

## **INCENTIVE PROGRAM**

# **AUDITING**

### **Policies and Procedures**

**July 2011**

The Air Resources Board (ARB) administers a number of incentive programs, including the Carl Moyer Program, Lower-Emission School Bus Program, Proposition 1B Goods Movement Program, AB118 funds, and others. State law provides ARB with the authority to oversee and audit air district implementation of these incentive programs. This is provided in Health and Safety Code sections 39500, 39808, and 44291 to ensure that the programs achieve expected emission reductions and funds are properly expended. Incentive Programs include incentive program funds administered by ARB. Further, ARB is required by Health and Safety Code section 44291(d)-Carl Moyer, 44299.901(d)(1)-Lower Emission School Bus, 39645.02 (e)(1) - Proposition 1B, and Title 13 CCR section 2357-AB 118 AQIP to monitor such district programs to ensure that they are conducted in a manner that is consistent with the criteria and guidelines established by the State Board, which includes the following:

- The Health and Safety Code
- ARB's incentive program guidelines, advisories, mail-outs and email guidance
- Program Grant Award and Authorizations
- Local district requirements

Thus, in contrast to audits that focus primarily on the financial aspects of a program, State law prescribes a broader scope for ARB's monitoring of district incentive programs that includes an evaluation of the eligibility of projects funded and the emission reductions achieved. As a consequence, ARB audits must be performed by staff with technical expertise in emission reduction technologies for a variety of equipment types who are also conversant with current State law and ARB program guidelines.

Besides ensuring accountability by providing a mechanism to identify program deficiencies, if any, audits also provide ARB with a mechanism to identify the strengths (commendable efforts) of district programs. These commendable efforts are shared with other districts and can thus be useful in improving incentive programs statewide.

#### **I. Audit Parameters**

Generally, the audits are conducted in two parts; a programmatic review conducted by ARB and a fiscal review. The fiscal review is conducted by ARB, the California Department of Finance Office of State Audits and Evaluations (DoF), or other entities

under contract with ARB. Audits include a review of State allocations, local match funds, and earned interest as used to fund the following:

- Carl Moyer Program (including match)
- Lower-Emission School Bus Program
- Light- and Medium-Duty Voluntary Accelerated Vehicle Retirement and Repair Program
- Agricultural Assistance Program
- Proposition 1B Goods Movement Program
- Air Quality Improvement Program (AQIP)
- Other ARB incentives programs that may become available

Audits review individual projects funded under such programs as well as the programs as a whole.

Carl Moyer Program match projects funded with the \$2 motor vehicle registration fee surcharge authorized by Assembly Bill 923 (2004) are subject to audit.

Non-match projects funded with that \$2 fee surcharge may be evaluated as part of an ARB audit, but such an evaluation is limited to project eligibility (e.g., whether a project is surplus to regulations and cost-effective). Any irregularities regarding non-match projects are reported separately from incentive program audit findings.

The scope of an audit may be broadened to include relevant activities of parties outside of a district's direct purview (e.g., consultants, other governmental agencies) if such parties participate to any extent in the implementation of the incentive programs under audit.

The audit procedure used for larger districts varies somewhat from the procedure used for rural districts because rural districts receive smaller grants, have fewer staff, and generally fund a limited range of project types. This is discussed in more detail in Section VI below.

In addition to comprehensive program audits, ARB (and DoF, if appropriate) conducts follow-up progress reviews when necessary. If significant findings result from an audit, follow-up reviews may be scheduled to ensure that a district undertakes timely and effective corrective actions. Follow-up reviews focus on the specific areas that require correction and follow procedures that are tailored to the individual situation. ARB incentive program staff may also conduct program reviews, independent from the audit process, to satisfy their own program needs.

## **A. Programmatic Review**

ARB's review typically covers the two most recently-completed years of each incentive program and the two years currently in progress. For newer programs, fewer completed years may be available to audit. ARB may also choose to review documents from prior years if deemed necessary or relevant. ARB's review typically is performed in six phases including:

1. Preparation for review
2. First on-site visit (including the entrance conference)
3. Desk review
4. Inspections
5. Second on-site visit (including the exit conference)
6. Audit report

## **B. Fiscal Review**

ARB performs an expenditure review and, if warranted, contracts with DoF to perform an in-depth review of the fiscal elements of districts' incentive programs during the same audit years covered by ARB's programmatic review. While ARB staff work closely with DoF staff, and while there is some overlap between the two reviews, DoF focuses on fiscal issues and follows their own departmental procedures for their portion of the audit. DoF also reports their results separately.

## **II. ARB Audit Team**

In general, the audit team comprises the branch chief and other managers, the manager directly overseeing the audits (Incentives Oversight Manager), the audit director(s), the audit leads, and the audit team members. The main duties of the audit team members are outlined below.

