



Center for Sustainable Energy

Grant Agreements G16-CVRP-01, G17-CVRP-01,
G18-CVRP-01, G19-CVRP-01, and G21-CVRP-01
Fiscal Compliance Audit

Report No. 24-3900-061
June 2024

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Final reports are available on our website at <https://esd.dof.ca.gov/reports/report.html>.

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Gavin Newsom ■ Governor

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Transmitted via e-mail

June 27, 2024

Jack Kitowski, Division Chief, Mobile Source Control Division
California Air Resources Board
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Final Report—Center for Sustainable Energy, Fiscal Compliance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Center for Sustainable Energy's (CSE) implementation of the California Air Resources Board's Clean Vehicle Rebate Program.

The enclosed report is for your information and use. CSE's response to the report findings and our evaluation of the response are incorporated into this final report. CSE's response to the draft report issued June 7, 2024, required further analysis. As a result of our analysis and noted in the Evaluation of Response section, changes were made to Finding 1, Recommendation D to provide further clarification. This report will be placed on our website.

If you have any questions regarding this report, please contact Sherry Ma, Manager, or An Truong, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: On following page

cc: Lucina Negrete, Assistant Division Chief, Mobile Source Control Division, California Air Resources Board
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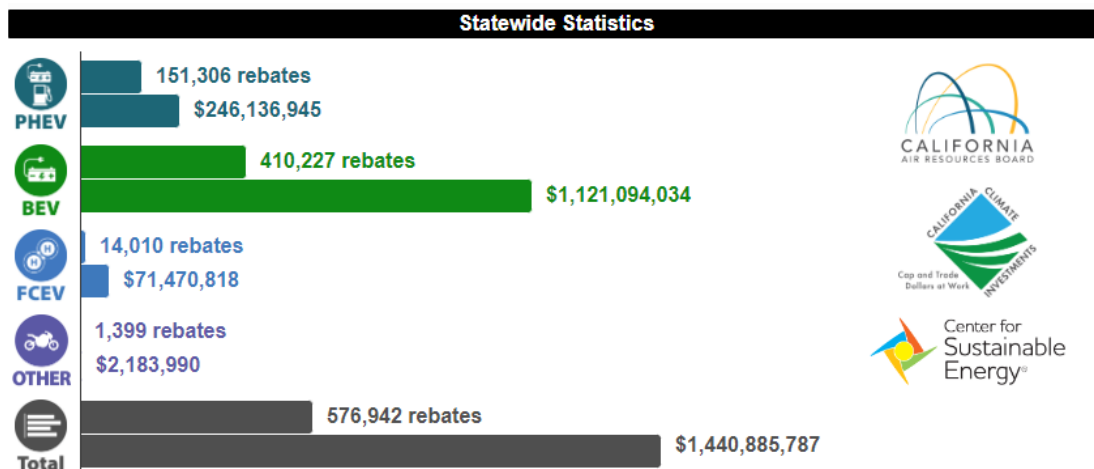
BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Center for Sustainable Energy (CSE) is a national nonprofit that accelerates the adoption of clean transportation and distributed energy through effective and equitable program design and administration. CSE develops, implements, and promotes large-scale incentive programs for electric vehicles, electric vehicle chargers, energy storage, and solar.¹ The California Air Resources Board (CARB) is the lead agency for climate change programs and oversees all air pollution control efforts in California to attain and maintain health-based air quality standards.² Beginning December 1, 2009, CARB awarded grants to CSE to administer the Clean Vehicle Rebate Program (CVRP), a statewide clean-vehicle market facilitation project.³

CVRP's primary goal is to support the mass deployment of zero-emission vehicles to help build a sustainable electric vehicle market in California.⁴ It accomplishes this by offering rebates for the purchase or lease of new, eligible zero-emission vehicles, including electric, plug-in hybrid electric, and fuel cell vehicles. CVRP offers up to \$7,500 to purchase or lease a new plug-in hybrid electric vehicle (PHEV), battery electric vehicle (BEV), fuel cell electric vehicle (FCEV), or zero-emission vehicles.⁵ Since the program's inception in 2009, CSE has administered and processed approximately 576,942 rebates, totaling \$1.4 billion for plug-in, electric, and alternative fuel vehicles in California.⁶ See Figure 1 for detailed statistics of the CVRP.

