedules of Grant Activity

Schedules 1 through 5 present the San Joaquin, Great Basin, Antelope Valley and Mojave Desert CMP regular, multi-district, administration, match, and interest funds grant fiscal activity through June 30, 2011. The Antelope Valley and Mojave Desert grants were included in our scope because during our audit period these funds were transferred to the District and were used to fund additional District projects. Within the audit period, all CMP match requirements were met. As noted in Observation 1, \$1,534,578 of grant expenditures were made after the related grant periods and a total of \$7,639,250 grant funds remained unexpended for grants ending on or before June 30, 2011.

Schedule 1: CMP San Joaquin and Great Basin Regular and Multi-District Project Awards and Expenditures

CMP Year	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ¹	Expenditures After Grant Period	Balance, June 30, 2011
9	2006-07	\$10,185,985	\$ 9,659,270	\$ 526,715	\$ 526,715	\$ 0
9 Multi-District	2006-07	1,047,646	987,713	59,933	59,933	0
10	2007-08	10,323,501	9,469,431	854,070	854,070	0
10 Great Basin ²	2007-08	201,350	201,350	0	0	0
10 Multi-District	2007-08	2,054,861	2,054,861	0	0	0
11	2008-09	8,863,342	2,863,220	6,000,122	N/A	6,000,122
11 Great Basin ²	2008-09	198,104	198,104	0	N/A	0
11 Multi-District	2008-09	1,276,637	620,000	656,637	N/A	656,637
12	2009-10	7,875,813	0	N/A	N/A	7,875,813
12 Multi-District	2009-10	3,578,854	160,000	N/A	N/A	3,418,854

¹ Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012.

² The District's Year 10 and 11 regular CMP grant agreements allocated a portion of the funds to be used for the Great Basin Unified Air Pollution Control District.

Schedule 2: CMP Antelope Valley and Mojave Desert Project Awards and Expenditures³

CMP Year and Entity	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ⁴	Expenditures After Grant Period	Balance, June 30, 2011
9 Mojave Desert	2006-07	\$ 409,121	\$ 409,121	\$ 0	\$ 0	\$ 0
9 Antelope Valley	2006-07	495,274	495,274	0	0	0
10 Mojave Desert	2007-08	647,613	0	647,613	0	647,613
10 Antelope Valley	2007-08	284,480	0	284,480	93,860	190,620
11 Mojave Desert	2008-09	144,258	0	144,258	N/A	144,258

³ The District received Carl Moyer funds from the Antelope Valley Air Quality Management District and the Mojave Desert Air Quality Management District that these districts were unable to spend.

⁴ 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 Administration Awards and Expenditures

CMP Year	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period ⁵	Administration Balance June 30, 2011
9	2006-07	\$ 536,105	\$ 536,105	\$ 0
9 Multi-District	2006-07	77,384	77,384	0
10	2007-08	543,342	543,342	0
10 Great Basin	2007-08	22,372	22,372	0
10 Multi-District	2007-08	102,743	102,743	0
11	2008-09	466,492	466,492	0
11 Great Basin	2008-09	22,012	22,012	0
11 Multi-District	2008-09	69,363	69,363	0
12	2009-10	425,962	425,962	0
12 Multi-District	2009-10	190,340	190,340	0

⁵ Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012.

Schedule 4: CMP Match Requirements and Expenditures

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period ⁶	Remaining Match Requirement June 30, 2011
9	2006-07	\$1,569,106	\$1,569,106	\$ 0
10	2007-08	1,676,982	1,676,982	0
10 Great Basin	2007-08	34,525	34,525	0
11	2008-09	1,661,295	1,661,295	0
11 Great Basin	2008-09	39,194	39,194	0
12	2009-10	1,245,267	0	1,245,267
12 Multi-District	2009-10	3,769,194	0	3,769,194

⁶ Year 9 grant period ended June 30, 2009; Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012.

Schedule 5: CMP Earned Interest

CMP Funding	Balance June 30, 2006	Interest Earned	Expenditures ⁷	Balance June 30, 2011
Regular ⁸	\$1,394,045	\$2,719,309	\$2,068,543	\$2,044,811
Multi-District ⁸	0	102,334	0	102,334
Great Basin	0	17,923	5,048	12,875
Antelope Valley	0	29,442	13,049	16,393
Mojave Desert	0	30,573	17,672	12,901

⁷ In 2010, the Board established interest expenditure deadlines for remaining June 30, 2010 balances to be expended by June 30, 2013, and interest earned during FY 2010-11 to be expended by June 30, 2014.