The management team provides policy direction, establishes audit parameters, finalizes the list of districts to be audited, determines staffing resources, and establishes deadlines for audits to be completed. Management also reviews all written products (e.g., notification letter and audit report) and attends key meetings with districts as necessary. The management team meets with key audit staff throughout the course of each audit to discuss its progress and any issues or concerns that may have arisen. The management team also provides direction throughout the course of an audit and elucidates ARB policies that may impact the audit. Overall, the management team ensures that each audit meets high standards for quality and integrity. Moreover, management keeps audits on track so that, taken as a whole, such audits assure that the emission reductions achieved by California's mobile source incentive programs are real, quantifiable, surplus, and enforceable.

The Incentives Oversight Manager is responsible for overseeing audits and coordinating the work of staff to ensure that the audit process is consistent and that ARB objectives

are achieved for all audits. The audit director(s) (if applicable) assists the Incentives Oversight Manager and contributes to a wide variety of tasks including the following: recommending districts to be audited, recommending timelines for completing audits, keeping the management team informed of progress and emerging issues, collaborating with each audit lead to establish timelines and complete tasks, coordinating DoF's participation, responding to requests made by other agencies (e.g., Bureau of State Audits) regarding audits, training audit team members, updating administrative documents such as policies and procedures and audit forms, reviewing documents such as audit reports and formal correspondence with the district, and assisting other audit team members in completing tasks as needed to ensure audits are completed in a timely manner. In the absence of an audit director, the Incentives Oversight Manager coordinates the completion of the above tasks.

The audit leads work closely with the Incentives Oversight Manager (and audit director if applicable) and are responsible for ensuring that all tasks associated with a particular district audit are completed. Typically, one audit lead is responsible to manage the overall audit. For large district audits, other staff members are assigned to lead the audit of each incentive program within the scope of the audit. The audit leads coordinate with each other as necessary to draft audit-specific documents (e.g., notification letter, audit report), conduct desk reviews and inspection efforts, and coordinate with district personnel as needed. The audit leads also assist with internal staff and district training, management briefings, and conducting portions of meetings with the district.

Audit team members, under the direction of the appropriate audit lead, collect and compile information, perform project file reviews, conduct engine inspections, and assist the audit lead with other tasks as needed. Typically, team members are drawn from ARB incentive program staff as appropriate. To ensure a productive relationship between districts and their ARB liaisons, ARB will endeavor to have the audit team not include the primary liaison of the district being audited. This maintains the independence and objectivity of the audit. However, if resource constraints require that the district's liaison be a member of the audit team, ARB will notify the district of this at the beginning of the audit. Because the liaisons have access to information regarding district procedures, projects, and expenditures, they may assist with compiling necessary documents and information.

The audit team may be accompanied by non-audit ARB incentive program management and staff at the entrance and process interviews. ARB non-audit staff may interact with district program management and staff to conduct non-audit-related work.

### **III. Training**

#### **1. Audit Staff**

Audit staff members are trained by the audit director, audit lead, or management, as appropriate. Staff receive training on how to complete project file reviews and any other audit tasks assigned. Staff are also trained regarding appropriate conduct and safety considerations for field inspection visits.

#### **2. Districts**

Training may be provided to the districts during Carl Moyer Program Incentive Program Implementation (IPI) meetings. Such training includes information on what to expect during an audit and results of previous audits. These topics are also discussed with each district as part of the audit notification process. ARB may also request that districts previously audited and identified as having commendable efforts train other districts regarding those efforts.

### **IV. Annual Audit Plan**

ARB's goal is to audit a sufficient number of districts each year, commensurate with approximately 10 percent of program funds, to ensure proper program implementation. The goals for frequency of district audits are as follows, unless there is a necessity for added frequency:

- Large districts will be audited at least once every 4 years
- Medium districts will be audited at least once every 6 years
- Small districts will be audited at least once every 8 years

At least once a year, typically during the fall of each year, the audit team performs a risk analysis and develops recommendations for:

- Districts to be audited during the upcoming year
- Resources required for each audit
- Audit parameters such as fiscal years to be included and types of audits to be conducted (e.g., comprehensive program audit, follow-up review)

The risk analysis is performed to prioritize higher-risk districts for audit. Typically, this analysis uses information regarding the incentive programs that the district implemented. Risk factors used for this analysis may include, but are not limited to, the amount of funding received by a district, the performance of a district, the length of time since the last audit of a district, a district's staffing resources, and the number of projects funded by a district. The audit team develops draft recommendations based on the risk analysis.

The management team (i.e., Branch Chief and incentive program managers) and audit director (if applicable) meet at least once a year, usually late in the fall of each calendar year, to determine the audit plan for the upcoming year. The management team considers the draft recommendations and weighs other program considerations (e.g., available staff resources) to determine the numbers of audits to be conducted over the course of the upcoming year and the specific districts to be audited. DoF is also consulted regarding resources and availability. Subsequently, the audit plan is further developed by the management team and the audit director (if applicable) to specify the following:

- the audit schedule, including target dates for each major phase of the audits;
- the district audit leads and potential team members for each audit, including the roles assigned to individual audit team members; and
- the parameters of each audit.

