

Appendix F

Department of Finance Evaluation of ARB Carl Moyer Program

Appendix F
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Linda S. Adams
Secretary for Environmental
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Air Resources Board

Robert F. Sawyer, Ph.D., Chair
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Arnold Schwarzenegger
Governor

December 13, 2006

Ms. Diana L. Ducay
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, California 95814-3706

Dear Ms. Ducay:

This letter is to confirm that the Air Resources Board (ARB) has received the Department of Finances' (DOF) draft report, *Review of the Carl Moyer Air Quality Attainment Program, Administrative, Fund and Project Tracking Procedures*.

We appreciate DOF's time and effort in completing such a thorough review and providing not only observations but recommendations to improve the Carl Moyer Program. While some of the outlined recommendations have already been incorporated into ARB's process, the others will be taken into consideration during our 2007 guideline revisions.

Sincerely,

/s/

Jack Kitowski, Chief
On Road Controls Branch

cc: See next page

Ms. Diana L. Ducay

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Mr. Robert H. Cross, Chief
Mobile Source Control Division



December 21, 2006

Mr. Jack Kitowski, Chief
Air Resources Board
On Road Control Branch
Mobile Source Control Division
1001 I Street
Sacramento, CA 95812

Dear Mr. Kitowski:

Final Report: Review of the Air Resources Board Carl Moyer Memorial Air Quality Attainment Program

Enclosed is the final report on our review of administrative, fund, and project tracking procedures of the Air Resources Board (Board) Carl Moyer Memorial Air Quality Attainment Program. The Department of Finance, Office of State Audits and Evaluations, performed this review in accordance with an interagency agreement with the Board.

We appreciate the assistance and cooperation of the Board's staff in this review. If you have any questions, please contact Diana Antony, Manager, or Osman Sanneh, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Lucina Negrete, Manager, Mobile Source Control Division, Air Resources Board

A SPECIAL REVIEW

Report on the
Air Resources Board

Review of the
Carl Moyer Air Quality Attainment Program
Administrative, Fund, and Project
Tracking Procedures

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

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In accordance with our interagency agreement with the Air Resources Board (Board), the Department of Finance, Office of State Audits and Evaluations, performed a review of the Carl Moyer Program. Specifically the Board requested a review of the administrative procedures included in the revised 2005 Carl Moyer Program Guidelines (Guidelines) dated January 6, 2006. The objectives included:

- Review the Guidelines administrative procedures to verify compliance with California Health and Safety Code Sections 44275 to 44299.2.
- Review the Guidelines administrative procedures to determine whether it includes sufficient controls for districts to implement an effective and fiscally sound program.
- Evaluate the fund and project tracking procedures to determine their effectiveness for program auditing purposes.

Our review was limited to procedures documented in the Guidelines and did not include a review of other Carl Moyer Program controls and processes that may or may not be in place. In addition, we did not review the implementation or operation of the Guideline procedures.

This report is intended solely for the information and use of the Board, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Diana Antony, CPA
Manager

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Supervisor

Robert Scott
Chikako Takagi-Galamba

Background

Chapter 923, Statutes of 1999, created the Carl Moyer Program (Program) to expedite the implementation of low-emission technologies through incentive based voluntary participation. In addition, the Program also assists in fulfilling the California State Implementation Plan, a federal requirement describing how and when the state will meet federal air quality standards. The primary objective of the Program is to provide financial incentives to offset incremental costs of noxious emission reduction. To achieve this objective, the Program reimburses approved grantee purchases of low-emission technology engines to install in vehicles, vessels, and locomotives.

The Program is implemented through a partnership of the Board and 35 California air pollution control districts and air management districts (districts). The Health and Safety Code Section 44286 charges the Board with overseeing and managing Program funds, prescribing guidelines and criteria for specified emission projects, and developing methodologies to evaluate project cost-effectiveness. In turn, the districts solicit, select, fund, monitor, and report project results to the Board in accordance with the Program guidelines developed by the Board.

Prior to fiscal year 2004-05, the program received annual appropriations from various sources. Specifically, between fiscal years 1998-99 and 2004-05, the state appropriated \$114 from the General Fund and \$40 million from Proposition 40, the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act.

However, beginning fiscal year 2004-05, new legislation expanded the program scope and provided increased and continuous funding of up to \$140 million *per year* through 2015. With the expanded program scope and significant increase in funding, the Board revised its guidelines to reflect the new program scope and funding. In March 2006, the Board contracted with the Department of Finance (Finance) to ascertain whether the provisions in the revised 2005 Carl Moyer Guidelines (Guidelines) were sufficient to ensure an effective administration of the program.

Scope

The objectives of our review included:

- Review the Guidelines administrative procedures to verify compliance with California Health and Safety Code Sections 44275 to 44299.2.
- Review the Guidelines administrative procedures to determine whether it includes sufficient controls for districts to implement an effective and fiscally sound program.
- Evaluate the fund and project tracking procedures to determine their effectiveness for program auditing purposes.

The scope did not include prior years' program administration, oversight, and Health and Safety Code compliance. Further, Finance was not engaged to assess the adequacy of controls over information systems or data electronically collected by the Board. Therefore, Finance did not perform prior year reviews and did not assess information system or electronic data controls.

