



Linda S. Adams
Secretary for
Environmental Protection

Air Resources Board

Mary D. Nichols, Chairman
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Arnold Schwarzenegger
Governor

May 26, 2010

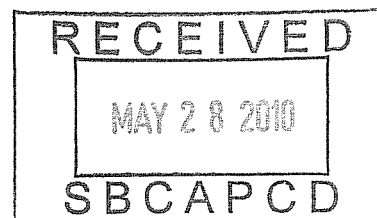
Terry Dressler
Air Pollution Control Officer
Santa Barbara County Air Pollution Control District
260 North San Antonio Road, Suite A
Santa Barbara, California 93110

Dear Mr. Dressler:

The California Air Resources Board (ARB) recently concluded an audit of the Santa Barbara Air Pollution Control District (District) Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program). Enclosed is our Audit Report.

We found that the Santa Barbara County Air Pollution Control District is implementing an effective and efficient Carl Moyer Program that achieves the expected emission reductions and meets State requirements. The audit resulted in two findings regarding incorrect calculation of interest earned on Carl Moyer Program funds and incorrect handling of an engine whose serial number could not be confirmed during pre-inspection. The District must follow the required actions identified in the Audit Report to address these findings. In addition, the audit also recommends that the District consolidate the databases used to track the Carl Moyer Program.

Per the ARB Carl Moyer Program auditing policies and procedures, the District has 30 days from the date of this letter to submit comments. After that, ARB's audit report and your written responses will be posted on ARB's and the Governor's websites. We encourage you to make this information public within the District.



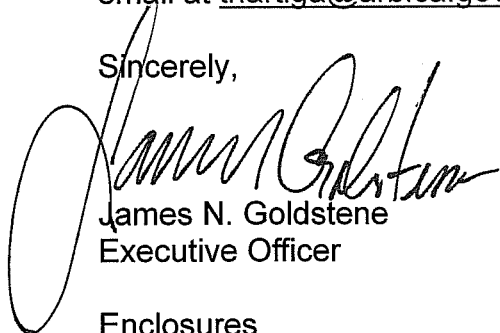
The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

Mr. Dressler
May 26, 2010
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I congratulate you and your staff on your performance. If you have any questions about the audit, please contact Charles Kersey, Manager, at (916) 322-6922 or via email at ckersey@arb.ca.gov, or Tim Hartigan, Air Pollution Specialist, at (916) 324-0202 or via email at thartiga@arb.ca.gov.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "James N. Goldstene".

James N. Goldstene
Executive Officer

Enclosures

cc: Charles Kersey, Manager
Incentives Oversight Section

Tim Hartigan
Air Pollution Specialist
Incentives Oversight Section

Carl Moyer Memorial Air Quality Standards Attainment Program

AUDIT REPORT

Santa Barbara County Air Pollution Control District Fiscal Years 2005/2006 – 2008/2009

**Prepared by: Mobile Source Control Division, Incentives Oversight Section
Air Resources Board**

May, 2010

Acknowledgements

The Air Resources Board (ARB) audit team thanks the participating Santa Barbara County Air Pollution Control District management and staff: Terry Dressler, Air Pollution Control Officer, Ron Tan, Planning and Technology Supervisor, and Don Kendig, Business Manager

The ARB staff included:

ARB management: Robert Cross, Scott Rowland, and Charles Kersey;

ARB Carl Moyer Program audit team: Chuck Bennett, John Ellis, Gerald Grauman, Tim Hartigan (audit lead), Liz Ota, and Robin Myers.

ARB Carl Moyer Program District liaison: Laura Zarembo-Schmidt

Introduction

As part of the Air Resources Board's (ARB) ongoing review of the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program or CMP), ARB staff audited the Santa Barbara County Air Pollution Control District's (Santa Barbara County APCD or District) implementation of the CMP. The audit began with an entrance interview held on October 20, 2010, at the District and was conducted in accordance with ARB's Audit Policies and Procedures viewable at the ARB website: <http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>.