Once specific districts are selected for audit, they are notified by phone and email. In addition, a list of districts selected for audit during the upcoming year is posted on ARB's Incentive Program Audits website.

## **V. Audit Process for Large and Medium Population Districts**

The audit processes described here were developed for larger and medium population districts. In 2009, ARB modified this process for rural districts. This is described in Section VI.

The audits of each program are closely coordinated to maximize the efficiency of the overall audit process and reduce the resource impacts on ARB and the district being audited. When possible, similar audit procedures are used for all programs. Any differences in audit procedures are noted below.

### **A. Preparation for Audit**

Staff members complete a number of tasks before the first on-site visit. Such tasks include, but are not limited to, audit team planning, notification of the district regarding the audit both verbally and in writing, and selection of projects for audit.

#### **1. Audit Team Planning**

Once the annual audit plan has been completed by management, the Incentives Oversight Manager and audit director(s) meet with the audit leads and audit team members to discuss the upcoming audits and assignments. Training needs are discussed and scheduled as necessary during this time. In addition, equipment needs are assessed and equipment is ordered if needed.

The audit director (or Incentives Oversight Manager), with the assistance of the audit leads for each of the relevant districts, also reviews relevant prior audits of

a district (e.g., audits conducted by ARB, Bureau of State Audits, DoF, and/or private auditing firms) to help further refine the scope of a particular audit.

## **2. Notification of Audit**

Prior to an audit, the audit lead asks the district to identify their primary contact for audit coordination. The audit lead creates a communication log, where all contacts between the audit team and the district are documented. Approximately three and a half months prior to the estimated date of the first on-site visit, the audit lead calls the district contact to discuss the dates of that visit, which typically lasts several days. Once the dates are agreed upon, the audit lead drafts a letter for the Branch Chief's signature that formally notifies the district of the audit. ARB's goal is to send the notification letter to the district's Air Pollution Control Officer (APCO) approximately 90 days prior to the first on-site visit. The letter includes:

- ARB's authority to perform audits.
- Parameters of the audit (e.g., the incentive programs and fiscal years covered).
- Date(s) scheduled for the audit.
- Request for facilities (room, copier, etc.).
- Deadlines(s) to submit requested documents to ARB.
- Request for district to update relevant databases.
- Contact information for audit, both ARB and DoF.
- Audit Preparation Summary (attachment to the letter). This summary further informs the district about the audit process and requests specific documents/database updates from the district. Because a district may have already provided ARB with many such documents as part of normal program operations, the audit lead typically works with the district liaison to compile relevant documents that ARB currently has on hand. The letter to the district acknowledges that ARB may already have some of the requested documents and provides a means for the district to verify that the audit team is using the most appropriate versions of such documents.
- Fiscal questionnaire (attachment to the letter). To aid ARB's fiscal review, the district may be asked to fill out a fiscal questionnaire and return it to ARB by a specified date.

At the same time the notification letter is mailed to the APCO, the audit lead sends an electronic copy (in pdf format) of the letter to the appropriate district contact(s). The audit lead then verbally notifies the district contact for the incentive programs under audit, briefs him/her regarding the contents of the letter, and specifies the documents/database updates required. The audit lead creates a documentation log for the audit that lists all the documents requested, when they were received, who supplied them, and where in ARB's offices they are located. If all the requested documents are not received by the due date stated in the letter and/or the attachment, the appropriate audit lead notifies the district program contact regarding what is missing and ascertains a date by which

such information will be received. All verbal communications with the district are followed up by an email to the district contact and copied to the audit director(s) (if applicable) and Incentives Oversight Manager. Copies of all written correspondence and records of verbal communications are placed in the audit files.

### **3. Selection of Projects for Audit**

The selection process used for the Carl Moyer Program, the School Bus Program, and the Proposition 1B Goods Movement Program differs somewhat between programs. Selection process used for the AQIP Program will be determined once the program audit is implemented and these Policies and Procedures will be updated at that time.

For the Carl Moyer Program, as part of the process to select specific projects for review during an audit, the Carl Moyer Program audit lead assesses risk factors to all relevant projects funded by the district during the years being audited. For each audit, the audit lead determines, in consultation with the audit director (if applicable) and Incentives Oversight Manager, the appropriate risk factors and project selection process to be used. Risk factors may include items such as funding source(s), types of engines in a project, level of concern with the determination of the surplus nature of the emission reductions, and the applicant/grantee participation history. The main objective of this procedure is to choose projects that are considered higher risk, and thus a higher audit priority. Another objective in the selection process is to choose a broad sample of project types that reflect the types funded. Typically, projects that rank higher in risk for each project category type are chosen. More than one project may be selected from each project category type. The selection process also considers differences in funding years – with associated changes in guideline requirements, staff changes, procedural changes, etc. The audit lead may also choose to randomly select additional projects to evaluate the consistency of the district's treatment of different projects or use auditor judgment for project selection.

