



Transmitted via e-mail

December 5, 2012

Mr. Michael J. Villegas, Air Pollution Control Officer
Ventura County Air Pollution Control District
669 County Square Drive, Second Floor
Ventura, CA 93003-5417

Dear Mr. Villegas:

Final Report—Ventura County Air Pollution Control District, Fiscal Compliance Audit of Carl Moyer, Lower-Emission School Bus, and Air Quality Improvement Programs

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Ventura County Air Pollution Control District's (District) Carl Moyer, Lower-Emission School Bus, and Air Quality Improvement programs for the period July 1, 2007 through March 31, 2012.

The enclosed report is for your information and use. Because there were no audit observations or issues requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. Scott Rowland, Chief, On-Road Controls Regulations Branch, California Air Resources Board
Mr. Doug Thompson, Manager, Incentives Oversight Section, California Air Resources Board
Ms. Yvonne Sanchez, Air Resources Engineer, Mobile Source Control Division, California Air Resources Board
Ms. Nancy Mendoza, Manager, Fiscal and Administrative Services, Ventura County Air Pollution Control District
Ms. Leonila Macaraeg, Fiscal Officer, Ventura County Air Pollution Control District
Mr. Chris Frank, Supervising Air Quality Engineer, Ventura County Air Pollution Control District
Mr. Stan Cowen, Supervising Air Quality Engineer, Ventura County Air Pollution Control District
Mr. Kenneth Koyama, Executive Director, California Air Pollution Control Officers Association

AUDIT REPORT

Ventura County Air Pollution Control District
Carl Moyer Program
Lower-Emission School Bus Program
Air Quality Improvement Program

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

MEMBERS OF THE TEAM

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

You can contact our office at:

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BACKGROUND, SCOPE METHODOLOGY AND RESULTS

BACKGROUND

The Ventura County Air Pollution Control District (District) was formed in 1968, in response to the County's first air pollution study. The District's mission is to protect the public health and agriculture from the adverse effects of air pollution by identifying air pollution problems and developing a comprehensive program to achieve and maintain state and federal air quality standards.¹ The District shares responsibility with the California Air Resources Board (Board) for ensuring state and federal air quality standards are achieved and maintained. The District receives grants, guidance, and oversight from the Board for the Carl Moyer Program (CMP), Lower-Emission School Bus Program (LESBP), and Air Quality Improvement Program (AQIP).

The CMP's objective is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment. Public or private entities that operate eligible engines or equipment participate by applying for a grant. Eligible projects include cleaner on-road, off-road, marine, locomotive, and agricultural sources. The Multi-District portion of the CMP provides incremental cost funding for projects operating in more than one local air district. The Board allows cumulative tracking of CMP expenditures, regardless of the funding cycle year, to determine whether an air district has expended the required amount by each grant expenditure deadline and to ensure anticipated emission reductions are achieved. In its first 12 years, the CMP provided over \$680 million in state and local funds to clean-up over 24,000 engines.² The Board awarded \$6,507,865 to the District during the fiscal year 2007-08 through 2010-11 funding cycles.

The primary goal of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this goal by funding the replacement of older, high-polluting school buses with new buses, and the installation of Board-approved pollution control devices on diesel school bus engines. As of December 2011, the Board awarded nearly all of the LESBP available grant funding, including \$5,068,913 to the District.³

The AQIP is a voluntary incentive program to fund clean vehicle and equipment projects, research on biofuels production and the air quality impacts of alternative fuels, and workforce training. The AQIP uses multiple types of projects to achieve program goals. The District receives funding for the Lawn and Garden Equipment Replacement (LGER) Project. The Board awarded \$2.6 million in funding for the LGER Project, including \$50,000 to the District.⁴

¹ Ventura County Air Pollution Control District website, www.vcapcd.org.

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

³ Ibid.

⁴ Ibid.

The Board advances CMP, LESBP, and AQIP funds to the local air districts. Interest income from these advanced funds must be tracked, reported to the Board, and used to fund projects that meet the respective program guidelines. The local air districts are required to account for interest income.⁵

SCOPE

In accordance with an interagency agreement with the Board, the Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of the District's CMP, LESBP, and AQIP incentive grant funds for the period July 1, 2007 through March 31, 2012.