The Carl Moyer Program is a voluntary grant program that funds the extra capital cost of cleaner than required vehicles and equipment in order to reduce air pollution. The Carl Moyer Program is implemented through a partnership between ARB and California's 35 local air districts. ARB distributes state funds to local districts, develops statewide guidelines, and conducts periodic oversight. Air districts select and fund clean air projects in their areas that meet the requirements of the Health and Safety Code and the statewide guidelines. Districts also provide local match funds and resources to administer the Program.

The audit reviewed program fundamentals, examined the use of public funds, and assessed whether emission reductions achieved from funded projects were real, quantifiable, enforceable, and surplus. ARB conducted the audit per the oversight responsibility specified in Health and Safety Code section 44291(d). Audit findings and recommendations were presented during an exit teleconference held with the District on February 4, 2010.

1. Overall Assessment

ARB found that the District's Carl Moyer Program is effective and well-run. The program goals are being met and the program is achieving the emission reductions intended. The audit resulted in two findings: the District incorrectly calculated and applied interest and administration fees and they did not follow CMP Guidelines for a baseline engine whose serial number could not be confirmed during pre-inspection. ARB also recommends that the District consolidate the multiple databases it uses to track and manage the Carl Moyer Program.

2. Scope of the Audit:

The scope of the audit covered the District's implementation of the Carl Moyer Program over 2 closed funding cycles, Year 8 (2005/06) and Year 9 (2006/07), and 2 open funding cycles, Year 10 (2007/08) and Year 11 (2008/09). The District accepted more than the minimum allocation and agreed to provide match funding during each of these funding cycles. Table 1 lists project and administration funding amounts the District received from the CMP and the District's match funding commitment over the scope of the audit.

Table 1: Santa Barbara County APCD Programs and Funds

FY	Program	Project	Administration	Total Grant	Matching Funds	Total
2005/06	CMP	\$725,849	\$16,802	\$742,651	\$113,912	\$856,563
2006/07	CMP	\$666,985	\$74,110	\$741,095	\$102,746	\$843,841
2007/08	CMP	\$618,967	\$68,774	\$687,741	\$106,133	\$793,874
2008/09	CMP	\$549,717	\$61,080	\$610,797	\$108,760	\$719,557

Note: Interest earned by the District on Carl Moyer Program balances is not included in the table.

3. Projects Selected for Audit Review and Inspection

Funding sources used by the District over the scope of the audit included the Carl Moyer Program, interest earned on Carl Moyer Program funds held at the District, and AB923 Motor Vehicle Fees. Project categories included on-road, off-road, marine, agricultural, and Car Scrap (the District's Old Car Buy Back program) sources. Table 2 summarizes the source categories and number of projects funded by the District over the scope of the audit. Note that funding cycle CMP Year 10 (2007/08) is open as of this report, so additional projects may be added prior to its close on June 30, 2010.

Table 2: Santa Barbara County APCD Carl Moyer Program Projects*

Fund Source	Source Category	CMP Year 8 2005/06	CMP Year 9 2006/07	CMP Year 10 2007/08	Total
CMP	On-road	1	1	7	9
	Off-road	3	5	-	8
	Marine	11	5	6	22
	Agriculture	1	5	11	17
	Car Scrap	162	111	-	273
Match	Car Scrap	114	104	-	218
CMP Interest	Car Scrap	12	-	-	12
Total		304	231	24	559

*CMP Year 11 (2008-09) project data was not available at the time this table was created.

Nine projects were selected for audit file review, 4 projects were selected for on-site inspections, and 1 dismantler was selected for an on-site demonstration of the District's Old Car Buy Back Program. Table 3 provides a list of project files reviewed or inspected by the audit team.

