

February 8, 2019

Ms. Lynda McCallum, Partner
Sjoberg Evashenk Consulting, Inc.
455 Capitol Mall, Suite 700
Sacramento, California 95814

RE: Response to California Air Resources Board "Supplemental Environmental Projects Performance Audit"

Dear Ms. McCallum:

Thank you for completing the audit of the California Air Resources Board's (CARB) legacy supplemental environmental projects (SEP) as requested by CARB and in accordance with CARB's contract #17ED006. As you know, per our direction, the audit focused on three long-standing SEPs that CARB is in the process of closing and that were implemented prior to a new SEP program initiated in June 2017. The purpose for the audit was to assess whether funds allocated to these three long-standing SEPs were spent appropriately and to review accounting and project management procedures to develop lessons learned to apply to the updated SEP program.

Overall, the audit found that while program expenses appear to be consistent with the program objectives, CARB had not established an adequate and consistent system of controls necessary to hold recipients accountable for program implementation, especially in SEPs managed by the Enforcement Division (ED). These findings are important and are being addressed.

In June 2017, CARB halted additional payments, and began the process to close out the three long-standing SEPs that were the focus of the audit: the California Council for Diesel Education and Training, the Small Engine, and the School Bus SEP. During the same period, CARB implemented the new SEP program that was considered by the CARB board at a public hearing. Many of the procedures put into effect in the new SEP program address audit findings associated with the older program.

In the new program, CARB solicits project proposals, requiring a complete scope of work, budget, and implementation timelines. CARB also established internal

procedures for the selection of SEPs as eligible for funding, for the management and tracking of SEPs throughout funding and implementation, and for the guidance for SEP Administrators and funding recipients receiving, disbursing, transferring, or expending SEP funds. Each SEP defines clear goals, and a framework to measure outcomes and performance in meeting those goals. Further, SEPs that are approved for funding are posted on CARB's webpage to provide transparency for the public. In October 2018, CARB established a process to maintain a central and comprehensive universe of settlement agreement information and a process to periodically perform site visits to SEP administrators and funding recipients to spot check and inspect SEP activities.

Thus, CARB has already acted on several of the audit recommendations. However, other recommendations will take longer to address. Staff is developing a designed a schedule to implement each of these recommendations.

The audit proposes CARB establish new broad programmatic goals for the SEP program, and that staff track metrics to determine how these goals are being addressed over time. These goals are under development, and aim to reduce emissions, in support of CARB's mission to improve air quality. Examples of projects selected thus far for the SEP program include air filtration systems in schools, mobile asthma outreach to provide treatment to school age children and to educate impacted families, education on vehicle idling requirement in communities including no idling signs, and other projects that community members have developed to achieve air quality benefits and education.

The audit recommends staff implement improved procedures that will allow us to better track payments to, and expenditures from, each SEP. In response, staff is implementing new accounting procedures to address this recommendation; new processes should be fully implemented within the next several months.


The audit also calls for more formalized agreements between each SEP recipient and CARB. New legal templates, contractual requirements, and guidance will be developed and implemented over the next six months. New SEP recipients will be held to these higher standards going forward.

The attached matrix is a response to the audit findings and recommendations. The matrix outlines the findings and recommendations that have been addressed as well as timelines for CARBs next steps.

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Thank you again for your diligent and comprehensive audit of our legacy SEP program. We appreciate your efforts to help us to identify areas for improvement and to establish a robust, effective program. Should you have any questions, please contact me at (916) 322-7077 or via email at richard.corey@arb.ca.gov.