Because the School Bus Program has less project diversity than other incentive programs, the School Bus Program audit lead uses a more streamlined process to select projects to audit. The selection process typically involves using criteria designed to select a sample that reflects the diversity of project types and funding sources used in a district's program.

The selection process for the Proposition 1B Goods Movement Program uses criteria designed to select a sample of projects that reflects diversity of project types, solicitations conducted, and the ranking of projects within the solicitations.

Each audit lead prepares a list of the selected projects and provides it to the district during the first on-site visit after the pertinent project files are pulled and copied by the audit team (discussed below).

#### **4. Preparation for Entrance Conference**

In addition to selecting projects for review, the audit lead prepares, for management approval, an agenda, sign-in sheet and speaking notes for the entrance conference.

#### **B. First On-Site Visit**

The first on-site visit includes an entrance conference with district management and district staff associated with the incentive programs under review. District program staff are also asked to present a process briefing, provide specific documents, and provide access to selected district files for audit staff to photocopy.

##### **1. Entrance Conference**

To initiate the audit, members of the audit team meet with district management and staff at the district office to conduct an entrance conference. The focus of the entrance conference is to brief district management and staff regarding the audit process and to introduce key ARB and DoF audit staff.

The entrance conference typically includes key members (including managers) of the audit team and DoF, the district APCO or designee, the district manager of the administrative and/or fiscal section, the district manager(s) of the incentive programs, and other relevant district staff. A member of the audit team (typically the audit lead) conducts the meeting. Topics discussed include:

- Introductions
- ARB's authority to audit
- Goals of the audit
- Audit parameters
- Audit process
- Confirmation of the district contact person for the audit and preferred briefing procedure, including mode and frequency of communication
- DoF's audit goals and process

##### **2. Process Briefing**

District program staff are asked to meet with audit team members to guide them through the day-to-day process the district uses to run its incentive programs. The process briefing includes key audit team and DoF members, district manager(s), and any relevant district staff. This briefing covers the following topics:

- Acceptance of funds from ARB

- Solicitation for applications
- Outreach
- Environmental justice policy
- Application evaluation process
- Ranking of projects
- Selection of projects
- Obligation of funds
- Contracts
- Inspections
- Invoices
- Reports from applicants/grantees
- Documentation
- Reporting to ARB
- Recapture of funds
- Interest earned on incentive program funds
- AB 923 funds
- Match funds
- Administrative expenses
- Opportunity for district staff to ask questions

To help the district prepare for this briefing, the list of topics to be covered is emailed to the district program contract (s) by the audit lead once the notification letter has been sent.

### **3. Information Gathering**

During the first on-site visit, district program staff are asked to provide specific program documents and access to district files. The audit team pulls and photocopies/scans the individual project files and general program files that were selected prior to the site visit, and may also copy some project files selected at random on the spot. The audit team then brings the copied files back to ARB's offices in Sacramento and/or El Monte for the desk review. If time and resources allow, the audit team may review files on-site. Care is taken to not give district staff any prior knowledge of the identity of the projects selected for review. However, the audit leads provide the district staff with a list of such projects at the end of the visit. Depending on the circumstances of the audit, the audit team may elect to return to the district at a later date to obtain copies of more project files for review.

ARB non-audit management and staff may conduct non-audit related tasks during the visit to better understand the district's incentive programs (i.e., Goods Movement Program Reviews).

## **C. Desk Review / Project Inspections**

Once back at the ARB offices, the audit team conducts the desk review, which is comprised of project file reviews and district program document reviews. The audit leads remain in close communication with the district throughout this process to clarify issues as they arise and to request additional materials as needed. Depending on the circumstances of an audit, the audit leads may opt to schedule periodic meetings with the district. Any request for additional material is documented and included in the audit file.

### **1. Project File Review**

To ensure the quality and consistency of the file reviews, the audit leads first meet with reviewers and brief them regarding the review process. That briefing includes discussing any specifics that must be considered during the review of the projects such as applicable guidelines, dates of adopted regulations, release dates of applicable advisories, and relevant local requirements.

For each project file, audit staff first check to see if all key documentation is present. Next, audit staff review each file for key program elements such as whether the district properly determined the project's eligibility for funding, ensured the project's enforceability, followed proper payment protocols, and reported project details to ARB accurately. To conduct this review, the audit team evaluates information contained in various documents including project applications, project contracts, cost-effectiveness data and calculations, regulatory requirements that would impact the surplus nature of the projects, Health and Safety Code requirements, program guideline and advisory requirements, and any relevant district requirements. Members of the audit team fill out an evaluation form for each project under review. Completed forms are submitted by each reviewer to the audit lead. In addition, the audit team members input relevant review information into an electronic summary spreadsheet for the audit lead's review.