Table 3: List of Projects Reviewed and/or Inspected

Project Name	Project Number	Funding Cycle	Funding Source	Source Category	Funded Amount	File Review Or Inspection
1. Williams	AP050618	Year 8	CMP	On-Road	\$40,700	Review
2. Lebeck "Kono"	AP050622	Year 8	CMP	Marine	\$49,000	Review
3. Celite Excavator	AP050625	Year 8	CMP	Off-Road	\$68,951	Review
4. Trincherro	AP050630	Year 8	CMP	Ag Pump	\$23,985	Review
5. Union Asphalt	AP060701	Year 9	CMP	Off-Road	\$145,293	Review
6. Diamond	AP070803	Year 9	CMP	Off-Road	\$13,000	Review
7. Marborg Solid Waste Collection Vehicle	AP080907	Year 10	CMP	On-Road	\$25,600	Review
8. Grimmway Hub Russ Ranch	AP080912	Year 10	CMP	Ag Pump	\$138,237	Review and Inspection
9. Santa Barbara County Refuse Truck	AP080914	Year 10	CMP	On-Road	\$4,500	Review
10. Allied Waste CNG Solid Waste Collection Vehicles	AP080906	Year 10	CMP	On-Road	\$24,600	Inspection
11. UC Santa Barbara Marine Vessel Cormorant	AP080908	Year 10	CMP	Marine	\$22,900	Inspection
12. Celite Water Truck	AP060708	Year 9	CMP	Off-Road	\$99,000	Inspection
13. Steelhead Recyclers	Multiple	Year 8 Year 9	CMP Interest/ 923 Matching funds	Car Scrap	n/a*	Inspection

*This was an inspection of a participating recycling yard, not a specific project, no single value is appropriate.

4. Audit Findings

“Findings” are a District’s practices found inconsistent with 1 or more of the following:

- State requirements under Health and Safety Code sections 44275 through 44299.2
- Carl Moyer Program Guidelines (2005 and newer versions) (<http://www.arb.ca.gov/msprog/moyer/guidelines/current.htm>).
- Carl Moyer Program advisories and/or Mail-outs
- Carl Moyer Program Grant Award and Authorization requirements
- District’s policies and procedures and forms, including contracts with the engine owners/grant recipients

“Conditions” are detailed descriptions of the District’s practices revealed by the audit.

“Required Actions” are the minimum actions the District must take to mitigate the findings. Table 4 describes audit findings, conditions, references, and specific District actions required by ARB to mitigate the findings.

Table 4: Findings, Conditions, and Required Actions

Finding 1	Incorrect calculation and application of interest earned on Carl Moyer Program balances and administration fees	Required Actions
Condition	<p>The 2005 Carl Moyer Program Guidelines¹ require the District to properly track and spend interest earned on balances of CMP funds and also limit the administration costs that a District may claim from interest earnings.</p> <p>At the beginning of the audit, the District reported to the auditors that the District’s method used to calculate interest over the scope of the audit was incorrect and that certain administration fees, based on Carl Moyer Fund balances, were incorrectly charged. ARB auditors concurred with both assessments.</p>	<p>During the course of the audit, the District, on its own initiative, recalculated interest earned on CMP balances over the funding cycles covered by the audit and rescinded the policy that charged administration fees taken on Carl Moyer Fund balances. This process identified \$20,345.37 of interest due to the District’s Carl Moyer Fund. The District anticipates applying correcting entries to its Carl Moyer Program Fund coinciding with the close of the District’s fiscal year 2009/10 books. No later than August 31, 2010, the District must provide to their ARB liaison the actual fiscal correcting entries made.</p> <p>On March 25, 2010, ARB approved changes to the 2008 Carl Moyer Program Guidelines for earned interest reporting and tracking, see Attachment A, pages 28 through 32. The District must report in the 2010 Yearly Report all CMP interest held on June 30, 2010, including the newly identified interest amount. The District has the option of remitting this interest to ARB and/or spending it on eligible CMP projects and administration within the CMP Year 13 (2010/11) funding cycle (expenditure deadline: June 30, 2013).</p>