Figure 1: CVRP Statewide Statistics



Source: CVRP Statewide Statistics, as of March 19, 2024

¹ Excerpts obtained from <https://energycenter.org/about-us>.

² Excerpts obtained from <https://ww2.arb.ca.gov/about>.

³ Excerpts obtained from <https://cleanvehiclerebate.org/en/content/cvrp-final-report-2014-2015>.

⁴ Excerpts obtained from <https://ww2.arb.ca.gov/project-background>.

⁵ Excerpts obtained from <https://cleanvehiclerebate.org/en/cvrp-info>.

⁶ Excerpts obtained from <https://cleanvehiclerebate.org/en/rebate-map>.

SCOPE

At the request of CARB, the California Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of CSE's implementation of CVRP, covering fiscal years 2016-17 through 2021-22, as follows:

<u>Grant Agreement</u>	<u>Audit Period</u>
G16-CVRP-01	February 1, 2017 through July 31, 2018
G17-CVRP-01	January 1, 2018 through September 25, 2019
G18-CVRP-01	November 1, 2018 through March 25, 2021
G19-CVRP-01	January 15, 2020 through October 31, 2022
G21-CVRP-01	October 15, 2021 through December 31, 2023 ⁷

The audit objective was to determine whether CVRP's revenues, expenditures, and resulting balances were in compliance with applicable grant agreements and amendments, guidelines, and statutes. CSE management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CARB is responsible for the state-level administration of CVRP.

METHODOLOGY

To plan the audit, we gained an understanding of CVRP and identified relevant criteria by interviewing CARB and CSE personnel, and reviewing the executed grant agreements and amendments, implementation manuals, funding plans, and policies and procedures.

We conducted a risk assessment, including evaluating whether CSE's key internal controls significant to our audit objective were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on disbursement request preparation, review and approval of grant expenditures, vehicle rebate application processing, recording of financial information and reconciliations, timekeeping, and reporting processes related to revenues and expenditures. Our assessment included conducting interviews with CSE personnel, observing processes, and testing transactions related to the grant revenues, expenditures, and reporting.

Additionally, we assessed the reliability of data from the status reports, Interest-Earned Revenue tracking spreadsheet, and labor reports. To assess the reliability of the data, we interviewed CSE personnel, reviewed information process flows, and performed data analytics testing. We determined the data were sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. Our methods are detailed in the Table of Methodologies.

⁷ An interim audit was conducted because the grant was still in progress as of April 30, 2024.

Table of Methodologies

Audit Objective: Determine whether CVRP's revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes.
Methods
<ul style="list-style-type: none"> • Determined whether interest was earned and interest requirements were met by reviewing CSE's Interest-Earned Revenue tracking spreadsheet, bank statements, final status reports, and Final Reports, and compared to relevant criteria within the grant agreements. • Selected 50 vehicle rebates across all grants based on random number generation and quantitative significance. Determined whether expenditures were allowable, grant-related, supported, and incurred within the grant period by reviewing rebate applications, vehicle purchase/lease agreements, applicants' California driver's licenses, vehicle registrations, tax transcripts, and canceled checks, and compared to implementation manuals and vehicle eligibility lists. • Selected one grant based on quantitative significance and determined what percentage of rebate applications were income verified by reviewing and analyzing the rebate application data in the final status report. • Selected 60 direct labor expenditures across all 5 grants based on quantitative and qualitative significance. Determined whether selected expenditures were allowable, grant-related, supported, and incurred within the grant period by reviewing CSE rebate processing fee invoices, timesheets, and payroll registers. • Determined whether CSE's indirect cost rates were accurate, supported, reasonable, and correctly applied by reviewing indirect cost rate methodologies, policies and procedures, indirect cost workbooks, accounting records, and disbursement requests. • Determined whether duplicate expenditures occurred by performing analytical procedures on final status reports and rebate processing fee invoices for duplicate vehicle identification numbers and claimed administrative costs, respectively. • Determined whether reporting requirements were met by reviewing four Final Reports and one status report, and verifying whether they were submitted timely and contained the information required by the grant agreements. • Determined whether revenue and expenditure amounts and resulting balances were reported accurately by reviewing the Interest-Earned Revenue tracking spreadsheet, bank statements, status reports, Final Reports, general ledger reports, trial balance reports, reconciliations, disbursement requests, and CARB memos, and tracing to reported amounts and balances.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance CVRP's revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes, except as described in Finding 1. CVRP's revenues, expenditures, and resulting balances by fiscal year are detailed in Appendix A.