⁸ The District calculated earned interest for CMP regular and multi-district together for fiscal years 2006-07 through 2007-08. The combined amounts for those years are reported with the regular funds.

LESBP Schedules of Grant Activity

Schedules 6 through 9 present the LESBP project, administration, match, and earned interest funds grant fiscal activity for the District and the 18 other air districts administered by the District through June 30, 2011. All the grant expenditures were within the specified grant periods. For individual projects that had \$25,000 match requirements, the requirements were met with school district funds, Assembly Bill 923 funds, LESBP Proposition 1B funds, or a combination of these sources. Any LESBP project, administration, or interest funds received but not expended by June 30, 2012 must be returned to the Board within 60 days of that date. The return of unexpended funds requirement is not applicable to grant G08-DEIRA-04 as all funds were expended within the grant period.

Schedule 6: LESBP Project Awards and Expenditures

District	Grant Award	Program Year	Project Award Amount	Expenditures Within Grant Period ⁹	Balance June 30, 2011
Amador	G07-SB001	2007-08	\$ 132,223	\$ 0	\$ 132,223
Antelope	G07-SB002	2007-08	1,137,418	0	1,137,418
Calaveras	G07-SB005	2007-08	1,062,868	263,161	799,707
Colusa	G07-SB006	2007-08	491,186	0	491,186
Feather River	G07-SB008	2007-08	2,119,604	420,000	1,699,604
Great Basin	G07-SB010	2007-08	680,555	140,000	540,555
Kern Eastern	G07-SB012	2007-08	1,344,303	374,419	969,884
Lake	G07-SB013	2007-08	1,885,710	34,671	1,851,039
Lassen	G07-SB014	2007-08	587,209	0	587,209
Mariposa	G07-SB015	2007-08	1,194,418	245,132	949,286
Mendocino	G07-SB016	2007-08	1,885,535	0	1,885,535
Modoc	G07-SB017	2007-08	466,763	0	466,763
Mojave	G07-SB018	2007-08	3,143,023	0	3,143,023
San Joaquin	G07-SB026	2007-08	38,038,123	18,150,637	19,887,486
San Luis Obispo	G07-SB027	2007-08	1,861,674	0	1,861,674
Santa Barbara	G07-SB028	2007-08	1,546,512	0	1,546,512
Siskiyou	G07-SB030	2007-08	1,464,488	17,393	1,447,095
Tehama	G07-SB032	2007-08	1,257,442	0	1,257,442
Tuolumne	G07-SB033	2007-08	1,643,443	331,690	1,311,753
San Joaquin	G08-DEIRA-04	FFY 2009	196,714	196,714	0

⁹ FY 2007-08 grant period ends June 30, 2012; FFY 2009 grant period ended September 30, 2009.

Schedule 7: LESBP Administration Awards and Expenditures

District	Grant Award	Program Year	Administration Award Amount	Expenditures Within Grant Period ¹⁰	Balance June 30, 2011
Amador	G07-SB001	2007-08	\$ 8,821	\$ 3,204	\$ 5,617
Antelope	G07-SB002	2007-08	81,376	14,762	66,614
Calaveras	G07-SB005	2007-08	53,839	16,125	37,714
Colusa	G07-SB006	2007-08	17,167	7,171	9,996
Feather River	G07-SB008	2007-08	107,543	19,119	88,424
Great Basin	G07-SB010	2007-08	30,931	13,083	17,848
Kern Eastern	G07-SB012	2007-08	69,271	29,097	40,174
Lake	G07-SB013	2007-08	44,570	13,896	30,674
Lassen	G07-SB014	2007-08	22,188	5,838	16,350
Mariposa	G07-SB015	2007-08	24,376	11,847	12,529
Mendocino	G07-SB016	2007-08	88,480	19,010	69,470
Modoc	G07-SB017	2007-08	10,546	4,579	5,967
Mojave	G07-SB018	2007-08	202,919	20,321	182,598
San Joaquin	G07-SB026	2007-08	1,779,604	1,201,979	577,625
San Luis Obispo	G07-SB027	2007-08	68,606	22,404	46,202
Santa Barbara	G07-SB028	2007-08	76,459	19,126	57,333
Siskiyou	G07-SB030	2007-08	57,439	22,874	34,565
Tehama	G07-SB032	2007-08	62,397	24,983	37,414
Tuolumne	G07-SB033	2007-08	76,397	30,395	46,002
San Joaquin	G08-DEA-04	FFY 2009	8,286	8,286	0

¹⁰ FY 2007-08 grant period ends June 30, 2012; FFY 2009 grant period ended September 30, 2009.