The audit lead evaluates all file review forms and summary spreadsheets and works with audit team members for further clarification if needed. If additional documentation is needed from the district to conduct the project file reviews, the audit lead compiles a list of requested documentation and discusses this with the district program contact. During such discussions, the audit lead specifies a date by which the district will provide the documentation. If additional documentation is provided by the district, the audit lead provides it to the appropriate audit team members and ascertains whether the new information allows for completion of the file review.

The review processes performed for School Bus Program and the Proposition 1B Goods Movement Program project files follow a similar pattern to that used for the Carl Moyer Program.

## **2. Program Document Review**

Another step in the desk review is an evaluation of key district program documents. The audit leads (with assistance from audit team members if needed) review these program documents to ensure that they meet or exceed the requirements as established in the Health and Safety Code, program guidelines and advisories, and any relevant eligibility requirements established by the district. The reviewer fills out a desk review check sheet designed to aid this process for many of the documents. The documents typically reviewed include, but are not limited to, the following:

- Policies and procedures manual
- Documentation of district governing board acceptance of funds
- Solicitation documentation
- Outreach materials
- Application forms for relevant audit years and source category types
- District rating and ranking materials, including final ranking roster of selected projects
- Documentation of obligation of funds
- Project inspection forms
- Contract language for different years and source category types
- Grantee reporting forms and other tools used to monitor projects
- Payment documentation
- Environmental justice policy and procedures followed for project selection

## **3. Project Inspections**

For this phase of the audit, a subset of the projects selected for eligibility review is inspected by the audit team to check whether the engines/projects are in proper working order and are consistent with information in the project file such as the application, contract, and invoices. Project site inspections are typically not conducted for the School Bus Program portion of the audit because of that program's relative homogeneity in project and applicant types and the need to minimize impacts on staff resources for both ARB and the district being audited. In addition, the California Highway Patrol is required by State law to inspect all school bus retrofits prior to return to service, providing an additional measure of certainty regarding such projects.

To select the projects for inspection, the audit leads consider the range of project types funded as well as additional information obtained from the file review. The audit leads then develop a list of recommended projects for management review. Once the list is approved, the audit lead speaks to the district program contact to notify the district regarding which projects have been selected for the site visits and provide the district with the option of arranging

the inspection visits and accompanying the audit team on the visits. If the district chooses not to participate, the audit lead contacts the project grantees directly to schedule the site visits.

The audit team makes every effort to accommodate the schedules of the engine owners. This means that inspections sometimes occur very early in the morning or in the evening. Inspections that cannot be conducted prior to the second on-site audit visit to the district (described below) are scheduled and completed during the second on-site visit or shortly thereafter. Grantees are informed by the individual scheduling the inspection that the inspection team will request:

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

The inspection team for each project visit is comprised of at least two individuals - two audit team members or one audit team member and one district staff member. Prior to each inspection visit, the inspection team verifies the following with the audit lead:

- Information regarding the location of the engine/site to be visited
- Grantee contact name and phone number for the day of the site visit
- Any specific safety or contact requirements

At the project site, the inspection team members identify themselves and offer a business card. Team members request to speak to the grantee contact to obtain permission to conduct the inspection and take photographs. The team members review maintenance and usage records, ask to see the engine start, take photographs, inspect documents, and verify the information listed in the Site Visit Checklist/Inspection Sheet.

Once each site inspection is completed, audit team members return to the ARB offices and compare the information noted on the Site Visit Checklist/Inspection Sheet with information compiled from the project file review. The audit team also inputs the information noted on the site visit sheet into an electronic summary spreadsheet for the audit lead's review. If any issues or concerns are uncovered during the site visit, the audit team discusses them with the audit lead upon returning to ARB offices. The inspection team may also discuss such concerns on-site with any district staff present, but care is taken to not conduct such discussions in the presence of the grantee. The audit lead may choose to discuss any issues that are identified during the inspections with the

district contact, giving the district the opportunity to provide additional information.

#### **4. List of Issues**

Over the course of the audit, typically beginning after completion of the file review, the audit leads compile a running list of issues and questions for the district. Any potential issues are documented with hard copies of appropriate file pages, notes taken with specific examples (including project and vehicle/equipment/engine numbers), and references to each written requirement with which there is a discrepancy.

For each program, the audit lead includes a list of all instances in which the audit team found discrepancies in documentation provided by the district. These discrepancies are in conflict with the Health and Safety Code requirements, program guidelines or advisories, grant award and authorizations, or written communications provided by ARB either in emails or letters. The audit lead provides this list to the district contact and requests that district staff annotate the list with responses to each issue/question and provide additional information for further consideration by audit staff. This allows the district an opportunity to address issues as they emerge; many issues are satisfactorily addressed at this stage and do not become audit findings. However, if there is a pattern to the discrepancies or the errors are critical to project documentation, the issue will become an audit finding. This may be an iterative process; audit staff may add follow-up or new questions to the list and request additional district responses.