Methodology

To address the objectives Finance reviewed the Health and Safety Code Sections 44275 to 44299.2, the 2005 Guidelines, and the current and proposed fund and project data collection procedures. In addition, Finance conducted interviews with the Board management and staff responsible for the administration of the program. The observations and recommendations section of this report present the results of the Finance review performed from March 2, 2006 through May 31, 2006.

OBSERVATIONS AND RECOMMENDATIONS

Compliance with Health and Safety Code Requirements

The 2005 Carl Moyer Program Guidelines (Guidelines) were reviewed and compared against Health and Safety Code (HSC) Sections 44275 through 44299.2. The more significant observations are noted below and relate to the recapturing of unexpended funds and the district grant awarding process. Exhibit I provides additional observations and recommendations that, although are not significant, may still warrant further review.

Observation 1

Recapturing Unexpended Grant Funds

The Board may not be able to adequately enforce the unexpended fund recapture provisions due to HSC section contradictions and due to a lack of clearly defined terms and conditions in the Guidelines. The Board claims that its efforts to recapture unexpended funds have been partially impaired by a possible contradiction in the code. Specifically, while HSC Section 44299.2(c) requires program funds allocated to districts be expended by June 30 of the second calendar year following the reservation date or be recovered for reallocation to other projects, Section 44291(d) states, "The state board shall not recapture funds already awarded to approved projects." The Board's staff indicate that some districts and grantees have used Section 44291(d) to prevent the recapture of unspent grant funds, claiming the funds have been awarded via an approved contract. Furthermore, Guidelines Section II.E, *Obligation*, defines obligation as one of the following actions:

- District's governing board "approves" a project for funding through a resolution, minute order, letter or other written instrument.
- Air Pollution Control Officer or designated district staff, if given the authority by the governing board, approves a contract.
- Contract between the district and the owner is fully executed.

According to the Board, in some cases the contracts do not have clearly defined contract terms and therefore, actual expenditures may not occur in a timely manner. Specifically, the staff cite four scenarios under which some districts and grantees have questioned the Board's ability to recapture unexpended funds after the two year expenditure limit.

Scenario No. 1: The district's board has approved a project, but a contract was not signed by the end of the two year period.

Scenario No. 2: The district and grantee have executed a contract, but no expenditures are incurred by the end of the two year period.

Scenario No. 3: The district and grantee have executed a contract, and a portion of the obligated funds remain unexpended at the end of the two year period.

Scenario No. 4: The district and grantee recipient have executed a contract. However, the grantee claims that it did not have the resources to complete its part of the grant agreement.

These conditions arise, in part, because of the contradictions in the HSC sections and because terms such as "obligate," "expend," and "award" are not clearly defined in the Guidelines.

Further, although HSC Section 44288(d) requires the recapture provision to be incorporated into grantee contracts (district subcontracts with entities), the Guidelines' minimum contract elements do not require the districts to include the circumstances, method, and timing to recapture unexpended funds from grantees that fail to spend program funds as required.

A lack of clearly defined terms and conditions impairs the Board's ability to recoup and reallocate unexpended funds in a timely manner. In fact, during the first six years of program operations the Board allocated approximately \$140 million in program funds to districts.¹ Of that amount, approximately \$14 million, or 10 percent, remains unexpended two years after the date the Board originally reserved the funds for the districts.² Without further statute and guideline clarification, unexpended funds may continue to increase, which may ultimately inhibit the Program from effectively achieving its primary goal of reducing noxious emissions and improving air quality.

Recommendations: Expeditiously consult with the Board's legal counsel to clarify relevant HSC sections and other contradictory terms noted above. Specifically:

- Establish specific conditions and timelines for recapturing and reallocating unexpended funds.
- Ensure that districts include unexpended funds recapture provisions in their contracts with grantees.

Based on the advice of counsel, seek statutory language changes, if necessary, and revise the Guidelines to include clear criteria and procedures governing the recapture of unexpended program funds.

¹ The Carl Moyer Program Annual Status Report dated February 2004, page 6.

² The Board's response to Finance questions on May 30, 2006.

Observation 2

District Grant Application and Award Processes

The Guidelines Section V, *District Solicitation and Project Acceptance*, requires each district to maintain and follow written policies and procedures for soliciting and accepting projects. However, the Guidelines do not provide adequate direction on the district grant awarding process. Consequently, grant application and award processes may be inconsistent among districts.

- The Guidelines encourage, rather than require, the districts to use a standard application form to capture applicant information. Further, other than the grantees minimum disclosure statement, the Guidelines do not specify the minimum documentation required for grant applications to be considered complete. Consequently, application requirements may be inconsistent and inequitable among districts.
- The Guidelines lack application submission deadlines. Consequently, some districts have fixed application due dates while others accept applications on an on-going basis. As a result, application submission, processing, and awards criteria may vary among districts. Further, the lack of uniformity in the application and award processes could create negative perceptions regarding the consistency and fairness of the grant award process.
- Although the Guidelines include minimum project cost effectiveness criteria, the Guidelines do not require districts to apply consistent project selection methodologies which rate and rank specific standards. Consequently, project selections may be inconsistent and inequitable within and across districts. HSC Section 44288(a) requires that projects be evaluated with respect to the appropriate project selection criteria. The section further requires the Board to clarify project evaluation protocols and provide the information necessary to properly evaluate a project application.
- The Guidelines lack a timeline or other application processing and approval standards. Instead, the Guidelines encourage districts to make every effort to process applications and award grants rapidly and require districts to provide average and median award timeframes in their Year 8 (fiscal year 2005-06) annual reports.