Schedule 8: LESBP Match Requirements and Expenditures

District	Grant Award ¹¹	Program Year	No. of Buses Replaced Requiring Match ¹²	Funding Source	Match Expenditures, June 30, 2011 ¹³
Mariposa	G07-SB015	2007-08	2	School District LESBP Prop 1B	\$ 35,000 15,000
San Joaquin	G07-SB026	2007-08	92	School District AB 923	1,970,000 330,000

¹¹ The other air districts administered by the District did not have any bus replacements requiring match funding as of June 30, 2011.

¹² LESBP guidelines require \$25,000 of match for each replacement of a Model Year 1977-1986 bus.

¹³ FY 2007-08 grant period ends June 30, 2012. The District met the \$25,000 match requirement for each bus requiring match funding as of June 30, 2011. Upper amounts represent grantee match and lower amounts represent District match.

Schedule 9: LESBP Earned Interest

District	Grant Award	Program Year	Interest Earned	Expenditures Within Grant Period ¹⁴	Balance June 30, 2011
Amador	G07-SB001	2007-08	\$ 1,954	\$ 0	\$ 1,954
Antelope	G07-SB002	2007-08	18,196	0	18,196
Calaveras	G07-SB005	2007-08	27,725	0	27,725
Colusa	G07-SB006	2007-08	7,891	0	7,891
Feather River	G07-SB008	2007-08	34,719	0	34,719
Great Basin	G07-SB010	2007-08	16,680	0	16,680
Kern Eastern	G07-SB012	2007-08	45,156	0	45,156
Lake	G07-SB013	2007-08	30,002	0	30,002
Lassen	G07-SB014	2007-08	9,351	0	9,351
Mariposa	G07-SB015	2007-08	32,672	0	32,672
Mendocino	G07-SB016	2007-08	30,289	0	30,289
Modoc	G07-SB017	2007-08	6,813	0	6,813
Mojave	G07-SB018	2007-08	44,279	0	44,279
San Joaquin	G07-SB026	2007-08	1,015,737	0	1,015,737
San Luis Obispo	G07-SB027	2007-08	27,373	0	27,373
Santa Barbara	G07-SB028	2007-08	23,601	0	23,601
Siskiyou	G07-SB030	2007-08	23,037	0	23,037
Tehama	G07-SB032	2007-08	16,968	0	16,968
Tuolumne	G07-SB033	2007-08	38,455	0	38,455
San Joaquin	G08-DEA-04	FFY 2009	559	0	559 ¹⁵

¹⁴ FY 2007-08 grant period ends June 30, 2012; FFY 2009 grant period ended September 30, 2009.

¹⁵ Per the United States Environmental Protection Agency, the FFY 2009 unexpended earned interest is not required to be returned.

GMERP Schedules of Grant Activity

Schedules 10 through 13 present the GMERP project, administration, match, and earned interest funds grant activity through June 30, 2011. As noted in Observation 2, \$250,000 of grant award G07GMCT1 funds were expended after the end of the grant period.

Schedule 10: GMERP Project Awards and Expenditures

Grant Award	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ¹⁶	Expenditures After Grant Period	Balance June 30, 2011
G07GMCT1	2007-08	\$ 4,700,000	\$ 4,450,000	\$ 250,000	\$ 250,000	\$ 0
G07GMCT3	2007-08	40,065,902	26,120,400	N/A	N/A	13,945,502
G08GMCT1	2008-09	42,597,431 ¹⁷	0	N/A	N/A	42,597,431

¹⁶ G07GMCT1 grant period ended October 31, 2010; G07GMCT3 grant period ended December 31, 2011; G08GMCT1 grant period ends April 9, 2014.

¹⁷ The District had not received the grant funds for G08GMCT1 as of June 30, 2011.

Schedule 11: GMERP Administration Awards and Expenditures

Grant Award	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period ¹⁸	Balance June 30, 2011
G07GMCT1	2007-08	\$ 235,000	\$ 235,000	\$ 0
G07GMCT3	2007-08	2,003,295	2,003,295	0
G08GMCT1 ¹⁹	2008-09	2,129,872	1,609,104	520,768

¹⁸ G07GMCT1 grant period for administrative funds ends June 15, 2014; G07GMCT3 grant period for administrative funds ends June 30, 2014; G08GMCT1 grant period for administrative funds ends February 11, 2017.

