



Transmitted via e-mail

December 30, 2016

Mr. Larry Greene, Air Pollution Control Officer
Sacramento Metropolitan Air Quality Management District
777 12th Street, Suite 3
Sacramento, CA 95814

Dear Mr. Green:

Final Report—Sacramento Metropolitan Air Quality Management District, Fiscal Compliance Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Sacramento Metropolitan Air Quality Management District's (Sac Metro) Incentive Fund Activity Schedules for the period July 1, 2007 through June 30, 2014. Our audit included the following programs:

- Carl Moyer Memorial Air Quality Standards Attainment Program
- Lower-Emission School Bus Program
- Goods Movement Emission Reduction Program
- Air Quality Improvement Program

The enclosed report is for your information and use. Because there are no findings 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 Sac Metro. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Tim Taylor, Division Manager, Mobile Source, Sacramento Metropolitan Air Quality Management District
Ms. Jamille Moens, Division Manager, Administration, Sacramento Metropolitan Air Quality Management District
Mr. Scott Rowland, Chief, Mobile Source Control Division, California Air Resources Board
Mr. Doug Thompson, Manager, Incentives Oversight Section, California Air Resources Board
Ms. Yvonne Sanchez, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Mr. Alan Abbs, Executive Director, California Air Pollution Control Officers Association

Sacramento Metropolitan Air Quality Management District Incentive Programs



Sacramento, California
Source: www.airquality.org

Prepared By:
Office of State Audits and Evaluations
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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 California Air Resources Board (ARB) administers the state level incentive program funds. The program objective is to reduce emissions from on- and off-road vehicles and equipment. Vehicle and equipment owners apply for funds through their local Air Quality Management District or Air Pollution Control Districts (Air District). While ARB is responsible for program oversight, the Air Districts implement the incentive programs.

The Sacramento Metropolitan Air Quality Management District (Sac Metro) is one of 35 Air Districts partnering with the ARB to improve air quality through implementing ARB's emission reduction incentive programs. Sac Metro shares responsibility with ARB for ensuring state air quality standards are achieved and maintained, and receives incentive program funds through ARB grants. The grants provide funding to replace or retrofit low emission vehicle or equipment and requires Air Districts to follow ARB guidelines for implementing the programs.

Incentive Programs

| | |
|--------------------------|---|
| CMP¹ | The Carl Moyer Program's (CMP) 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 operating eligible engines or equipment within Sac Metro's jurisdiction participate by applying to Sac Metro for a grant. Examples of eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units. The District was responsible for administering \$23 million in CMP funds. |
| LESBP² | The Lower-Emission School Bus Program (LESBP) is funded by \$200 million from Proposition 1B Bond funds. The LESBP's purpose is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement and Retrofit Program. The Replacement Program funds the replacement of older high-polluting school buses with new low emission buses. The Retrofit Program funds the installation of Board-approved pollution control devices on diesel school bus engines. The District received \$19 million of LESBP funds. |
| GMERP³ | The Goods Movement Emission Reduction Program (GMERP) is funded by \$1 billion from Proposition 1B Bond funds. The objective of the GMERP is to reduce air pollution emissions and health risks from freight movement along California's trade corridors. Air Districts apply to ARB for funding, and then use the award to offer financial incentives to owners of equipment used in freight movement to upgrade to cleaner technologies. Projects funded under this program must achieve early or extra emission reductions not otherwise required by law or regulation. The District received \$39 million of GMERP funds. |
| AQIP⁴ | The Air Quality Improvement Program (AQIP) was established by the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007. It is a voluntary incentive program administered by ARB. The program focuses on funding clean vehicle and equipment projects, research on biofuels production and the air quality impacts of alternative fuels, and workforce training. The District received \$502,865 of AQIP funds. |

For purposes of this report, the term *incentive programs* refer to the four programs described above.

¹ Carl Moyer Program Guidelines, version 2011

² Lower-Emission School Bus Program Guidelines, version 2008

³ Goods Movement Emission Reduction Program Guidelines, version 2011

⁴ Air Quality Improvement Program Guidelines, version 2009

SCOPE

In accordance with an interagency agreement with ARB, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a fiscal compliance audit of Sac Metro's incentive programs. Specifically, we focused on grants awarded during the fiscal years shown below.

| Incentive Program | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-------------------|---------|---------|---------|---------|---------|---------|---------|
| CMP | | | • | • | • | • | • |
| LESBP | • | | | | | | |
| GMERP | • | • | | | • | | • |
| AQIP | | | • | | | | |

The Incentive Fund Activity Schedules (Schedules), presented in Appendix A, detail the grant revenue and expenditures incurred during the period July 1, 2007 through June 30, 2014.