Recommendation: Review the Guidelines to ensure that the grant awarding criteria facilitates consistency among districts.

Evaluation of Carl Moyer Program Administrative Procedures

The Board is responsible for developing guidelines and criteria to oversee and monitor district grant administration and the districts implement program projects in accordance with the Guidelines. During the review, Finance identified areas where sufficient guidance is in place for districts to implement programs as intended. However, Finance also identified

areas where additional guidance should be provided to districts. The observations are summarized below.

Observation 3 Cost Principles and Standards

Although the Guidelines Section II.B, *Outreach Funds*, and Section II.C, *Match*, provides general criteria regarding allowable outreach and match funds, it does not include adequate criteria regarding administrative cost principles and standards. The Board sets aside up to two percent of district annual program allocations for outreach activities. In addition, the Board requires districts to provide a match of \$1 for every \$2 of Program funding awarded, with certain caps and waivers allowed. The Board first allocated outreach costs of \$0.6 million to districts in fiscal year 2004-05 and in fiscal year 2005-06 the outreach allocation increased by \$1.1 million to approximately \$1.7 million. Similarly, the match requirement increased from \$10.6 million in fiscal year 2004-05, to approximately \$11.7 million in fiscal year 2005-06.³ With the increase in administrative costs allowed, it becomes imperative for the Board to clearly define allowable cost principles and standards. The following sections outline areas where the Guidelines could be improved.

Outreach Costs and Matching Requirements: The Guidelines do not provide adequate cost standards for the identification and recording of outreach activity costs or in-kind contributions. For example, Section II B, *Outreach Funds*, provides that staff time spent on outreach activities or program administration are allowable and requires districts to maintain timesheets to support staff time. However, the Guidelines do not provide instructions on how to identify, accumulate, and record staff time charged to outreach or in-kind match. Consequently, reported staff time may not accurately reflect the benefits received from district administrative services or outreach activities. The Board's staff indicate that standard district procedures require staff that work less than full-time on the program to maintain timesheets reflecting the number of actual program hours worked or duty statements substantiating the percentage of staff time spent on program activities. However, the Guidelines do not reflect these standards.

Travel Costs: The Guidelines allow staff travel costs to be included in program outreach costs and match contributions. However, the Guidelines do not include applicable travel criteria and/or maximum per diem rates.

Indirect Costs: The Guidelines allow districts to claim indirect costs. However, it does not specify the methodology and documentation required to support the allocation of indirect costs, which can include general administrative services, office space, and telephone services. Without a reasonable allocation methodology, there is a risk that district indirect costs charged to the program award, or attributable to match contribution, may not be consistent with the benefits received.

³ Year 8 Carl Moyer Funding Allocation dated January 23, 2006 and the Board's response to Finance questions on May 30, 2006

Allowable and Unallowable Costs: Even though the outreach and matching fund sections in the Guidelines provide examples of allowable costs, the Guidelines do not specify the consequences incurred if districts charge unallowable costs to the project. As a result, the Guidelines do not provide a basis for disallowing or recovering inappropriate costs from the districts and their project grantees.

In establishing and clarifying cost principles and standards, the Board may consider the Office of Management and Budget Circular A-87 (OMB A-87), *Cost Principles for State, Local, and Indian Tribal Governments* as a reference. OMB A-87 outlines general cost principles for state and local governments receiving federal funds. Although the program does not include federal funds, OMB A-87 could assist the Board to further improve the Guidelines.

Recommendation: Revise the Guidelines to include general cost principles and standards. For example, travel cost criteria could include that at a minimum allowable costs be consistent with the district's written travel policies for like circumstances, and in the absence of an acceptable written policy the rates and amounts established under the State's travel policy shall apply. In addition, indirect cost criteria may include a requirement that districts provide a cost allocation plan to demonstrate how indirect costs are allocated to ensure an equitable distribution.

Observation 4 Accounting System and Record Keeping Requirements

The Guidelines require districts to record project information by funding source and by funding year in the Board's fund and project tracking system, which currently consists of an Excel spreadsheet. The Guidelines further require districts to account for project funds and outreach funds separately.

However, the Guidelines do not specify what records should be maintained and what reports should be prepared, and lack procedures for maintaining district accounting records (cash receipts, disbursement registers, or equivalent accounting records) by funding source (i.e., program grants, interest, and matching funds) and the related expenditures. In addition, the Guidelines do not require the districts to reconcile the fund and project tracking system data to their accounting records.

The lack of specific guidance on record-keeping increases the risk of commingling of funds, and errors in district accounting and reporting of program funds, expenditures, match contributions, and interest earnings. In addition, there is a potential risk of an inadequate audit trail in the recording, tracking, monitoring, and verifying the accuracy and compliance of program grant moneys, in-kind match contributions, interest earnings, and expenditures.

Furthermore, the Guidelines require districts to maintain documentation for match and outreach costs without specifying the retention period for support documents. The lack of a retention requirement limits the availability of documents for audit and on-site monitoring, which may inhibit the ability to verify that the district meets the match requirement, and that outreach costs are expended for allowable outreach activities.