¹⁹ The District received \$1,916,885 of G08GMCT1 administration funds as of June 30, 2011.

Schedule 12: GMERP Match Requirements and Expenditures

Grant Award	Fiscal Year	Match Type	Required District Match	Match Expenditures Within Grant Period ²⁰	Remaining Match Requirement as of June 30, 2011
G07GMCT1	2007-08	N/A	\$ 0	\$ 0	\$ 0
G07GMCT3	2007-08	Private	49,964,748	36,589,901	13,374,847
G08GMCT1	2008-09	Private	42,597,431	0	42,597,431

²⁰ G07GMCT1 grant period ended October 31, 2010; G07GMCT3 grant period ended December 31, 2011; G08GMCT1 grant period ends April 9, 2014.

Schedule 13: GMERP Earned Interest

Grant Award	Interest Earned	Interest Expenditures ²¹	Balance June 30, 2011
G07GMCT1	\$ 166,778	\$ 0	\$ 166,778
G07GMCT3	937,287	0	937,287
G08GMCT1 ²²	0	0	0

²¹ There is no expenditure deadline for the GMERP interest earned.

²² The District had not received the grant funds for G08GMCT1 as of June 30, 2011.

AQIP Schedules of Grant Activity

Schedules 14 through 17 present the AQIP project, administration, match, and earned interest funds grant activity through June 30, 2011. Grant G09-AQIP-03 funds the Zero-Emission Agricultural Utility Terrain Vehicle rebate project and grant G09-AQIP-08 funds the Lawn and Garden Equipment Replacement Project.

Schedule 14: AQIP Project Awards and Expenditures

Grant Award	Fiscal Year	Award Amount	Expenditures Within Grant Period ²³	Balance June 30, 2011
G09-AQIP-03 ²⁴	2009-10	\$ 990,000	\$ 87,657	\$ 902,343
G09-AQIP-08	2009-10	417,600	284,500	133,100

²³ G09-AQIP-03 and G09-AQIP-08 grant periods end June 30, 2012.

²⁴ The District received \$148,500 of project funds for G09-AQIP-03 as of June 30, 2011.

Schedule 15: AQIP Administration Awards and Expenditures

Grant Award	Fiscal Year	Administration Award Amount	Expenditures Within Grant Period ²⁵	Balance June 30, 2011
G09-AQIP-03 ²⁶	2009-10	\$ 110,000	\$ 43,903	\$ 66,097
G09-AQIP-08	2009-10	46,400	46,400	0

²⁵ G09-AQIP-03 and G09-AQIP-08 grant periods end June 30, 2012.

²⁶ The District received \$55,000 of administration funds for G09-AQIP-03 as of June 30, 2011.

Schedule 16: AQIP Match Requirements and Expenditures

Grant Award	Fiscal Year	Match Requirement	Expenditures Within Grant Period ²⁷	Balance as of June 30, 2011
G09-AQIP-08	2009-10	\$ 464,000	\$402,940	\$61,060

²⁷ G09-AQIP-08 grant period ends June 30, 2012.

Schedule 17: AQIP Earned Interest

Grant Award	Fiscal Year	Interest Earned	Interest Expenditures	Balance as of June 30, 2011 ²⁸
G09-AQIP-03	2009-10	\$ 1,473	\$ 0	\$ 1,473
G09-AQIP-08	2009-10	1,481	0	1,481

²⁸ G09-AQIP-03 and G09-AQIP-08 grant periods end June 30, 2012.

September 11, 2012

David Botelho, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 "L" Street
Sacramento, CA 95814

RE: Draft Report – San Joaquin Valley Air Pollution Control District, Fiscal Compliance Audit of Carl Moyer, Lower-Emission School Bus, Goods Movement Emission Reduction, and Air Quality Improvement Programs

Dear Mr. Botelho,

The San Joaquin Valley Air Pollution Control District (District) wishes to thank you and your staff for the thorough and comprehensive audit report of the District's implementation of the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program), the Lower-Emission School Bus Program, the Proposition 1B Goods Movement Emission Reduction Program and the AB 118 Air Quality Improvement Program.

We appreciate your staff's flexibility and willingness to engage in meaningful dialogue in order to fully comprehend the dynamics of the District's grant programs. Additionally, we want to thank you for recognizing our commitment and dedication to running an efficient and effective program. The District strives to provide the highest quality customer service across all of our programs, while maintaining the utmost integrity and efficiency.