¹ 2005 Guidelines Program Administration, page II-18

Finding 2	Incorrect handling of one project whose baseline engine's serial number could not be confirmed during pre-inspection	Required Actions
Condition	<p>In a repower project reviewed (Union Asphalt AP060701), the District did not follow the 2005 Carl Moyer Program Guidelines² which require the District to stamp the baseline engine block and/or witness its removal and destruction when the pre-inspection cannot confirm the engine's serial number. As a result, the engine that was destroyed cannot be verified as the actual baseline engine.</p> <p>² 2005 Guidelines D. Project Criteria page II-31</p>	<p>No mitigation for this issue is possible.</p> <p>The District should continue to follow its more recent District Policies and Procedures that are aligned to CMP Guidelines requirements to ensure this issue does not reoccur.</p>

5. Recommendations

Recommendations are suggestions to help the District improve its Carl Moyer Program. Table 5 describes steps the District should consider taking to improve its implementation of the Carl Moyer Program.

Table 5: Audit Recommendations

Recommendation 1: Consolidate databases used to track Carl Moyer Program projects
<p>The District uses multiple legacy databases to track and manage their Carl Moyer Program projects. The District should consolidate these databases to lessen repetitive data entry and associated risk of errors.</p>

6. Resources

1. Air Resources Board Carl Moyer Program Website
<http://www.arb.ca.gov/msprog/moyer/moyer.htm>
2. Air Resources Board Incentives Oversight Audit Website
(Includes previous reports and Audit Policies and Procedures)
<http://www.arb.ca.gov/msprog/moyer/audits/audits.htm>
3. Proposed Carl Moyer Program Guidelines Revisions (Attachment A to this report) posted February 8, 2010 and approved by the Air Resources Board March 25, 2010
http://www.arb.ca.gov/msprog/moyer/retooling_docs/retooling_attach3.pdf

ATTACHMENT 3 – PROPOSED REVISED LANGUAGE FOR THE 2008 CARL MOYER PROGRAM GUIDELINES

All existing language is indicated by plain type. All proposed changes are indicated by underlined text. All deletions to language are indicated by ~~strikeout~~. Only those sections containing the suggested modifications from the existing language are included. All other portions remain unchanged and are indicated by the symbol “* * * * *” for reference.

The 2008 CMP Guidelines language will be revised as follows:

ON-ROAD PROGRAM PROPOSED CHANGES

The 2008 Carl Moyer Program Guidelines language will be revised as follows:

Chapter 4: On-Road Heavy-Duty Vehicles Fleet Modernization Page IV-1. (I) Projects Eligible for Funding.

* * * * *

The following HDV fleet modernization projects are eligible for Carl Moyer Program funding. Note: the existing vehicle engine must be model year ~~1993~~2002 or older. Existing school buses may have an engine of any model year.

* * * * *

Page IV-4. (IV)(a)(8). General Criteria.

* * * * *

(8) On-road diesel-fueled heavy-duty drayage trucks are subject to the ARB Drayage Truck Regulation as described in Chapter III. No Carl Moyer Program funding opportunities are available for projects at the Ports of Long Beach or Los Angeles. For all other ports and intermodal rail yards, funding is available for replacement of trucks with an engine model year of ~~1993~~2002 or older with a truck meeting the 2007 or newer emission standards through December 31, 2010. Cost effectiveness for these projects must be based only on NOx and ROG (not PM) ~~and~~. For 1993 and older trucks, cost effectiveness calculations must use emission factors for a model year 1994 engine as the baseline. Other sources of funding that are available to replace heavy-duty drayage trucks include Proposition 1B and private funding from Port Authorities.