Recommendations: Revise the Board's Guidelines requiring districts to:

- Maintain accounting records (e.g. general ledger) that separate Program project funds from other funds administered by the district. The accounting records should further separate project, outreach, and matching funds, earned interest, other project resources, and the related expenditures.
- Reconcile program fund and project data entered in the Board's project tracking system to the district's accounting system and records.
- Record in-kind matching contribution and outreach costs in categories paralleling the Guidelines allowable cost categories such as personnel, consulting services, and other operating costs (e.g. mailing, printing, and travel costs.)
- Revise the Guidelines to require districts and their sub-grantees to retain project files and related financial records for a specified time period.

Observation 5 Interest Earned

The Guidelines Section IV.E.3, *Earned Interest*, requires districts to report funds deposited in interest bearing accounts to the Board. The Guidelines further requires districts to spend interest earned on projects that meet the program guidelines, and to report projects funded by interest earned in the Board's program database and final report. However, the Guidelines could further be improved by providing specific procedures for accounting and reporting interest earned on program funds.

Recommendations: Establish criteria and guidance on:

- The minimum accounting records districts should maintain to account for interest earned and how it is spent.
- The method of reporting interest earnings on program funds and related expenditures in reports to the Board. Note that the current annual report structure does not provide a section for projects funded by interest earned and therefore does not accommodate interest reporting. Therefore, the Board should update the database to include the capacity to record and track interest earned as a funding source.
- The applicability of earned interest to satisfy the matching fund contribution.

Observation 6

Audit Planning

The Guidelines Section XI, *ARBs Oversight*, describe the Boards general monitoring and auditing process, however the Guidelines could be improved by describing the Boards overall audit plan objectives. For this area, the Board asked us to review its *Carl Moyer Program Auditing Policies and Procedures Background* (procedures) to identify areas that may need improvement and/or could be included in the Guidelines. The procedures document general policies and check lists for desk reviews and on-site audits of districts. This document requires the Board's staff to discuss the goals, objectives, and schedule of on-site audits at the entrance conference. However, the document does not include essential features of an audit plan such as, audit objectives, risk assessments, risk-based audit selections, and complete audit procedures to achieve the objectives. Further, the document does not include a plan to review district fiscal and administrative controls in order to determine the extent to which the Board may rely on them for effective program administration. In addition, the document does not include reviews of district audits of grantees, if any, performed in accordance with the Guidelines Section IX.D, *Audits*. Without an appropriate audit plan, the Board's audits may not effectively address significant aspects of the environment in which the districts administer the program and monitor grantee performance.

In addition, the Board's monitoring and auditing of the districts program operations could benefit from a risk based systematic approach to selecting districts for audit. The Board completed monitoring activities at the Sacramento district in July 2004, and an audit of the San Joaquin district in May 2003. The Board has also selected two large districts and two small districts to audit during calendar year 2006. According to the Board, the selection was influenced largely by the availability of staff and is consistent with the Board's plans to audit four districts per year. However, auditing only four districts per year the Board will complete one audit cycle of all 35 districts in 9.25 years. Thirty-five districts throughout the state administer 7,000 projects annually through program funding of approximately \$140 million annually. In addition, the program funding structure is complex, including many technical and cost sharing requirements.

The lack of an appropriate approach to the Board's audits and monitoring activities increases the risk that program funds may not be expended effectively or in compliance with program requirements. HSC Section 44291(d) requires the Board to monitor district programs to ensure consistency with the Guidelines and to recapture obligated funds from districts that fail to demonstrate that their implementation is consistent with program requirements.

Recommendation: Amend the Guidelines or include a reference to an additional guide which incorporates an annual audit plan. At a minimum, the plan should include:

- Clearly defined work plan and procedures for audits, desk reviews, on-site monitoring.
- Evaluations of:
 - District fiscal, administrative, accounting and project tracking control environments relative to program funds and the results of project operations.
 - The degree to which the Board may rely on such activities to reduce the Board's workload.
 - Outreach, matching funds, application processing, award effectiveness, and equity issues.
 - Reporting, follow-up, and remedial policies for completed audits (including desk-audits and on-sight monitoring reviews).
- A risk-based approach to ensure appropriate selection of districts and grantees, and adequate coverage of the obligated, expended and unexpended program funds. Potential risk factors for selecting district audits may include the following:
 - Adequacy of district program policy and procedures documents.
 - The Board's assessment of the district program administration.
 - Timeliness, accuracy, and adequacy of support in districts annual and final reports.
 - Districts compliance with the requirement to publicly post reports.
 - Timeliness of districts disbursements to grantees and update of project data.
 - Timeliness of districts project data elements updates.
 - Adequacy and timelines of district pre- and post-inspections of grantee projects.
 - Instances of fraud in districts annual or final reports.
 - Availability of annual independent audits of districts and reported internal control, compliance, or fraud issues.
 - Alternative funds or financial incentives (tax credits or deductions, grants, etc) for program type projects available to the district.
 - Third party grant applications.
 - Timeliness of district grant application processing.
 - Validity of invoices and compliance with the contract provisions.

In addition, the Board may compare actual district data to predetermined benchmarks, including the following, to identify some of the above risk factors in the districts:

- Expected percentage of funds expended for annual and final reporting periods.
- Expected number of projects the districts audited and reported on annually.
- Expected number of district enforcement actions.