We welcome this opportunity to gain important feedback regarding our implementation of these important programs. Periodic programmatic evaluations such as this are important tools that we use to ensure continuous improvement in our operation of these important emission reduction strategies.

The following is the District's response and written plan of action in reference to the audit observations:

Seyed Sadredin
Executive Director/Air Pollution Control Officer

Northern Region
4800 Enterprise Way
Modesto, CA 95356-8718
Tel: (209) 557-6400 FAX: (209) 557-6475

Central Region (Main Office)
1990 E. Gettysburg Avenue
Fresno, CA 93726-0244
Tel: (559) 230-6000 FAX: (559) 230-6061

Southern Region
34946 Flyover Court
Bakersfield, CA 93308-9725
Tel: 661-392-5500 FAX: 661-392-5585

DOF Observation 1:

CMP regular, multi-district, and Antelope Valley funds totaling \$1,534,578 were expended after the respective grant period. Specifically, year 9 regular and multi-district funds totaling \$526,715 and \$59,933, respectively, were expended after June 30, 2009. Year 10 regular and Antelope Valley funds totaling \$854,070 and \$93,860 respectively were expended after June 30, 2010. While these payments were for valid projects, the claims were not approved for payment within the respective grant period as required by statute.

Additionally, as of June 30, 2011, year 10 Mojave Desert and Antelope Valley funds totaling \$647,613 and \$190,620, respectively, remained unexpended. Year 11 regular, multi-district, and Mojave Desert funds totaling \$6,000,122, \$656,637 and \$144,258, respectively, remained unexpended.

Health and Safety Code 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 that June 10."

DOF Recommendation:

Ensure projects are completed and funds expended within the respective grant periods. Final determination as to the treatment of the unexpended funds and funds expended outside the grant period will be made by the Board.

• District Response:

According to the Carl Moyer Program (CMP) Guidelines developed and approved by the California Air Resources Board (ARB) and as evidenced through annual reporting to ARB, the District has met all milestone requirements for the expenditure and liquidation of funds. In accordance with the grant agreement between the District and ARB, the District follows the CMP Guidelines to implement the program which specifically state the following on Page 3-18 Section Q of the Program Administrative section in the 2011 CMP Guidelines:

1. ARB shall track, cumulatively, an air district's progress in meeting program milestones to execute contracts, expend contracts, and liquidate funds. Funds associated with a given funding year must be fully accounted for; however, deadlines may be met on a cumulative basis. For example, an air district that must demonstrate expenditure of year 8 funds by the two-year statutory deadline may utilize Year 9 funds expended early in place of year 8 funds not yet expended.

2. To assist participating air districts with cumulative tracking, ARB shall maintain in the CARL database appropriate progress tracking targets for each participating air district for each funding year. These funding targets shall list the total funds required to meet given milestones such as contract execution, fund expenditure, and funding cycle liquidation. Such tracking targets shall include, as appropriate, Carl Moyer Program grant funds (including Multi-district funds awarded pursuant to Health and Safety Code section 44286, Rural District Assistance Program funds, and Carl Moyer voucher program funds), required match funds, interest funds, reallocated funds, recaptured funds, and any other relevant funds associated with the Carl Moyer Program.
3. ARB will adjust progress tracking targets to account for the movement of funds into and out of an air district's account (i.e., funds donated to or received from RAP), for in-kind match, for interest spent on administration, or as otherwise needed.

Also, page 3-16 section "O" subpart 3 (A) & (B) of the administrative section in the 2011 CMP Guidelines states the following:

3. All funds under a project's contract are considered expended for the purposes of progress tracking under the following conditions:
 - (A) The project is liquidated per Section P.2., or
 - (B) An invoice for the project has been fully or partially paid by the air district consistent with Section CC and such invoice payment covers the grant amount for at least one operational new engine, vehicle, or piece of equipment under the project's contract. See Chapters 10 (Portable and Stationary Agricultural Sources) and 12 (Marine Vessels) for specific exemptions for electric agricultural irrigation pump motors and shore-side shore power project, respectively.