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

- The amount of grant funds awarded, the grant program and administrative funds expended within and after the grant period, and the remaining award amounts at March 31, 2012.
- The match funding requirement, the matching funds expended within the grant period, and any remaining match requirements at March 31, 2012.
- The amount of interest revenue earned on grant funds, the amount of interest revenue expended, and the interest balance as of March 31, 2012.
- Whether the grant expenditures complied with applicable laws, regulations, grant agreements, and Board program guidelines.
- Whether grant revenues and expenditures were recorded accurately in the District's accounting system and Board grant reporting databases.

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

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and Board requirements. The Board is responsible for the state-level administration of the incentive grant programs.

METHODOLOGY

To complete this audit, we performed the following procedures:

- Interviewed key personnel, reviewed policies and procedures, and reviewed information systems documentation to obtain an understanding of the programs and internal controls over relevant information systems and accounting processes.
- Reviewed the programs' grant award agreements and reviewed the Board's program guidelines and applicable Health and Safety Code sections to determine the District's fiscal compliance requirements regarding the incentive grants being audited.
- Compiled schedules to summarize CMP, LESBP, and AQIP project, match, administration, and interest grant funds activity for the period July 1, 2007 through March 31, 2012 from District accounting and project records, including the District general ledger, Board grant database reports, District administrative cost documentation, and District interest earnings documentation.

⁵ Ibid.

- Selected a sample of CMP, LESBP, and AQIP project and match expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported, and properly recorded, by tracing to District general ledgers, vendor invoices, payroll records, check disbursement information, and project file documentation.
- Analyzed District administrative cost documentation to determine whether administrative costs were accurately calculated, recorded, and adequately supported.
- Analyzed District interest earnings and disbursement supporting documentation to determine whether interest earnings were accurately allocated to the various programs using a reasonable allocation methodology applied consistently.
- Selected a sample of program award receipts and traced to accounting records and treasury deposit slips to verify amount of program award revenue received, and determined the timeliness of the deposit of funds and accuracy of recording in the accounting records.
- Selected a sample of CMP projects and conducted site visits to verify sub-recipients' records agreed with the District's records and sub-recipients were reimbursed for eligible costs.
- Compared amounts reported in the District's general ledger to amounts in the Board's grant reporting databases to determine if accounting and program records reconcile.

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

RESULTS

The results of the audit are based on our review of documents, other information made available to us, site visits, and interviews with staff directly responsible for administering incentive grant programs. Based on the procedures performed, the District's grant expenditures related to the CMP, LESBP, and AQIP for the period July 1, 2007 through March 31, 2012, complied with applicable laws, regulations, grant agreements, and Board program guidelines. Grant revenues and expenditures were accurately recorded in the District's accounting system and the Board's grant reporting databases. No observations or questioned costs were identified.

INCENTIVE GRANT FUNDS SCHEDULES

Our audit included reviewing the Carl Moyer Program (CMP) regular, multi-district, administration, match, and earned interest funds; Lower-Emission School Bus Program (LESBP) project, administration, match, and earned interest funds; and Air Quality Improvement Program (AQIP) project, administration, match, and earned interest funds. Schedules detailing the revenues and expenditures during the CMP years 10 through 13, LESBP program year 2007-08, and AQIP program year 2009-10 are illustrated in the following schedules.

Schedules 1 through 4 illustrate the CMP regular and multi-district project, administration, match, and earned interest funds grant activity through March 31, 2012.