In addition, the audit leads may develop a list of commendable efforts, where the district has exceeded requirements, and where such efforts could serve as a model for other districts.

The list of any remaining issues and commendable efforts are discussed with district program staff prior to the exit conference (discussed below).

#### **D. Second On-site Visit**

During the second on-site visit (or beforehand, depending on the circumstances of the audit), the audit leads present district staff with the remaining issues and concerns discovered during the audit thus far. At the audit team's discretion, additional information may be evaluated (e.g., expenditures, databases) and additional project files may also be reviewed during the second on-site visit. Interviews with district staff and an exit conference with district management are also conducted at this time.

## **1. Review of Issues with District**

Prior to the exit conference, the audit leads discuss with the district's program contact (and any additional staff the district opts to include) in detail any potential findings and recommendations that may have arisen during the project file review, program document review, or site inspections. These stem directly from the running list of issues/questions exchanged with the district during the course of the audit. The audit lead also discusses the remaining process with district staff. The district is given an opportunity to provide for the audit team's consideration any additional relevant information that may have been overlooked or was not included in the documents already obtained. The district is requested to provide any such information in advance of the exit conference. If warranted, the audit lead may conduct a subsequent discussion with the district's program contact if the additional information provided by the district changes any preliminary conclusions. Any potential findings and recommendations that remain at the end of the second on-site visit are discussed with the district's APCO and management during the exit conference (discussed below).

## **2. Additional Data Gathering**

While on site, the audit team continues their evaluation of the district's implementation of the program(s) and, depending on the circumstances of the audit, may choose to evaluate areas not yet reviewed. This may include reviewing additional project files, reviewing electronic files such as databases, and reviewing tracking sheets.

## **3. Expenditure Review**

While on site, the audit team may conduct a meeting with district program and fiscal staff to review the expenditures made by the district to ensure that all expenditure requirements are met. District payment documentation and expenditure tracking sheets may be used in conducting this review. This review may include funds from the incentive programs, local match funds, funds authorized by AB 923, and earned interest. This review considers cumulative expenditures and does not specifically consider the fiscal year in which the funding originated. This method is designed to determine, in a broad fashion, whether a district's incentive funds have been properly expended on clean-air projects by the relevant statutory and/or program guideline deadlines. If applicable, ARB will also seek any needed clarification regarding the district's responses to the fiscal questionnaire.

In audits where DoF is involved, DoF independently reviews the district's expenditures for the years covered by the audit. DoF analyzes expenditures on a year-by-year basis and thus, in contrast to ARB's approach described above, more closely considers the fiscal year in which the funding originated. This is

performed to complement ARB's cumulative analysis and to provide a complete picture of a district's performance regarding expenditures.

#### **4. Interviews with District Personnel**

The audit team and DoF may interview several district staff and managers to obtain a better understanding of how the programs are implemented on a day-to-day basis, and how this compares to the information provided by the district in the process interview and in its policies and procedures manual. These interviews are primarily intended to provide further understanding and clarification.

#### **5. Preparation for Exit Conference**

Once management has approved the potential findings and recommendations, the audit lead prepares for management approval an agenda, sign-in sheet, and speaking notes for the exit conference. The other audit leads also prepare speaking notes for that portion of the audit.

#### **6. Exit Conference**

The second on-site visit concludes with the exit conference. The exit conference includes a policy-level discussion regarding remaining concerns and their implications to the incentive programs and is attended by members of the audit team, DoF, the district APCO, and other relevant ARB or district management and staff. This interview is designed to ensure that district management is fully informed of the results of the audit. The exit conference is also an opportunity to provide clarification to the district and to correct any misunderstandings.

The same parties that attended the entrance conference should attend the exit conference. The agenda for the exit conference typically includes the following:

- Introductions
- Recognition of commendable efforts performed by the district
- Discussion of all potential findings, with the ARB providing specific examples for each finding
- Discussion of preliminary recommendations
- Review of next steps and timeline of the audit
- Request for comments from the district

The district is provided an opportunity to comment before the audit team returns to the ARB offices to document any findings in an audit report.

Upon completion of the exit conference, the audit team leaves the district offices. If some projects were not available for inspection during the scheduled period of

the audit, a preliminary exit conference may be held, including a discussion regarding projects that were unavailable for inspection and the expected time (within one month) for return of at least part of the audit team. At the conclusion of all the inspections, a final exit conference is held if any additional issues are identified. The final exit conference summarizes all of the agenda items previously discussed and includes the results of the additional field work. If no additional issues are identified, the audit lead informs the district contact via phone call and follows up by email.