Sincerely,



Richard Corey
Executive Officer
California Air Resources Board

Attachment

ED SEP Audit Recommendation Response Matrix

Number	Condition and/or Auditor's Expectations to Close Recommendation	Finding Corrective Action Plan/Actions Taken	Implementation Date
Finding 1.1 <i>CARB's Legacy Supplemental Environmental Projects Program Lacked Adequate System of Controls to Ensure Proper Collection and Spending of Program Monies (pg.6)</i>			
1	The SEP program operated largely without the formal agreements, policies, procedures, processes and protocols necessary to hold program participants accountable for ensuring program monies were spent appropriately and in a manner that efficiently achieved program objectives. A strong system of controls for the SEP program was particularly important since SEP funding largely by-passed CARB and was paid directly to program administrators by responsible parties.	In the process developed in response to AB 1071 CARB maintains the responsibility of providing project oversight while and the violator funds the projects. Once the project is funded, CARB as the SEP funding administrator, ensures that the project milestones are met and all expenditures are funded according to the budget and timeline of the SEP project.	January-17
2	Reduce the individual handling of SEP payments associated with settlement agreements within CARB by establishing a consistent, coordinated, and centralized process for responsible parties to submit SEP funds, such as requiring all responsible parties to send SEP payments directly to SEP administrators and eliminating the ability for responsible parties to submit some SEP payments (e.g. wire transfers) to ASD for processing, handling, and forwarding. (Recommendation #2)	CARB ED has developed a centralized process to track all SEP payments. The violator send the SEP payments directly to the SEP recipient. After the SEP Recipient receives the payment they send CARD ED a copy of the payment and a signee payment acknowledgement form.	January-18
3	Establish a process for ED to track both SEP and non-SEP payments made by responsible parties associated with all settlement agreements and follow-up on settlement agreements with past due amounts to investigate the responsible party's adherence to the settlement agreement terms to ensure corrective actions have taken place and all required amounts remitted. (Recommendation #3)	ED has initiated a process with CARB's ASD to track penalties associated with settlement agreements.	Will be complete by Spring 2019
Finding 1.2 <i>Supplemental Environmental Projects Guidance and Code Do Not Specifically Address Responsibilities Related to Administering SEP Funding. (pg.7)</i>			
4	In the absence of mandated administrative directives, there is an increased importance on the agency to fully develop the program to include appropriate guidance and controls to ensure funds are collected, spent appropriately, and performance measured.	Management of the SEP program was consolidated under a centralized team within ED, with assigned roles and responsibilities, to coordinate SEP program efforts across the Division and with other divisions. This also included development of program guidance and assistance to SEP recipients that includes recordkeeping and reporting requirements.	January-17
Finding 1.3 <i>CARB's Settlement Penalty Payment Tracking Processes Were Not Centralized, Comprehensive, or Consistent (pg.7)</i>			
5	Establish within the Enforcement Division (ED) a process to maintain a central and comprehensive universe of settlement agreement information. Specifically, designate a single point of contact where all settlement agreements executed are immediately sent and key information, such as total settlement amounts, amounts designated to SEPs, dates paid, etc., is entered into a tracking mechanism, such as an electronic spreadsheet or database. (Recommendation #1) To compile a centralized universe of the total monies designated to each of the three SEPs as part of the many settlement agreements processed and the amounts paid by responsible parties, one would have had to combine information from multiple databases, individual investigators, ASD records, and SEP Administrator records.	The ED administrative team now tracks all information about SEPs approved for funding, funded, payments, project expenditures, project progress, through completion, for all SEPs selected by violators. SEP recipients are also required to provide monthly or quarterly project reports that detail the expenditures and progress. The funding of the three legacy SEP programs was discontinued in June 2017. CARB ED is reconciling the remaining funds to ensure that they have been spent or recovered for the APCF. After reconciling the funds, an exit summary will be written to recap whether the project goals were met for each SEP, and how it supported the broader CARB SEP program goals.	December-18 Will be complete by the end of 2019
6	Work with ASD on tracking CARB's portion of penalties associated with settlement agreements. (Recommendation #2)	ED has initiated a process with CARB's ASD to track penalties associated with settlement agreements.	September-18

ED SEP Audit Recommendation Response Matrix

Number	Condition and/or Auditor's Expectations to Close Recommendation	Finding Corrective Action Plan/Actions Taken	Implementation Date
11	Establish SEP-specific program goals as well as a framework to measure program outcomes and performance in meeting those goals. Consistent with AB 1071, program goals should provide a connection between a specific SEP project and an environmentally impacted community. To measure program performance, CARB should establish specific performance targets in the agreement and require SEP administrators to periodically report on ongoing progress in meeting those targets. (Recommendation #8)	CARB is in the process of updating the program and project goals to include measurable program outcomes. Currently, SEPs must meet the guidelines established within CARB's current policy, which reflects the criteria set forth in AB 1071 for SEP programs. In addition to the current policies, the individual projects have specific performance targets or goals that must be met. Depending on the scope of the project, CARB receives either monthly or quarterly project reports.	To be Complete by Spring 2019.
12	Establish a comprehensive set of internal policies and procedures that outline the roles and responsibilities of CARB management and staff involved in the SEP process. A comprehensive set of policies and procedures should include, but is not limited to, tracking SEP amounts owed from and paid by responsible parties and following up on collections or late payments; communicating funding expectations to recipients, ensuring program expenditures are reviewed for appropriateness; monitoring program performance by formally reviewing and approving regular SEP performance and outcomes reporting and providing feedback to program participants, including additional guidance on program management and administration; and developing formal project-close out processes. (Recommendation #6)	<p>CARB is tracking SEP amounts paid for by responsible parties.</p> <p>ED communicates with SEP recipients throughout the project selection process, all the way through project completion. ED also has posted SEP Settlement Agreement process detailing internal procedures. ED further requires the SEP recipient to sign a contract detailing the conditions under which CARB would recover the unused project funds in the event that the project cannot be completed or deviates from the approved plan, and the mechanisms for doing so.</p> <p>See responses #1 and 4 for additional info</p>	January-17
Finding 2 Lack of Supporting Documentation Hampered Efforts to Evaluate Receipt and Use of SEP Funds (pg.16)			
13	Establish comprehensive program guidance for SEP Administrators and program recipients in regards to receiving, disbursing, transferring, or expending SEP funds, including, but not limited to, general purchasing guidelines, such as requirements for appropriate use of SEP funds, competitive solicitations, thresholds for purchase approval, invoicing and expenditure supporting documentation, and management and disposal of capital assets purchased with SEP funds; timeliness of utilizing program funds and holding program funding in interest bearing accounts; and recordkeeping, performance measurement, project close-out, and regular status reporting of program information, outcomes, and achievements. (Recommendation #7)	<p>In response to SEP recipients' requests for guidance for project funding and expenditure tracking, ED is in the process of developing a comprehensive guidance document for SEP recipients.</p> <p>See responses #2, 4, and 5 for further info.</p>	September-18
14	Establish a process to periodically perform site visits to SEP administrators and funding recipients to spot check and inspect SEP activities, including verifying large equipment purchased with SEP funds are adequately secured, stored, and maintained, and to ensure the program activities are consistent with progress reporting. (Recommendation #9)	CARB has already implemented a process to go onsite and verify the reporting that has been performed by SEP recipients.	January-17