The CMP annual reports submitted by the District to ARB have consistently demonstrated that the District has met (or exceeded) all of the expenditure and liquidation requirements as contained in the CMP guidelines. The following is a summary of the District's 2010, 2011 and 2012 annual reports:

Cumulative target amount of funds liquidated & expended by June 30, 2010
Target Amount = \$42,180,633.05
Actual Amount = \$47,979,600.65
Target Surpassed by \$5,798,967.60

Cumulative target amounts of funds liquidated by June 30, 2011	
Liquidated Target = \$24,302,316	Liquidated Match Target = \$2,911,731.10
Liquidated Actual = \$40,935,087.06	Liquidated Match Actual = \$11,216,146.66
Target Surpassed by \$16,632,771.06	Target Surpassed by \$8,304,415.56

Cumulative target amount of funds expended by June 30, 2011	
Expended Target = \$54,121,331.71	
Expended Actual = \$57,781,181.96	
Target Surpassed by \$3,659,850.25	

Cumulative target amounts of funds liquidated by June 30, 2012	
Liquidated Target = \$37,814,121.00	Match Target = \$4,366,512.05
Liquidated Actual = \$55,753,170.25	Match Actual = \$10,386,146.66
Target Surpassed by \$17,939,049.25	Target Surpassed by \$6,019,634.61

Cumulative target amount of funds expended by June 30, 2012	
Expended Target = \$24,844,473.61	
Expended Actual = \$31,229,491.48	
Target Surpassed by \$6,385,017.87	

The District has expended and liquidated funding in accordance with the requirements contained in the CMP Guidelines. Since the CMP Guidelines track the expenditure of funds on a cumulative basis, and the District has met or exceeded all targets for expenditure and liquidation as described by the CMP guidelines, no further action is required by the District for this observation and subsequent recommendation.

DOF Observation 2: GMERP Grant Funds Were Expended After the Grant Period

GMERP funds totaling \$250,000 for grant G07GMCT1 were expended after the grant period, which ended October 31, 2010. The District received 2 of the 3 late claims before October 31, 2010; however, the District did not complete the inspection, review, approval, and payment process prior to the grant deadline. The third claim was received, approved, and paid after the grant deadline.

The Board’s 2010 Goods Movement Emission Reduction Guidelines state “FY 2007-08 funds must be obligated and expended by local agencies according to the timelines defined in the applicable grant agreement, including any amendment(s).”

DOF Recommendation:

The District should consider revising its claim approval and payment process to ensure project completion and close out payment for equipment projects is completed no later than the specified expenditure deadlines. Final determination as to the treatment of the funds expended outside the grant period will be made by the Board.

• **District Response**

Throughout the liquidation process for this grant, the District proactively engaged in discussions with ARB regarding the potential for five eligible trucks to be paid after the October 31, 2010 deadline imposed by ARB. The issues were primarily due to delays in the ordering and manufacturing of the new trucks. To address this issue, ARB drafted an executive order extending the deadline to liquidate FY2007-08 funds from October 31, 2010 to December 31, 2010 to align with the approval given to other grants in this category. This extension would cover \$200,000 of the \$250,000 in question (four of the five trucks).

The District funded one truck that was paid after December 31, 2010 with locally generated District funds and returned \$50,000 of G07-GMCT1 grant funds to ARB in early 2012. The returned funds to ARB were later reallocated to the District and added to grant G08-GMCT1. No further action is required for this observation and subsequent recommendation beyond that which is described above.

Again, I appreciate this opportunity to gain important feedback regarding our implementation of these important emission reduction strategies. If you have any questions, please do not hesitate to call me at (559) 230-6000.

Sincerely,

//original signed by//

Seyed Sadredin
Executive Director/APCO

EVALUATION OF RESPONSE

We reviewed the San Joaquin Valley Air Pollution Control District's (District) response, dated September 11, 2012, to our draft audit report. Because the District has not provided sufficient facts or documentation to support modification, the observations and recommendations remain unchanged.

Observation 1: Carl Moyer Program Grant Funds Were Expended or Retained After the Grant Period

The District maintains that because the Carl Moyer Program (CMP) guidelines track the expenditure of funds on a cumulative basis, it met or exceeded the CMP expenditure and liquidation requirements. However, the Health and Safety Code (HSC) is the ultimate authority that governs this program. As noted in the report, per HSC section 44287(k), "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 that June 30." The HSC does not make any reference to whether this requirement can be met on a cumulative basis; rather, it is specific in its requirement that funds must be expended by districts within the two year period. This requirement is consistent with the goal of achieving near-term emission reductions. Our observation and recommendation remain unchanged.

Observation 2: Goods Movement Emission Reduction Program Grant Funds Were Expended After the Grant Period

In its response, the District references a drafted ARB executive order extending the liquidation deadline for Goods Movement Emission Reduction Program (GMERP) funds which would cover \$200,000 of the \$250,000 in question. However, at the time of our review this executive order had not been approved by ARB, and the District did not provide an approved executive order to us with its response. Our observation and recommendation remain unchanged.