### **E. Opportunity for the District to Provide Additional Information**

Once the exit conference is complete, the district is given ten working days to provide ARB with additional information to consider prior to finalizing the audit results. The district may provide information that mitigates concerns raised and a plan for mitigating remaining issues. Such information will be reflected in the audit report.

## **VI. Audit Process for Rural Districts**

The audit approach described above was developed for larger districts. For rural districts, ARB has modified the audit process because these districts receive smaller grants, have fewer staff, and generally fund a limited range of project types.

Rural districts, as defined by the California Air Pollution Control Officer's Association, comprise 22 districts<sup>1</sup> out of the 35 total districts in the State. Because they are located in less populated areas, rural districts are allocated fewer Carl Moyer Program funds than districts with larger populations. Thus, even though rural districts represent two-thirds of California districts by number, those that directly participate in the Carl Moyer Program administer only about five percent of the total Carl Moyer Program funds. Over half of the rural districts that directly administer the Carl Moyer Program receive a waiver from the match requirement, which limits the number of projects that a district funds. Likewise, rural districts typically receive a relatively small portion, if any, of other incentive program funds. For instance, the Imperial County Air Pollution Control District is the only rural district that participates in the Goods Movement Program.

Rural districts have fewer staff. Unlike the staff that administers incentive programs in large districts, rural staff typically handle many other district functions, in addition to implementing incentive programs. Therefore, staff time available for incentive program implementation is usually very limited. Rural districts tend to fund a more limited range

---

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

of project types than larger districts. For example, some rural districts have only funded agricultural pump projects.

Considering the above factors, ARB has modified the audit process for rural districts in the following ways: (Relevant sections in this manual are referenced after each bullet point to allow ease of comparison with the process for larger districts.)

- Because some rural districts do not administer their own incentive programs every year, the scope of the audit covers the two most recently-completed years of active participation and one subsequent year to monitor progress (Section I.A).
- The initial site visit is shorter (about half a day) (Section V.B).
- The procedure for file review is simplified; an in-depth review of a subset of files is not automatically conducted (Section V.C.1).
- The emphasis of the desk review is on a district's current program documents (Section V.C.2).
- There are no on-site project inspections (Section V.C.3).
- The second on-site visit, including additional interviews with district staff, is not conducted unless warranted (Section V.D).
- ARB staff performs the entire fiscal review. An independent review by DoF is not conducted unless warranted (Sections I.B and V.D.3).
- The exit conference is conducted via conference call (Section V.D.7).

Any of the areas of review can be expanded at the audit team's discretion if concerns arise during the course of the audit.

## **VII. Audit Report**

### **A. ARB Report**

ARB endeavors to provide the district with a written copy of the audit report within 60 days after the exit conference, although this time period may vary depending on the circumstances of each audit. This report is drafted by the incentive program audit leads, reviewed by the audit director (if applicable) and audit management team, and approved by ARB's Executive Officer. ARB's Executive Officer also signs the cover letter that accompanies the report when it is sent to the district's APCO. The audit lead typically sends an electronic copy (in pdf format) of the report and cover letter to the district contact at the same time those documents are mailed to the APCO.

The audit report outlines the audit process used by ARB and includes as applicable a discussion of the commendable efforts of the district, recommendations for program improvements, audit findings along with specific examples, and actions required to mitigate the findings. ("Findings" refer to practices that are inconsistent with State law, incentive program guidelines, program advisories/mail-outs or email guidance, Grant Award and Authorization requirements, or a district's written policies and procedures - including its contracts with engine owners/grant recipients.) The audit report also

indicates if ARB has determined that one or more follow-up reviews are appropriate to ensure that the district corrects any significant deficiencies.

## **B. District Response**

The district is provided 30 calendar days from the date of the audit report to respond in writing and provide mitigation strategies and timelines for correcting any deficiencies. ARB staff may provide the district with assistance to develop and implement a corrective action plan. The district's response and action plan becomes an addendum to the audit report but does not modify its conclusions. ARB may, at its option, write comments regarding the district's response. Copies of the ARB audit report and the associated district response are placed in the ARB district program files at the conclusion of the audit.

## **C. DoF Report**

DoF produces a separate report regarding the methods and results of the fiscal portion of the audit. This report is typically released within several weeks of ARB's report. DoF sends a draft of the report to the district's APCO and allows the district ten business days in which to provide a written response for inclusion in the final report. DoF coordinates with ARB regarding its findings and recommendations for corrective action; in some cases follow-up action is conducted by DoF and in other cases such action is appropriately conducted by ARB. DoF may, at its option, write comments regarding the district's response.

## **D. District Failure to Take Adequate Corrective Action**

If ARB determines that the district has not taken adequate corrective action or did not provide an adequate mitigation plan within the required 30 calendar days specified in the ARB audit report, ARB will take appropriate actions. Such actions will be tailored to specific circumstances, but may include adding stipulations to future grant awards to the district.