- Expected amount of funds recaptured by the district.
- Ratio of applications to awards.
- Mean dollar amount of award for each source category.

Based on the identified risk factors, the Board may establish district audit priorities and the appropriate annual, biennial, etc., audit cycles.

The Effectiveness of Fund and Project Tracking Procedures for Program Auditing Purposes

The Board currently captures program fund and project data in an Excel spreadsheet. An internet based data collecting tool (CARL) designed to replace the spreadsheet is currently under construction. In addition, the Guidelines require the districts to collect certain project data. Our analysis, observations, and recommendations regarding data elements collected by the Board and the districts did not include an assessment of the reliability, integrity, and security of the electronic transmission or the information systems used. Therefore, this report does not include electronic transmission or the information systems observations.

Exhibit II provides a comparative summary of the data elements required in the Guidelines, the Excel spreadsheet, and those proposed for CARL. In addition to summarizing the Board's actual and proposed data collection requirements, Exhibit II provides our recommended data collection elements. The Board's proposed data elements to be collected under CARL are largely consistent with the program requirements. However, we noted additional data elements which, if included, may provide the Board with district information to adequately monitor and control district administration of emission reduction projects. The observations below summarize the most significant omissions.

Observation 7

Project Data Collection and Annual Financial Reports

The Guidelines do not include instructions for collecting and validating project data and for filing reliable and consistent annual financial reports. In addition, the Guidelines do not require the appropriate district officer to certify to the truth and accuracy of the annual reports and whether there are known instances of fraud in the program.

The Board currently collects district project and financial information through Excel spreadsheets and Word document templates. When the proposed CARL is implemented, the Board plans to eliminate the district financial reporting requirement because the districts will be required to post project and financial data directly into CARL. The Board will then extract the required annual reports from CARL. Consequently, because the districts post the data into CARL rather than formally submit certified reports, districts may not perceive themselves to be accountable or responsible for the project data, reports, or the program financial management. Therefore, the reliability, accuracy, consistency, and comparability of project and financial information may be compromised.

Further, if the program and financial data and reports are perceived to be unreliable, the Board's oversight and monitoring role over the program may be impaired.

Recommendation: Revise the Guidelines to require the district Chief Administrative Officer, the Chief Financial Officer, and the Chief Carl Moyer Program Grant Administrator to certify annually that the project and financial data keyed into CARL is complete, accurate and the district's responsibility. In addition, require that the certification disclose all known instances of program fraud or state that there are no known instances of fraud.

Observation 8 Historical and Projected Equipment Emission Data

The Board does not require districts to obtain historical equipment usage data for replacement projects or projected equipment usage data for new equipment projects. Historical and projected equipment usage data provides a basis for evaluating the applicant's expected emission reductions from new or replacement equipment reported in the grant application. Without this information, the district will not be able to assess the applicant's emission reduction estimates as a basis for approving or declining a grant application. Therefore, the districts may not be approving the most efficient emission reduction projects.

Recommendation: Revise the Guidelines grant application data requirements to require the districts to obtain the applicant's historical and planned equipment usage data to support their emission reduction estimates. This information will provide the districts the data needed to validate projected emission reductions and ensure the districts are making efficient emission reduction award decisions.

Although the Board has generally addressed significant administrative procedures and HSC requirements within the Guidelines, opportunities for improvement exist. We believe that implementing the recommendations listed above will improve the Guidelines compliance with the applicable HSC sections and provide additional controls and criteria for districts to follow.

However, this review was limited to a review of procedures documented in the 2005 Guidelines and a vital component to any review is to evaluate whether the criteria and procedures are "in process" and working as intended. Therefore, we recommend that the Board continue its efforts to improve its administrative oversight by ensuring the Guidelines are updated with appropriate revisions and that the Guidelines are ultimately implemented by the districts via increased audits and on-site monitoring.

**Carl Moyer Program 2005 Guidelines
Compliance with Applicable Health Safety Code Sections**

EXHIBIT I

This exhibit lists additional observations and recommendations of our 2005 Guidelines review not included in the report. The review was limited to program administration included in Part I, Chapter 2. The more significant observations are discussed in the Observations and Recommendations section of the report. Observations are organized by the guideline part, chapter, and section. Unless otherwise stated, all Guidelines section references are to Part 1, Chapter 2.

Section II - Funding Sources and Types of Carl Moyer Projects

HSC Requirements	Guidelines Summary	Observations	Recommendations
<p>Section 44291(d): The state board shall monitor district programs to ensure that participating districts conduct their programs consistent with the criteria and guidelines established by the board and the commission pursuant to this chapter.</p>	<p>The Guidelines substantially address this requirement through monitoring and auditing provisions at:</p> <ul style="list-style-type: none"> • Section II.G, At-risk district. • Section IX, Districts' Monitoring Requirements • Section XI, ARB Oversight 	<p>The Guidelines could benefit from a consolidation of the monitoring sections, or at a minimum, a referencing of similar aspects in the three sections.</p>	<p>Revise the Guidelines to consolidate the various monitoring requirements or, at a minimum, cross-reference the relevant sections.</p>