* * * * *

~~(f) — Funds for program outreach and administration shall be disbursed as follows:~~

- ~~(1) — If the initial disbursement is 50 percent or less of the district's total funding allocation for that year, the district shall receive 50 percent of its program administration funding for that year with the initial allocation. A district may receive the remaining 50 percent of its program administration funding when total disbursements exceed fifty percent of the districts funding allocation.~~
- ~~(2) — If the initial disbursement exceeds 50 percent of the district's funding allocation for that year, the district shall receive 100 percent of its program administration funding with its initial allocation.~~

#6 – SIMPLIFY EARNED INTEREST REPORTING AND TRACKING

**Part III, Program Administration. Part II: ARB-AIR DISTRICT INTERACTIONS. Part D: Fiscal Issues
Page 13. Section 13. Earned Interest.**

(Section 13) Earned Interest

Interest earned on Carl Moyer Program funds must be reported to ARB. The interest income must earned may either be used to fund projects that meet the current Carl Moyer Program Guidelines (including any revisions in effect at the time of contract execution) or must be returned to ARB.

* * * * *

(b) Expenditures for Carl Moyer Program Projects. All projects funded with interest must meet all current Carl Moyer Program Guidelines, including any revisions in effect at the time of contract execution.

(b)(c) Expenditures for Program Administration. A district shall follow the following minimum requirements in expending earned interest on program administration:

- ~~(1) — A district that segregates its Carl Moyer Program funds into separate accounts for program administration and Carl Moyer Program projects must use all interest earned in the project account to fund eligible Carl Moyer Program projects, and may use interest earned in the program administration account for either Carl Moyer Program administration or Carl Moyer Program projects.~~

- (2) A district that earns interest collectively on both project and administration funding can use up to five percent of earned interest on administrative expenses if the district has one million or more inhabitants and up to ten percent of earned interest on administrative expenses if the district has less than one million inhabitants.

~~(c) Expenditure of Small Sums. Residual amounts of earned interest may also be combined with Carl Moyer Program and/or earned interest from previous years to fund a single project. When combining funds from different fiscal years, the district must use the Guidelines in effect at the time of the obligation.~~

~~(d) Expenditure and Reporting Timeline. Districts typically track and report on earned interest in one of two ways—the Fiscal Year Method or the Funding Cycle Method, as illustrated in Table 4. Using the Fiscal Year Method, Carl Moyer Program Year X earned interest is that interest earned on all Carl Moyer Program funds in the fiscal year that begins in Year X (See Table 4). For the Funding Cycle Method, Year X earned interest is that interest earned on Year X Carl Moyer Program funds over the approximately two year period the district has to expend the funds. Whatever the method used to accrue and track earned interest, interest on Year X funds must be liquidated by the expenditure deadline for Year 'X+2' funds (i.e. June 30th four calendar years after Year X funding was awarded by ARB). Year X earned interest shall be reported with Year 'X+2' funds, consistent with the schedule identified in Table 4. Table 5 identifies the liquidation deadlines for interest accrued through program Year 12. Each district must indicate which method it utilizes to track and report on earned interest in its Policies and Procedures Manual.~~

Table 4: Interest Accrual, Liquidation, and Reporting Timelines for Two Commonly Used Interest Generation Methods

	Year X		Year X+1		Year X+2		Year X+3		Year X+4	
Jan										
Feb										
Mar										
Apr										
May										
June										
July										Invoices Paid
Aug										Final Report
Sep										
Oct										
Nov										
Dec										

Assumes Year X funds received from ARB on April 1 of first year.



Fiscal Year Method (interest earned on all Carl Moyer Program funds)



Funding Cycle Method (interest earned on Year X Carl Moyer Program funds)

Table 5:

Liquidation Deadlines for Earned Interest

Fiscal Year	Liquidation Deadline
Years 1-7	June 30, 2009
Year 8 (FY 2005-06)	June 30, 2010
Year 9 (FY 2006-07)	June 30, 2011
Year 10 (FY 2007-08)	June 30, 2012
Year 11 (FY 2008-09)	June 30, 2013
Year 12 (FY 2009-10)	June 30, 2014

Districts must also report on interest expended as of June 30, 2008 with their Year 8 Final Report (due August 31, 2008). There is no earned interest expenditure requirement or deadline for this report.