## **E. Provisions for Longer-Term Follow-Up**

ARB follows up with the district to ensure that it addresses the deficiencies identified in the audit. The follow-up steps are specified in the audit report and highlighted in the cover letter to the district that accompanies the audit report. Typically, ARB requires the district to provide a written report on its progress at three time points: 60 days, 6 months, and one year after the audit is completed. If appropriate, ARB may require more frequent reporting by the district, schedule periodic on-site visits, and/or schedule a follow-up review. If a district fails over time to adequately correct the deficiencies identified in an audit, ARB may elect to add a stipulation to the district's grant agreement that ties the release of State incentive grant funds to the satisfactory correction of such deficiencies.

## **F. Public Release of ARB and DoF Audit Reports and District Responses**

Soon after ARB has received the district's response to the ARB audit report, ARB makes the audit report and the district's response available to the public. At the direction of the program management team, the program webmaster posts the audit report, the district response, and any ARB comments on the Carl Moyer Program website (<http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>). DoF's audit report, including any corresponding district response, is also posted on the same website. In addition, in compliance with Governor Schwarzenegger's Executive order S-08-09, audit reports dating back to January 1, 2008, are also posted on a centralized Reporting Government Transparency website ([www.reportingtransparency.ca.gov](http://www.reportingtransparency.ca.gov)).

To further ensure that the public and the Board are informed regarding audits, a summary of the past audits along with instructions on obtaining detailed audit reports are included in any relevant status reports to the Board on incentive programs.

ARB encourages each audited district to make ARB and DoF audit reports and the corresponding district responses public by posting them to their district website and presenting them to their governing board. ARB management is available to discuss the audit findings to the district's governing board if requested.

## **VIII. Follow-Up Reviews**

As mentioned above, follow-up reviews are scheduled at the discretion of the ARB management team as needed to ensure that a district undertakes timely and effective corrective actions in response to findings from an audit. Because follow-up reviews focus on specific areas that require correction, the process used for follow-up reviews is unique to each individual situation and the members of the audit team are likewise selected to fit the scope of the follow-up review.

Generally, a similar pattern to that used for comprehensive audits is followed; the audit team first meets with the district for an entrance conference where the nature and scope of the follow-up review are discussed, the audit team next conducts the review and consults with the district during that time as necessary, and finally the audit team meets with the district for an exit conference to discuss the results.

The results of a follow-up review are formally reported to the APCO of the affected district in the form of a letter from ARB, typically signed by the Executive Officer. That letter also includes a description of the process that was used to conduct the review. The district typically has 30 calendar days to respond to the letter. If the DoF is involved in a follow-up review, it conducts its investigation separately (but in coordination) from ARB and reports its results in a separate letter.

All letters and responses resulting from follow-up reviews are posted on ARB's Incentive Program Audits website (<http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>) and the Governor's Reporting Government Transparency website

[www.reportingtransparency.ca.gov](http://www.reportingtransparency.ca.gov)). Districts are also encouraged to make such documents available to the public via the district website and by presenting them to their governing board.

## **IX. Recordkeeping**

The audit lead is responsible for maintaining complete and up-to-date electronic and hard copy audit files. A separate electronic audit file folder is maintained for each district audit on the shared “alt” drive in the “Audits” folder. The audit file on the shared drive is considered the master file and reflects the latest versions of all documents. The audit lead is responsible for ensuring that the master file is up-to-date. For example, immediately upon return from a site visit, the audit lead downloads all new and modified documents to the shared drive. The main folders in each district audit file are standardized and clearly labeled to enable independent access by other members of the audit team during the audit and after its completion. As appropriate, each file is segregated into two sub-files according to the confidential nature of the documents contained in the file (see discussion below). Such sub-files are labeled as “open access” or “restricted access.”

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

- Formal correspondence between ARB and the district such as the audit notification letter, audit report, and the district’s response.
- Final documents (not draft, deliberative documents) that support the recommendations and findings listed in the audit report. These include the list of specific deficiencies shared with the district during the exit conference and the corresponding district documents and files at issue.

The second part of the file includes all other audit materials, which are routinely treated as confidential materials.

For each audit, all files are to be retained in the Incentives Oversight Section’s office area or another secure area on ARB’s premises for eight years after the audit has been completed. Paper copies of documents that are already stored electronically are destroyed via a confidential destruction bin at the time the audit report is made final. Electronic postings of audit reports and district responses are maintained on the Incentive Program Audits webpage as for long as the incentive programs that were audited remain active plus seven years.

## **X. Amendments to Audit Policies and Procedures**

ARB reserves the right to amend these audit policies and procedures during any audit, as there may be instances in which these policies and procedures are not applicable to

the audit parameters approved by management or procedures followed by the district being audited. In cases in which ARB deviates from the policies and procedures as described above, the audited district will be notified and the amendments will be described in the audit report issued by ARB.