

**PORT OF SEATTLE**  
**MEMORANDUM**

**DATE:** August 11, 2015

**TO:** Audit Committee



**FROM:** Joyce Kirangi, Internal Audit Director

**SUBJECT:** ScRAPs 2 Audit Termination Memo - Project Deemed Low Risk

Included in the 2015 Audit Committee Annual Work Plan was a limited operational audit of the ScRAPs 2 Program - Clean Air Truck Replacement Program. The audit objective was to assess management controls to ensure accountability over program funds and compliance in achieving the desired program outcomes. After conducting our planning and assessing the risks of this program, we have decided to terminate the audit. We did not identify any significant risks, and further audit testing would add no value.

Background

The Scrappage and Replacements for Air in Puget Sound (ScRAPs) program provides financial incentives for current drayage truck owners to scrap their old trucks and replace them with newer trucks. The program is part of the federal government's efforts to reduce air pollution. The Environmental Protection Agency (EPA) diesel truck emission standards came into effect in 2001 for the 2007 model year. The newer truck engines generate significantly less emissions. However, those requirements did not affect the older engine models. Accordingly, various programs have been established and funded to remove the old trucks from the road. The current ScRAPs program is the second such program that the Port has undertaken as part of the Northwest Ports Clean Air Strategy. Similar truck replacement programs are common among other ports, and have been in place for over a decade.

The first Port ScRAPs program was primarily funded by the Port but included a grant from the Washington State Department of Ecology, and ran from November 2009 to January 2011. That program replaced 280 trucks with pre-1994 engine models. Drayage trucks (transport containers over a short distance) with pre-1994 engine models have been prevented from accessing Port property since January 1, 2011.

The second Port program, ScRAPs 2, currently has three grants (see table below), and a number of incentive programs with differing requirements based on the funding source. Additional grant funding is in progress. The ScRAPs program is managed by the Puget Sound Clean Air Agency, a regional government agency that works in partnership with the Port.

<b>ScRAPs 2 Funding Sources, as of May 2015</b>						
<b>Program</b>	<b>Program Availability</b>	<b>Replacement Engine</b>	<b>"Buy America" ****</b>	<b>Incentive Amount</b>	<b>Grant Amount</b>	<b>Port Cost</b>
CMAQ*	160 trucks	2007 or newer	Yes	\$20,000	\$3,535,000	\$667,000
Ecology**	20 trucks	2007 or newer	Yes	\$20,000	\$ 500,000	\$ 25,000
DERA***	40 trucks	2010 or newer	No	\$30,000 max	\$1,200,000	\$408,000

\* CMAQ is a Congestion Mitigation and Air Quality grant from the US Dept. of Transportation (USDOT).

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\*\*Ecology is a grant from WA Dept. of Ecology.

\*\*\*DERA is a Diesel Emissions Reduction Act grant from the US Environmental Protection Agency (EPA).

\*\*\*\*"Buy America" is a federal law requiring USDOT grant funds be used for trucks made from US steel and assembled in America.

The Northwest Ports Clean Air Strategy requires 100% of drayage trucks to have 2007 or newer engines by January 1, 2018. Model year 2007 or newer engines are 10 times cleaner than 1994 - 2006 truck engines for particle matter emissions.

There are about 1,000 frequent truck callers at the Port terminals. Approximately 350 trucks will receive incentives under the ScRAPs 2 Program, if fully funded. The subsidy/incentive to a trucker is only a portion of the total replacement cost of a newer truck.

### Audit Scope and Methodology

We reviewed ScRAPs 2 Program - Clean Air Truck Replacement documentation and administrative processes. We researched similar programs at other major ports, as well as the federal and state regulatory environment. We subsequently assessed the program's risks.

Moss-Adams, an independent auditor for the Port's financial statements, performed an audit of the program as part of their 2014 Single Audit of federal grants. Their program audit had not been anticipated when the 2015 Internal Audit work plan was developed. Moss-Adams reported that internal controls for the CMAQ grant program were effective and that their substantive tests found no exceptions. The other ScRAPs grants (e.g., DERA and Ecology) were not part of the Moss-Adams review, but the grants share the same administrative management controls with the CMAQ program. Thus, the control for the other ScRAPs grants are assumed to be effective although not specifically reviewed by Moss-Adams.

We reviewed the work performed by Moss-Adams and determined that their work was sufficient and adequate. We concur with their conclusion and assessed the program as low risk. Based on our planning efforts combined with the work by Moss-Adams, further internal audit work would add no value.