FINDINGS AND RECOMMENDATIONS

Finding 1: Grant Implementation Practices Need Improvement

Opportunities exist for CSE to improve its internal controls for CVRP grant implementation to ensure that expenditures comply with grant and reporting requirements. Specifically, we observed unsupported indirect cost rates, ineligible direct labor costs, and Final Reports missing required information.

Figure 2: Finding 1 Highlights



Indirect Cost Rates Were Not Supported

CSE claimed \$165,550 in ineligible indirect costs under rebate processing fees using unsupported indirect cost rates for grant agreements G16-CVRP-01 through G19-CVRP-01. Further, CSE did not retain the original documentation supporting the indirect cost rate used for grant agreement G21-CVRP-01. Specifically:

- For G16-CVRP-01 through G19-CVRP-01, CSE used an indirect cost rate of 195 percent approved through its CVRP 2016 solicitation package. However, the supporting documentation showed a calculated rate of 193.97 percent, resulting in excess indirect costs claimed totaling \$165,550 as shown in Table 1. CSE stated the variance was due to rounding the calculated rate prior to submitting it to CARB for approval.

Table 1: Ineligible Indirect Labor Costs

Grant	Total Direct Labor Claimed (A)	Total Indirect Labor Claimed (B)	Audited Rate (C)	Audited Indirect Labor Costs (D = A x C)	Ineligible Indirect Costs (B - D)
G16-CVRP-01	\$ 2,519,495	\$ 4,913,015	193.97%	\$ 4,887,064	\$ 25,951
G17-CVRP-01	3,519,126	6,862,295	193.97%	6,826,049	36,246
G18-CVRP-01	5,518,702	10,761,469	193.97%	10,704,626	56,843
G19-CVRP-01	4,515,515	8,805,254	193.97%	8,758,744	46,510
Total Ineligible Indirect Costs					\$ 165,550

Source: CSE expenditure claims and indirect cost workbook

- Additionally, CSE did not retain original documentation to support its approved indirect cost rate increase to 205 percent for G21-CVRP-01. Alternatively, CSE attempted to reproduce the calculation using its established indirect cost rate methodology based on financial data from 2021 and calculated an indirect cost rate of 207.23 percent. Because the calculated indirect cost rate exceeded the claimed and approved rate of 205 percent and the data used for the recalculation was valid and supported, there are zero resulting questioned costs.

Ineligible Direct Labor Costs Claimed

CSE claimed direct labor costs under rebate processing fees it did not incur. Specifically, 5 of 60 direct labor charges reviewed included overtime costs claimed for exempt employees, totaling \$2,908. CSE did not pay its exempt employees for overtime work; however, it claimed these costs to the grant. CSE's exempt employees receive a fixed salary and are not paid overtime, regardless of hours worked. Further, CSE requires employees to track all work hours, including overtime. Instead of claiming actual amounts paid to employees, CSE derived hourly rates for employee salaries and multiplied the hourly rates by the total hours worked, which included overtime. This resulted in instances where CSE claimed direct labor costs to the grant it did not incur. Because we also identified several instances where CSE underbilled its direct labor costs, there are zero resulting questioned costs. While the ineligible direct labor costs resulting from this practice were minimal and offset by other excess direct labor costs, the continued practice places CSE at a greater risk for grant expenditure non-compliance.

The grant agreements state CSE must maintain documentation for all costs referenced in the indirect cost calculation formula. Further, the grant agreements require CSE to retain records related to rebate processing fees for a minimum of three years after the final CVRP invoice is submitted to CARB. Additionally, grant payments shall be made only for reasonable costs incurred.