Schedule 1: CMP Regular and Multi-District Project Awards and Expenditures

CMP Year	Fiscal Year of Award	Award Amount	Expenditures Within Grant Period ¹	Balance as of March 31, 2012
10	2007-08	\$1,709,154	\$1,709,154	\$ 0
11	2008-09	1,479,193	1,479,193	0
11 Multi-District	2008-09	214,950	214,950	0
12	2009-10	1,263,865	1,147,081	116,784
13	2010-11	1,189,916	967,284	222,632

(1) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

Schedule 2: CMP Administration Awards and Expenditures

CMP Year	Fiscal Year of Award	Administration Award Amount	Expenditures Within Grant Period ²	Balance as of March 31, 2012
10	2007-08	\$ 189,906	\$ 189,906	\$ 0
11	2008-09	164,355	164,355	0
11 Multi-District	2008-09	23,883	23,883	0
12	2009-10	140,430	140,430	0
13	2010-11	132,213	132,213	0

(2) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

Schedule 3: CMP Match Requirements and Expenditures

CMP Year	Fiscal Year of Award	Required District Match	Match Expenditures Within Grant Period ³	Remaining Match Requirement as of March 31, 2012
10	2007-08	\$ 293,065	\$ 293,065	\$ 0
11	2008-09	292,655	292,655	0
12	2009-10	210,664	210,664	0
13	2010-11	198,319	198,319	0

(3) Year 10 grant period ended June 30, 2010; Year 11 grant period ended June 30, 2011; Year 12 grant period ends June 30, 2012; Year 13 grant period ends June 30, 2013.

Schedule 4: CMP Earned and Expended Interest

Fiscal Year	Beginning Balance	Interest Earned	Interest Expenditures ⁴	Balance at Fiscal Year End
2007-08	\$ 107,420	\$ 67,008	\$ 106,000	\$ 68,428
2008-09	68,428	19,834	0	88,262
2009-10	88,262	35,197	0	123,459
2010-11	123,459	8,468	0	131,927
7/1/11-3/31/12	131,927	4,755	132,700	3,982

(4) The Air Resources Board established interest expenditure deadlines in 2010 for the remaining balance as of June 30, 2010 to be expended by June 30, 2013; interest earned during fiscal year (FY) 2010-11 to be expended by June 30, 2014; and interest earned during FY 2011-12 to be expended by June 30, 2015.

Schedules 5 through 7 present LESBP project, administration, match, and earned interest funds grant activity through March 31, 2012.

Schedule 5: LESBP Project and Administration Funds

Grant Award	Fiscal Year of Award	Project Award Amount	Administrative Award Amount	Expenditures Within Grant Period ⁵	Balance as of March 31, 2012
G07-SB034	2007-08	\$4,879,448		\$4,799,841	\$79,607
			\$189,464	144,769	44,695

(5) The G07-SB034 grant period ends June 30, 2012.

Schedule 6: LESBP Match Requirements and Expenditures

Grant Award	Fiscal Year of Award	Buses Replaced Requiring Match ⁶	Funding Source	Match Expenditures as of March 31, 2012 ⁷
G07-SB034	2007-08	26	School Districts and \$2 Department of Motor Vehicle Fees	\$650,000

(6) Air Resources Board's LESBP guidelines require a match amount of \$25,000 for each replacement of a model year 1977-1986 bus.

(7) The G07-SB034 grant period ends June 30, 2012.

Schedule 7: LESBP Earned and Expended Interest

Fiscal Year	Beginning Balance	Interest Earned	Interest Expenditures Within Grant Period ⁸	Balance as of March 31, 2012
2007-08	\$ 0	\$56,047	\$ 0	\$56,047

(8) The G07-SB034 grant period ends June 30, 2012.

Schedules 8 and 9 present the AQIP project, administration, match, and earned interest funds grant activity through March 31, 2012.

Schedule 8: AQIP Project, Administration, and Match Funds

Grant Award	Fiscal Year	Project Award Amount	Administration Award Amount	Required District Match	Expenditures Within Grant Period ⁹	Balance as of March 31, 2012
G09-AQIP-10	2009-10	\$45,000			\$45,000	\$ 0
			\$5,000		5,000	0
				\$50,000	50,000	0

(9) The G09-AQIP-10 grant period ends June 30, 2012.

Schedule 9: AQIP Earned and Expended Interest

Fiscal Year	Beginning Balance	Interest Earned	Interest Expenditures Within Grant Period ¹⁰	Interest Returned to Air Resources Board	Balance at March 31, 2012
2009-10	\$ 0	\$ 235	\$ 0	\$ 235	\$ 0

(10) The G09-AQIP-10 grant period ends June 30, 2012.