(e)(d) Reporting Requirements. Each district shall report interest earned on Final in Yearly Reports to ARB using the format provided by ARB on the schedules identified in Tables 4 and 5.

- (1) Districts must report on projects funded with earned interest the same way districts report on Carl Moyer Program-funded projects (i.e., by entering projects in the CARL and in their Annual and Final

Yearly Reports). Any interest-funded project not reported to ARB prior to the 2010 Yearly Report must be reported via CARL. For the 2010 Yearly Report, interest-funded projects that have already been reported to ARB via spreadsheet do not need to be reported again via CARL. For such projects, districts must provide a list that includes project name, project number, amount of interest liquidated, and date (year) liquidated.

- (2) Documentation of earned interest generation and expenditure must be retained for a minimum of the project life plus two years, contract term plus two years, or date of final project invoice payment plus three years, whichever is longer.
- (3) In the 2010 Yearly Report, for the period of July 1, 1998 through June 30, 2010, districts must report interest earned on Carl Moyer Program, Rural District Assistance Program, and Multidistrict fund balances by listing the following:
 - (A) Earned interest that was liquidated on Carl Moyer Program projects.
 - (B) Earned interest that was expended on Carl Moyer Program administration.
 - (C) Balance of earned interest held by the district on June 30, 2010, including those interest funds committed to projects but not yet liquidated.
- (4) For the balance of earned interest held on June 30, 2010 [13(d)(3)(C) above], a district will have the following options:
 - (A) Spending that amount on Carl Moyer Program projects and administration [consistent with 13(c) above] on the same schedule and with the same requirements as the district's Year 13 Carl Moyer Program grant award. For reporting purposes, such interest funds will be added to other Carl Moyer Program funds and will thus be counted in the cumulative contract execution and fund expenditure targets tracked by CARL. The targets will be adjusted to take into account interest used to pay for administrative costs. Projects funded by such interest will be counted toward meeting those targets.

or

(B) Alternatively, such unspent interest may be returned to the ARB by October 31, 2010.

or

(C) A combination of (A) and (B).

- (5) Beginning with the 2011 Yearly report (due on August 31, 2011), and for each Yearly Report thereafter, districts will report interest earned during the previous fiscal year (July 1 through June 30). The District may choose either to return the interest to ARB by October 31 of the same year as the relevant Yearly Report or add the earned interest to the next funding cycle. For example, interest earned during fiscal year 2010-2011 (Moyer Year 13) could be returned by October 31, 2011, or placed under contract and expended on the same schedule (and with the same requirements) as other 2011-2012, Moyer Year 14 funds. A portion of such interest funds may also be spent on administration consistent with 13(c) above. For reporting purposes, such interest funds will be added to other Carl Moyer Program funds and will thus be counted in the cumulative contract execution and fund expenditure targets tracked by CARL. Projects funded by such interest will be counted toward meeting those targets. The targets will be adjusted to take into account interest used to pay for administrative costs.

#7 – STREAMLINE DISTRICT REPORTING REQUIREMENTS

**Part III, Program Administration. Part II: ARB-AIR DISTRICT INTERACTIONS. Part E: Reporting and Progress Tracking.
Page 18. Section 17. Annual Report.**

(Section 17) Annual Report Yearly Report

NOTE: Section 19 has been combined with a revised Section 17- for information and requirements regarding the Yearly Report refer to this revised section. Items (d), (f), (g) and (h) were moved from Section 19 to Section 17.

- (a) ARB shall send districts a copy of the appropriate Annual Yearly Report template to fill out, or make the report template available on ARB's website. The Annual Yearly Report template shall include instructions for the report's completion.
- (b) Districts shall submit an Annual the Yearly Report on or before August 31st of the year following each funding cycle's allocation from ARB (See Table 6). This report shall provide information regarding projects associated with funds