Section III. Program Award Process

HSC Requirements	Guidelines Summary	Observations	Recommendations
<p>Section 44286(d): The state board may reserve up to 10 percent of the program funds available each year to directly fund any project that is multidistrict in nature.</p> <p>Section 44287(a): The Guidelines shall encourage districts to co-fund projects.</p>	<p>The Guidelines Section III, <i>CMP Award Process</i>, addresses this requirement stating that HSC grants the Board the authority to set aside 10 percent of the program funds for multi-district projects, defining Multi-district projects, and specifying the Board focus and areas of statewide importance.</p>	<p>The Guidelines could be strengthened by specifying:</p> <ul style="list-style-type: none"> • How or when districts shall apply for the multi-district projects. • Eligibility criteria. • The process and criteria for awarding contracts to multi-district projects. 	<p>Revise the Guidelines to include reference to the multi-district solicitation packet available at the ARB web site. The packet provides information on:</p> <ul style="list-style-type: none"> • The application documentation requirement and due date. • Eligibility criteria. • Project selection methodology.
<p>Section 44286(b): The responsibilities of a district include: local administration of project funds, monitoring funded projects, and reporting results to the board.</p>	<p>The Guidelines Section III substantially addresses this requirement. The Board requires districts to submit status, annual, and final reports as follows:</p> <ol style="list-style-type: none"> 1. Status Report <ul style="list-style-type: none"> • Due by November 15. • Shall be made publicly available. • District's policies and procedures manual shall be submitted with the status report. • The status report shall indicate the district's progress in meeting its projected milestones. 2. Annual Report <ul style="list-style-type: none"> • Due by or before June 30 of the year following districts allocation. • Shall be made publicly available. 	<p>The Guidelines do not provide:</p> <ol style="list-style-type: none"> 1. References to or examples of the prescribed Board report format for status reports, annual reports, or final reports. 2. Instructions on updating project information in the database. 3. Feasible reporting due dates. For example, if reports are due on or before June 30, a district cannot reasonably include financial data for the fiscal period ending <i>June 30</i>. Therefore, if the Board is requesting fiscal year-end data (i.e. as of June 30), the report due dates should be extended to July 30 or another reasonable date. 	<p>Revise the Guidelines to address the observations noted. For example:</p> <ol style="list-style-type: none"> 1. Provide description and formats of status, annual, final reports, instructions on how to fill out the reports, and instructions on how to obtain blank report forms. Make them available at the web site and include a link to the site. 2. Establish/provide instructions on how to update project information in the database. 3. Clarify and establish report "as of" and "due" dates.

Section V. District Solicitation and Project Acceptance		
HSC Requirements	Guidelines Summary	Observations
<p>Section 44288(a): The date and time of receipt of each application determined to be complete shall be recorded and the complete application shall be evaluated with respect to the appropriate project selection criteria.</p>	<p>The Guidelines Section V.D, <i>Project Applications</i>, and Section VI, <i>Project Selection</i> substantially satisfy this requirement by requiring the districts to review all applications for completeness and eligibility. Additionally, Section VI requires districts to select projects based on the district's policies and procedures manual. The sections further require the districts to maintain a record of the eligibility verification and the projects rating, ranking, and other selection criteria with the application in the applicant's file.</p>	<p>For completeness and clarity appropriate reference(s) to the minimum requirements for each project category (Part II and chapters 1 through 12) should be provided in the eligibility and project selection sections of the Guidelines.</p>
<p>Section 44288(a): Notwithstanding any other provision of this chapter, the administering district may determine that an application is not in good faith, not credible, or not in compliance with this chapter and its objectives.</p>	<p>The Guidelines Section V.D.2, <i>Eligibility of Project</i>, states that the district is responsible for determining if the application is good faith, credible, or compliant with the program objectives. The section further requires the districts to determine whether the applicant's project meets the programs emission reduction and cost effectiveness criteria.</p>	<p>Revise the Guidelines to include references to the minimum requirements outlined in Part II and chapters 1 through 12.</p>
<p>Section 44290: The state board and district shall vigorously recruit grant applications and publish examples of successful projects.</p>	<p>The Guidelines Section V.C, describes the two typical solicitation methods used by districts:</p> <ul style="list-style-type: none"> • Over the counter (OTC) • Notice of funds available (NOFA) <p>Further the section allows districts to solicit applicants for two years of funds in one solicitation in order to stay current with the obligation requirements.</p>	<p>Revise the Guidelines to provide good faith, credibility, or compliance application standards.</p>
		<p>Revise the Guidelines to include vigorous recruitment procedures as required by HSC Section 44290.</p>

Section VI. Project Selection

HSC Requirements	Guidelines Summary	Observations	Recommendations
<p>Section 44288(a): <i>A district shall make every effort to process an application and grant an award rapidly and to coordinate project approval with any purchase or installation timing constraint on an applicant.</i></p>	<p>The Guidelines Section VI, <i>Project Selection</i>, requires districts to make every effort to process an application and grant an award rapidly. It requires the district to provide the average and median time frames to award grants as part of the "Year 8" annual reports. Further, it requires grant award notification to be in writing and a copy maintained in the district in the applicant files.</p>	<p>The Guidelines do not provide adequate procedures to facilitate expedited district processing of project application or grant awards.</p>	<p>Revise the Guidelines to specify time frames for processing project applications and awarding grants.</p>