Final Reports Missing Required Information

CSE did not report interest earned on CVRP funds in its Final Reports for grant agreements G16-CVRP-01 through G19-CVRP-01. Instead, it reported the interest earned in the Final Status Reports. The grant agreements require CSE to include interest earned in its Final Reports. According to CSE, CARB accepted the reporting of interest earned in the Final Status Reports in lieu of the Final Reports.

While CARB accepted alternative reporting methods, CSE should adhere to the grant agreements' terms, including reporting interest earned in Final Reports. Final Reports provide CARB with a comprehensive summary of revenues, expenditures, and resulting balances. Additionally, reporting the information where required establishes consistency and streamlines reporting and CARB's review process. Failure to include the required information as required in the grant agreements may hinder CARB's ability to monitor the program's progress and results.

Internal controls establish a framework in which management operates and provides oversight. Effective internal controls ensure that management implements the policies and tools necessary to implement the program and adequately supports and reports grant expenditures. Deficiencies in internal controls place CSE at risk of non-compliance with the grant requirements and compromises CSE's ability to fulfill its grant responsibilities.

Recommendations:

- A. Remit \$165,550 of ineligible indirect labor costs to CARB, or work with CARB to offset these costs against future claims.
- B. Utilize the calculated and supported indirect cost rate when claiming indirect costs. Retain original documentation to support indirect cost rate calculations as required by the grant agreements.
- C. Revise existing expenditure claim preparation and review processes to exclude exempt employee overtime costs and ensure only actual incurred direct labor costs are claimed.
- D. Review all previously claimed direct labor costs to identify ineligible direct labor costs and work with CARB to remit or offset against future claims.
- E. Submit all Final Reports with the required information as required by the grant agreements.

**Schedule 1: Vehicle Rebate
Revenues, Expenditures, and Resulting Balance
As of December 31, 2023**

Grant Agreement	Revenues	Expenditures	Adjustments ⁸	Resulting Balance ⁹
Prior Year Balance				\$ 467,573
G16-CVRP-01	\$ 131,142,768	\$ 131,458,048	\$ 62,674	214,967
G17-CVRP-01	152,766,333	152,374,579	(5,000)	601,721
G18-CVRP-01	236,792,472	237,164,801	(75,500)	153,892
G19-CVRP-01	204,825,116	204,050,036	(663,005)	265,967
G21-CVRP-01	382,956,242	312,313,527	(72,000)	\$ 70,836,682
Total	\$ 1,108,482,931¹⁰	\$ 1,037,360,991	\$ (752,831)	\$ 70,836,682

**Schedule 2: Rebate Processing Fee
Revenues, Expenditures, and Resulting Balance
As of December 31, 2023**

Grant Agreement	Revenues	Expenditures	Adjustments ¹¹	Resulting Balance ⁹
Prior Year Balance				\$ 68,637
G16-CVRP-01	\$ 9,870,000	\$ 8,159,679	\$ (200,000)	1,578,958
G17-CVRP-01	12,376,180	12,039,234	(336,180)	1,579,724
G18-CVRP-01	19,230,000	18,923,069	(1,060,000)	826,655
G19-CVRP-01	15,802,395	15,332,499	1,333,785	2,630,336
G21-CVRP-01	19,079,600	15,679,418	(1,806,970)	\$ 4,223,548
Total	\$ 76,358,175	\$ 70,133,899	\$ (2,069,365)	\$ 4,223,548

**Schedule 3: Rebate Processing Fee Expenditures
As of December 31, 2023**

Grant Agreement	Direct Labor	Indirect Cost	Other Admin Costs	Total
G16-CVRP-01	\$ 2,519,495	\$ 4,913,015	\$ 727,169	\$ 8,159,679
G17-CVRP-01	3,519,126	6,862,295	1,657,813	12,039,234
G18-CVRP-01	5,518,702	10,761,469	2,642,898	18,923,069
G19-CVRP-01	4,515,515	8,805,254	2,011,730	15,332,499
G21-CVRP-01	4,676,694	9,587,224	1,415,500	15,679,418
Total	\$ 20,749,532	\$ 40,929,257	\$ 8,455,110	\$ 70,133,899

⁸ Adjustments made for interest earned, CVRP Public Fleets Program qualifying rebates, Low Moderate Income applicants eligible for increased rebates, approved applications pending payment, canceled applications, and reconciling items.