The audit objective was to determine whether the grant revenues, expenditures, and resulting balances complied with applicable program guidelines, grant agreements, state laws and regulations, and accounting principles generally accepted in the United States. We did not assess the efficiency or effectiveness of program operations.

Sac Metro's management is responsible for ensuring accurate fiscal reporting and preparation of the Schedules; and compliance with ARB's grant requirements and program guidelines, applicable state and federal laws and regulations, and accounting principles generally accepted in the United States. Sac Metro and ARB are responsible for the state and local level administration of the incentive programs.

METHODOLOGY

To achieve the audit objective, we performed the following procedures:

- Reviewed the program guidelines, grant agreements, applicable state laws and regulations, and accounting principles, to identify significant fiscal compliance requirements.
 - Obtained the Schedules for each incentive program and performed data-set verification to ensure completeness and accuracy by tracing a sample of transactions to supporting documentation, such as the general ledger, project expenditure reports, administration cost allocation sub-ledgers, and interest earnings allocation sub-ledgers.
 - For subvention revenues, traced the grant awards from the Schedules to the general ledger to ensure grant funds were accurately recorded.
 - For recaptured revenue, randomly selected a sample of recaptured revenues across all incentive programs to determine if project recaptures traced and agreed to accounting records received by reviewing reimbursement checks received and recorded within the audit period.
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- For expenditures, randomly selected a sample of expenditures across all incentive programs, including match expenditures, to determine if costs were grant-related, incurred within the audit period, supported by vendor invoices, and properly recorded in the general ledger, check disbursement ledger, and project files.
- Tested administrative costs to determine if they were accurately recorded and adequately supported.
- Traced and reviewed interest earnings from earnings statements to allocation worksheets to determine if interest earnings were accurately and reasonably allocated to the various programs and properly recorded in the correct account.

In planning our audit, we obtained an understanding of Sac Metro's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. We did not identify any deficiencies in internal control during our audit to be significant within the context of our audit objectives.

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

Based on the procedures performed, Sac Metro's grant revenues, expenditures, and resulting balances, included herein, are in compliance with applicable laws, regulations, grant agreements, guidelines, and accounting principles generally accepted in the United States.

APPENDIX A
INCENTIVE PROGRAM
FUND BALANCE SCHEDULES

Schedule of Revenues, Expenses, and Changes in Fund Balance
for period ended June 30, 2014

| Transaction Class | Carl Moyer Memorial Air Quality Attainment Program ¹ | Lower- Emission School Bus Program ² | Goods Movement Emission Reduction program ⁶ | Air Quality Improvement Program ⁵ |
|------------------------------------|---|--|--|--|
| Revenues | | | | |
| Subventions..... | \$ 23,100,790 | \$ 19,194,828 | \$ 38,560,421 | \$ 502,865 |
| Interest..... | 191,307 | 153,890 | 103,711 | - |
| Recaptured..... | 1,189,265 | 965 | 171,358 | - |
| Total Revenues..... | \$ 24,481,362 | \$ 19,349,683 | \$ 38,835,490 | \$ 502,865 |
| Expenses | | | | |
| District Projects..... | \$ 28,796,682 | \$ 18,554,849 | \$ 21,873,216 | \$ 478,335 |
| Multi-District Projects..... | 6,745,530 | - | - | - |
| Administration..... | 1,212,811 | 794,834 | 1,211,990 | 24,530 |
| Total Expenses..... | \$ 36,755,023 | \$ 19,349,683 | \$ 23,085,206 | \$ 502,865 |
| Revenues over Expenses... | \$ (12,273,661) | \$ - | \$ 15,750,284 | \$ - |
| Adjustments | | | | |
| Expired Subventions..... | - | - | (70,059) | - |
| Returned Subventions..... | - | - | (752,053) | - |
| Net Changes..... | \$ (12,273,661) | \$ - | \$ 14,928,172 | \$ - |
| Beginning Fund Balance..... | 17,681,156 | - | - | - |
| Ending Fund Balance..... | \$ 5,407,495 | \$ - | \$ 14,928,172 | \$ - |
| Restricted Fund Balance | | | | |
| Projects..... | \$ 5,116,906 | \$ - | \$ 14,688,931 | \$ - |
| Administration..... | 290,589 | - | 239,241 | - |
| Ending Fund Balance.... | \$ 5,407,495 | \$ - | \$ 14,928,172 | \$ - |

¹ For period beginning July 1, 2009.

² For period beginning July 1, 2008.