Section VIII. Minimum Contract Requirements

HSC Requirements	Guidelines Summary	Observations	Recommendations
<p>Section 44291(a): <i>The state board shall assist districts with developing procedures to monitor whether the emission reductions projected in successful grant applications are actually achieved.</i> <i>Monitoring procedures may include project audits, and may also include requirements, as part of the contract between the state board or districts and the grant recipients, that each grant recipient provide information about the project on an annual basis.</i></p>	<p>The Guidelines Section IX addresses the districts responsibility to conduct project pre- and post-inspections, and annual reporting. Section VIII further requires on-site inspections, auditing, and reporting during the installation phase through the implementation phase, which may last up to six years. For example the section requires biennial reporting on zero-emission technology projects for up to six years.</p> <p>Further, the Guidelines requires districts to include on-site inspections, auditing, and reporting as part of the contract between the district and grantee.</p>	<p>The Guidelines sections subject to this review (Part 1, Chapter 2) does not address procedures to specifically monitor the achievement of emission reductions are projected in the grantee applications are actually achieved. Neither do these sections reference other portions of the Guidelines that do.</p>	<p>Revise the Guidelines to include</p> <ul style="list-style-type: none"> • Procedures or references to procedures that specifically monitor project emission reductions achieved, against those projected in the grantee applications. • Specific objectives for performing project pre- and post-inspections.

Section IX. Districts' Monitoring Requirements			
HSC Requirements	Guidelines Summary	Observations	Recommendations
Section 44291a), Third sentence: <i>Information required from grant recipients should be minimized and the format for reporting the information should be made simple and convenient.</i>	The Guidelines do not address this requirement.	The Guidelines do not instruct districts to minimize the information required from grantees and to make reporting formats simple and convenient.	Revise the Guidelines to require that districts minimize the information required from grantees and make the format for reporting the information simple and convenient.

Section X. Expenditure Requirements			
HSC Requirements	Guidelines Summary	Observation	Recommendations
Section 44297(b): <i>The Guidelines may define eligible costs to include monitoring and verifying compliance with this article.</i>	The Guidelines Section X, <i>Expenditure Requirements</i> , states that districts must require grant recipient to provide project information on an annual basis. In addition, the Guidelines provide districts with detailed monitoring requirements.	The Guidelines do not specify that costs incurred by the districts to monitor and verify compliance with the relevant HSC sections are allowable.	Revise the Guidelines to specify that costs incurred by the districts to monitor and verify compliance with the relevant HSC sections are allowable.

HSC Requirements			
Glossary	Guidelines Summary	Observations	Recommendations
General – Glossary of Administrative terminology.	Section I, <i>Administrative Terminology</i> defines only two terms used in the Guidelines, "Carl Moyer Program Funds" and "contract."	For clarity in the interpretation of key sections of the Guidelines, it is necessary to define key program terminology.	Expand glossary.

Air Resources Board Carl Moyer Program

Data Elements Collected for Project Tracking

Description	Data Elements Currently Collected			Recommended Data Collection Elements
	Guidelines (a)	On-Road Excel (b)	CARL (c)	
Project Administrative Information				
Project Number		x	x	x
District		x		x
MultiDistrict			x	x
Year of Funding (multiple records)		x	x	x
Source of Funding (multiple records)		x	x	x
Funding Program (multiple records)			x	x
Funding Amount (multiple records)		x	x	x
Date Application Received			x	x
Application Approved/Denied				x
Date Application Approved/Denied			x	x
Obligation Date			x	x
Pre-Inspection				
Date Inspection Completed			x	x
Inspector's Name and Title				x
Meter Reading (miles/Hours)				x
Engine Working as Described in the Application	x			x
Verified Base Engine Information (Family, Make, Model, Year, etc)	x			x
Verified Engine Identification Number	x			x
Verified Owner Has Title				x
Verified Engine Location	x			x
Verified Engine in Approved Equipment/Vehicle	x			x
Verified Equipment/Vehicle Identification Number	x			x
Inspector Comments	x			x
Post-Inspection				
Date Inspection Completed			x	x
Inspector's Name and Title				x
Verified New/Rebuilt Engine/Retrofit Installed	x			x
Verified New/Rebuilt Engine/Retrofit in Running Condition	x			x
Meter Reading (miles/Hours)				x
Verified Engine/Retrofit Location	x			x
Verified Owner has Title				x

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Data Elements Collected for Project Tracking

Description	Data Elements Currently Collected			Recommended Data Collection Elements
	Guidelines (a)	On-Road Excel (b)	CARL (c)	
Awarded Project Information (possible for multiple records)				
Project Name			X	X
Equipment Type (Source Cat)			X	X
Grant Amount Approved				X
Technology (New, Repower, Retrofit)	X	X	X	X
Project Location-Street Address, City, County, State, Zip Code.	X	X	X	X
Vehicle Type	X	X	X	X
Vehicle Identification Number	X	X	X	X
Vehicle Make	X		X	X
Vehicle Model	X		X	X
Model Year	X		X	X
GVWR	X		X	X
License Plate Number	X		X	X
Baseline Vehicle Fuel			X	X
New Vehicle Vendor	X			X
Vendor and Address (multiple records)				X
Vendor ID Number (Statewide)			X	X
Contract Amendment No. (multiple records)				X
Contract Amendment Date (multiple records)				X
Activity Information				
Percent Operated in California	X		X	X
Percent Operated in Air District	X	X	X	X
Project Life	X		X	X
Annual Miles/Hours or Gallons of Fuel Used	X			X
Electronic Monitoring Unit (EMU)				
Will a new EMU be Installed?	X		X	X
EMU Make	X		X	X
EMU Model	X		X	X
EMU Model Year	X			X
EMU ID Number	X		X	X
EMU Cost	X		X	X
EMU Installation Cost (Labor)				X

