



At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) conducted this examination to determine whether the costs claimed under cooperative agreement 2A-00T13801 awarded under the American Recovery and Reinvestment Act of 2009 to the California Air Resources Board (CARB) were reasonable, allowable and allocable in accordance with applicable laws, regulations, and cooperative agreement terms and conditions. The OIG also sought to determine whether cooperative agreement objectives were met.

This report addresses the following EPA themes:

- *Addressing climate change and improving air quality.*
- *Making a visible difference in communities across the country.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140306-14-R-0130.pdf

Unless California Air Resources Board Fully Complies With Laws and Regulations, Emission Reductions and Human Health Benefits Are Unknown

What We Found

Our examination disclosed material weaknesses in CARB's compliance with laws, regulations, and the terms and conditions of the cooperative agreement. Specifically, CARB did not comply with the requirement of the cooperative agreement and the Energy Policy Act of 2005 to scrap or remanufacture the old engines. CARB also did not accurately report jobs created or retained or provide actual emissions reduction calculations, as required under the cooperative agreement. In addition, CARB paid contract costs that were not in accordance with contract terms.

CARB did not fully comply with the Energy Act and cooperative agreement requirements, resulting in potential overpayment of \$8,866,000.

CARB completed the locomotive repower according to the workplan. However, CARB has not demonstrated that it met the cooperative agreement objective for achieving significant emissions reduction as CARB did not provide actual emissions benefit calculations.

Recommendations and Corrective Actions

For the contract terms issue, we recommended that the Region 9 Regional Administrator disallow and recover ineligible costs of \$94,109 claimed under the cooperative agreement and require CARB to establish internal controls prior to any future awards. In response to draft report, CARB repaid the \$94,109 to the EPA. CARB's contractor—BNSF Railway Company—also signed an agreement on November 18, 2013, to scrap or remanufacture the replaced engines. We recommend that the region verify that CARB and BNSF comply with the agreement and document the scrap or remanufacture. The region should recover the federal share of \$8,771,891 claimed in the event CARB violates the November 18, 2013, agreement.

We also made recommendations related to jobs reported as created or retained, developing a more accurate calculation of project results based on actual fuel usage, and adjusting the reporting of CARB's project results. In response to the draft report, CARB submitted the job report corrections. Region 9 and CARB disagreed with the two recommendations relating to project results.

Noteworthy Achievements

CARB and the BNSF Railway Company repowered 11 locomotives instead of the eight required by the cooperative agreement because of cost reductions achieved by the manufacturer and a higher contractor contribution percentage than what was required under the agreement. The subcontractor also accomplished construction of the 11 locomotives in less than 4 months in order to meet the Recovery Act deadline of September 30, 2010.