⁹ CARB allows for remaining funds not used in the prior grant agreement to be rolled over to the next grant agreement period.

¹⁰ Amounts include interest earned of \$92,025.

¹¹ Adjustments made for retention, disbursements approved but not yet received or received in the current year for prior grants, CARB clerical error, and costs incurred by CSE but not yet approved by CARB.

June 17, 2024

VIA ELECTRONIC MAIL (OSAEReports@dof.ca.gov)

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Re: Draft Report No. 24-3900-061, Center for Sustainable Energy, Fiscal Compliance Audit Report

Dear Ms. McCormick:

We are in receipt of the above-referenced draft report, dated June 7, 2024, from the California Department of Finance, Office of State Audits and Evaluation (“Department of Finance”) concerning grant agreements G16-CVRP-01, G17-CVRP-01, G18-CVRP-01, G19-CVRP-01, and G21-CVRP-01 (“Draft Report”). By email dated June 11, 2024, the Department of Finance advised that the deadline for submission of this letter is June 21, 2024. This letter serves as CSE’s timely response.

At the outset, let us state that we appreciate your entire audit team’s professionalism and patience as we worked through the audit. We set forth below CSE’s responses to the Finding and the Recommendations:

- As to Finding 1 and Recommendation A, while CSE agrees to return the \$165,550 in indirect labor costs deemed ineligible in the Draft Report (“Indirect Labor Cost Amount”), CSE disagrees with the Department of Finance’s underlying assumption that the grant agreements, by their terms, required the use of the actual cost rate at the time of bid rather than an estimated rate that would be fixed and applied for a period of time. CSE will work with CARB to return the Indirect Labor Cost Amount through either a single payment or a schedule of offsets to future claims, as ultimately requested by CARB.
- With respect to Recommendations B-E, CSE responds as set forth below:
 - Recommendation B: going forward, when claiming indirect costs CSE will continue to utilize the calculated and supported indirect cost rates as required under the applicable grant agreement and will also retain all original documentation to support indirect rate cost calculations as required by the grant agreements.

- Recommendation C: CSE has revised its expenditure claim preparation and review processes to exclude exempt employee overtime costs and going forward will ensure that only actual incurred direct labor costs are claimed.
- Recommendation D: going forward CSE will review all claimed direct labor costs to identify ineligible direct labor costs and as to such costs, if any, will work with CARB to remit or offset against future claims.
- Recommendation E: going forward, CSE will submit all Final Reports with the required information as required by the grant agreements.

CSE again appreciates your time and professionalism in this audit, welcomes any questions you may have, but otherwise looks forward to reviewing your final report.

Sincerely,

Original signed by:

Lawrence E. Goldenhersh
President
Center for Sustainable Energy

CSE's response to the draft report has been reviewed and incorporated into the final report. We acknowledge CSE's willingness to implement our recommendations. In evaluating CSE's response, we provide the following comments:

Finding 1: Grant Implementation Practices Need Improvement

Recommendation A: Remit \$165,550 of ineligible indirect labor costs to CARB, or work with CARB to offset these costs against future claims.

While CSE agrees to remit the \$165,550 ineligible indirect labor costs, CSE stated it disagreed with Finance's underlying assumption that the grant agreements required the use of the actual cost rate at the time of bid rather than an estimated rate. To clarify, Finance did not make such an assumption. CSE provided documentation supporting an indirect cost rate of 193.75 percent, but used an indirect cost rate of 195 percent, resulting in \$165,550 in ineligible indirect costs. Therefore, the finding remains unchanged.

Recommendation D: Review all claimed direct labor costs to identify ineligible direct labor costs and work with CARB to remit or offset against future claims.

CSE states that going forward, it will review all claimed direct labor costs to identify ineligible costs. To clarify, we recommend that CSE review all previously claimed direct labor costs to identify any ineligible costs and work with CARB to remit or offset future claims. The audit report verbiage has been updated to reflect this clarification.