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Data Elements Collected for Project Tracking

Description	Data Elements Currently Collected			Recommended Data Collection Elements
	Guidelines (a)	On-Road Excel (b)	CARL (c)	
New Purchase Projects				
Engine Family (if applicable)				X
Engine Make	X		X	X
Engine Model	X		X	X
Engine Year	X		X	X
Engine Serial Number	X		X	X
New Engine Purchase Costs				X
New Engine Installation Cost (Labor)				X
New Engine Meter Reading (if applicable)				X
ARB Certification Executive Order Number	X		X	X
Fuel Type	X			X
Baseline Fuel Type for Main Engine	X			X
Baseline Fuel Type for Auxiliary Engines	X			X
Auxiliary Engine Make	X			X
Auxiliary Engine Model	X			X
Auxiliary Engine Year	X			X
Auxiliary Engine Serial Number	X			X
Auxiliary Engine Horsepower	X			X
Auxiliary Engine Fuel	X			X
Auxiliary Engine Family	X			X
New Auxiliary Engine Meter Read (if applicable)				X
Baseline Auxiliary Engine Costs	X			X
Baseline Auxiliary Installation Costs (Labor)				X
New Vehicle Costs	X		X	X
Incremental Cost			X	X
Amount District to Pay (preliminary)			X	X
New Vehicle Meter Reading (if applicable)				X
Expected Usage (miles/hours) per Year				X
Vehicle Identification Number				X
Repower Projects				
Baseline Main and Auxiliary				
Engine Family	X			X
Engine Make	X			X
Engine Model	X			X
Engine Year	X			X
Engine Serial Number	X			X
Horsepower	X			X
Fuel Type	X			X
Meter Reading (Miles/Hours)				X
Engine Age (Years)				X

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Data Elements Collected for Project Tracking

Description	Data Elements Currently Collected			Recommended Data Collection Elements
	Guidelines (a)	On-Road Excel (b)	CARL (c)	
Reduced Emission Main and Auxiliary				
Engine Family	x			x
Engine Make	x			x
Engine Model	x			x
Engine Year	x			x
Engine Serial Number	x			x
Horsepower	x			x
Fuel Type	x			x
Meter Reading (Miles/Hours)				x
ARB Executive Order Number	x			x
Engine Remanufacture Costs	x			x
Newer Engine Costs	x			x
Newer Engine Installation Cost	x			x
Retrofit Projects				
Vehicle Make (if applicable)				x
Vehicle Model (if applicable)				x
Vehicle Year (if applicable)				x
Vehicle Identification Number (if applicable)		x		x
Engine Make	x			x
Engine Model	x			x
Engine Year	x			x
Engine Tier (if applicable)	x			x
Engine Family	x			x
Engine Serial Number	x			x
Engine Horsepower	x			x
Fuel Type	x	x		x
Retrofit Devise Make	x			x
Retrofit Devise Model				x
Retrofit Devise Serial Number	x			x
ARB Verified Retrofit Devise	x			x
Retrofit Devise ARB Executive Order	x			x
Retrofit Devise Cost	x	x		x
Retrofit Devise Installation Cost	x			x
Retrofit Devise Project Life Maintenance Costs	x			x
Engine Meter Reading (miles/hours) at Installation				x
Baseline Annual Miles/Hours per Year	x			x
Baseline Costs		x		x
Reduced Emission Costs		x		x

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Data Elements Collected for Project Tracking

Description	Data Elements Currently Collected			Recommended Data Collection Elements
	Guidelines (a)	On-Road Excel (b)	CARL (c)	
Invoice Information				
Invoice Number (multiple records)				x
Invoice Amount (multiple records)			x	x
Date Invoice Received (multiple records)			x	x
Date Invoice Paid (multiple records)			x	x
Amount Paid (multiple records)			x	x
Source of Disbursement (multiple records)				x
Air District Check No. (multiple records)				x
Air District Program Administration				
Air District Name				x
Air District Chief Executive Officer				x
Phone Number				x
Email Address				x
Air District Chief Financial Officer				x
Phone Number				x
Email Address				x
Air District Chief CMP Officer				x
Phone Number				x
Email Address				x
Air District CMP Claim Processor/Approver				x
Phone Number				x
Email Address				x
Air District CMP Contact Person				x
Phone Number				x
Email Address				x
Air District Shipping Address				x
City/State/Zip				x
Air District Mailing Address				x
City/State/Zip				x
Air District Physical Address				x
City/State/Zip				x
Air District Program Financial Reporting				
Funding Year (multiple records)				x
Air District Match Source (multiple records)				x
Air District Match Amount (multiple records)				x
CMP Funding Request (multiple records)				x
CMP Allocation (multiple records)				x
CMP Obligated (multiple records)				x
CMP Expended (multiple records)				x
Interest Earned on CMP Funds (multiple records)				x
2% Admin Expenditure Categories (multiple records)				x
Amount (multiple records)				x
Comments and Notes				x