



CALSTART
Performance Audit

Report No. 22-3900-090
May 2023

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Transmitted via e-mail

May 1, 2023

Alice Kindarara, Branch Chief, Acquisitions
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Final Report—CALSTART Incentive Programs Fiscal Compliance Performance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance performance audit of CALSTART's implementation of the California Air Resources Board's (CARB) air pollution incentive programs.

The enclosed report is for your information and use. CALSTART's response to the report findings is incorporated into this final report. CALSTART agreed with our findings. We appreciate CALSTART's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

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

Sincerely,

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

cc: On following page

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

BACKGROUND

CALSTART is a non-profit organization whose mission is to work nationally and internationally with businesses and governments to develop clean, efficient transportation solutions. CALSTART is a network that connects companies and government agencies.¹

CALSTART receives grants for air pollution reduction incentive programs from the California Air Resources Board (CARB). CARB is charged with protecting the public from the harmful effects of air pollution and developing programs and actions to fight climate change. CARB's mission is to promote and protect public health, welfare, and ecological resources through effective reduction of air pollutants while recognizing and considering effects on the economy. 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

CALSTART participates in three air pollution reduction incentive programs, as follows:

Incentive Programs

Clean Mobility Options Voucher Pilot Program (CMO)	CMO empowers under-resourced communities across California to better understand and overcome mobility obstacles with vouchers that fund community needs assessments and clean, shared, zero-emission transportation projects. CMO's goals include improving access to clean mobility options, advancing workforce development in the clean transportation sector, increasing zero-emission vehicle adoption, reducing vehicle miles traveled, advancing mobility equity, and improving local air quality. ³ In-kind contributions are required.
Clean Off-Road Equipment Voucher Incentive Project (CORE)	CORE intends to accelerate the deployment of advanced technology in the off-road sector by providing a streamlined way for fleets to access funding that helps offset the incremental cost of such technology. CORE targets commercial-ready products that have not yet achieved a significant market foothold. ⁴ In-kind contributions are not required.
Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP)	HVIP plays a crucial role in the deployment of zero-emission and near-zero-emission technologies. HVIP accelerates commercialization by providing point-of-sale vouchers to make advanced vehicles more affordable. ⁵ In-kind contributions are encouraged but not required.

¹ Excerpts obtained from <https://CALSTART.org/mission/>.

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

³ Excerpts obtained from <https://cleanmobilityoptions.org/about/>.

⁴ Excerpts obtained from <https://ww2.arb.ca.gov/our-work/programs/clean-off-road-equipment-voucher-incentive-project>.

⁵ Excerpts obtained from <https://californiahvip.org/>.

SCOPE

At the request of CARB, the California Department of Finance, Office of State Audits and Evaluations, conducted a fiscal compliance audit of CALSTART's air pollution reduction incentive programs. The audit included the following incentive programs and fiscal years:

Incentive Program	Fiscal Year							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CMO					✓	✓	✓	
CORE ⁶					✓	✓		
HVIP	✓	✓	✓	✓	✓	✓	✓	✓

The audit scope included revenues, expenditures, and resulting balances from July 1, 2013 through June 30, 2021, as applicable for each program.

The audit objective was to determine whether the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes. CALSTART's management is responsible for ensuring accurate financial reporting and compliance with applicable grant agreements, guidelines, and statutes.

METHODOLOGY

To plan the audit, we gained an understanding of the programs, and identified relevant criteria, by interviewing CARB and CALSTART personnel, and reviewing the executed grant agreements and amendments, funding plans, implementation manuals, CARB website, and applicable statutes.

We conducted a risk assessment, including evaluating whether CALSTART's key internal controls significant to our audit objective were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on the review and approval process for expenditures and in-kind contributions, recording of financial information, processes for fund liquidation and reporting, and the advanced funds reconciliation process. Our assessment included conducting interviews with CALSTART personnel, observing processes, and testing transactions related to expenditures and reporting. Deficiencies in internal control that were identified during our audit, and determined to be significant within the context of our audit objective, are included in this report.

Additionally, we assessed the reliability of data from CALSTART's accounting system, Sage 100 Enterprise Resource Planning. To assess the reliability of expenditure summary and job cost reports generated by this system, we interviewed CALSTART staff, reviewed system controls, and traced data to supporting documentation. We determined the data were sufficiently reliable to address the audit objective.

⁶ CORE 2020-21 was included in our engagement letter dated July 1, 2022; however, CALSTART did not execute a grant agreement amendment or receive funding for 2020-21.

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 as follows:

Table of Methodologies

Audit Objective: To determine whether the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes.
Methods
<ul style="list-style-type: none"> Selected bank reconciliations and accompanying bank statements from all programs for one qualitatively significant time period to determine whether interest was earned and interest requirements were met, and compared to relevant criteria within the grant agreements. Performed analysis of estimated interest earned on advanced funds using CALSTART's reported fiscal year-end cash balances for each respective program and the California State Treasurer's Office Pooled Money Investment Account Average Annual Yields. Selected 16 qualitatively and quantitatively significant project voucher expenditures across seven grant agreements and all three programs. Determined if selected expenditures were allowable, grant-related, supported, accurately reported, incurred within the grant period, and within the maximum amounts allowed by reviewing CALSTART's accounting records, voucher payment requests, voucher redemption forms, and canceled checks, and comparing to relevant criteria. Selected 19 qualitatively and quantitatively significant vendor-related, administrative expenditures across eight grant agreements and all three programs. Determined if selected expenditures were allowable, grant-related, supported, accurately reported, and incurred within the grant period by reviewing CALSTART's accounting records, vendor invoices, and canceled checks, and comparing to relevant criteria. Selected all CALSTART labor-related, administrative expenditures claimed across all programs and fiscal years. Determined if selected expenditures were allowable, grant-related, supported, accurately reported, and incurred within the grant period by reviewing CALSTART's reimbursement claims and accounting records, and comparing to relevant criteria. Selected two qualitatively significant in-kind contribution transactions recorded under CMO. Determined if selected expenditures were allowable, grant-related, supported, and accurately reported by reviewing CALSTART's accounting records, vendor invoices, canceled checks, employee timesheets, and payroll registers, and comparing to relevant criteria. Selected four grant reports across all programs and three fiscal years and determined whether CALSTART liquidated program funds timely by reviewing grant agreements, monthly and quarterly progress reports, final reports, and accounting records, and comparing to relevant criteria. Selected three CALSTART grant reports across all programs and fiscal years and determined whether CALSTART accurately reported required data to CARB by reviewing grant agreements, monthly and quarterly progress reports, final reports, and accounting records, and comparing to relevant criteria.

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 the incentive programs' revenues, expenditures, and resulting balances were in compliance with applicable grant agreements, guidelines, and statutes, except as described in Findings 1, 2, and 3. Revenues, expenditures, and resulting balances by program and fiscal year for CMO, CORE, and HVIP are detailed in the Appendix.

FINDINGS AND RECOMMENDATIONS

Finding 1: Personnel Expenditures Claimed Exceeded Costs Incurred

CALSTART claimed \$1,865,477 in personnel expenditures that exceeded actual costs incurred from July 1, 2013 through June 30, 2021 for the CMO, CORE, and HVIP programs. Specifically:

- CALSTART assessed a ten percent fee for all personnel expenditures claimed, totaling \$1,380,865. CALSTART asserts that this fee is charged to offset the risk of overrunning project expenditures, provides resources for adequate program management throughout the life of the programs, and was authorized by CARB. However, CALSTART was unable to identify specific incurred expenditures the fee was used to reimburse and there are no provisions allowing for the fee in the grant agreements.
- CALSTART claimed hourly billing rates, which include employee fringe benefits, indirect, and general and administrative cost rates, based on employee classification ceiling rates rather than the actual hourly rates paid to employees. This resulted in \$484,612 of claimed expenditures that were not actually incurred.

CMO grant agreement sections H.4 and H.7; CORE grant agreement sections G.5.a and G.6; and, and HVIP grant agreements sections D.3 and D.6, E.3 and E.6, and H.3. and H.6, state that program implementation payments shall be made for costs incurred and documentation shall be maintained. Further, CORE agreement section G.2.b and HVIP agreements sections D.2.b, E.2.b, and H.2.b, state all voucher processing fees will be paid on a reimbursement basis, and documentation of processing costs incurred must be provided. The \$1,865,477 in excess personnel expenditures could have been utilized for additional vouchers for the deployment of clean technologies.

Recommendations:

- A. Remit \$1,865,477 to CARB.
- B. Ensure internal billing practices align with all grant agreement requirements for claiming expenditures.

Finding 2: Project Expenditure Voucher Exceeded Allowable Cap

A CORE program voucher redeemed to provide funding to a purchaser of clean off-road equipment exceeded the \$500,000 maximum threshold allowed. Specifically related to CORE grant agreement G17-CORE-01, a voucher for the purchase of a railcar mover was redeemed for \$550,000, which resulted in CALSTART claiming \$50,000 in ineligible expenditures.

CALSTART relies on a third-party consulting and engineering firm to process vouchers. The third-party firm was not aware of the \$500,000 maximum voucher limitation. Additionally, CALSTART was aware of the threshold but did not provide adequate oversight of the third-party firm to ensure voucher payment compliance. CALSTART stated the third-party firm is updating its internal procedures to adhere to all requirements identified in the CORE Implementation Manual and seeking reimbursement from the purchaser.

The June 22, 2020 CORE Implementation Manual revision section C.3 states no individual voucher can exceed \$500,000, including additional funding provided for equipment deployment in disadvantaged or low-income communities and infrastructure enhancement. Exceeding the authorized capped amount reduces the available funding for the deployment of advanced technology in the off-road sector.

Recommendations:

- A. Remit \$50,000 to CARB.
- B. Strengthen oversight of vendors to ensure expenditures claimed comply with applicable requirements.

Finding 3: Advanced Funds Not Placed in Interest-Bearing Accounts

From July 1, 2013 through June 30, 2021, CALSTART was advanced approximately \$293 million in CMO, CORE, and HVIP funds to have readily available monies to cover project expenditures. However, the advanced funds received were not held in interest-bearing accounts as required by the grant agreements. California Code of Regulations, title 17, section 91041 subdivision (a) defines advanced payments as payments to a grantee prior to, and in anticipation of, performance under a grant agreement. By not placing advanced funds in interest-bearing accounts, CALSTART did not earn potential interest revenue of approximately \$1 million.⁷ The lost interest revenue would have further assisted CALSTART with accomplishing the programs' goals of accelerating zero-emission or near zero-emission technologies and reducing greenhouse gas emissions.

CALSTART stated advanced funds were not placed into interest-bearing accounts because financial institutions' fees associated with maintaining interest-bearing accounts would have exceeded any interest earned. CALSTART did not communicate this decision to CARB. Upon our notification of this issue, CALSTART placed remaining advanced funds in interest-bearing accounts beginning October 2022.

⁷ Estimated potential interest revenue was calculated using CALSTART's reported fiscal year-end cash balances for each respective program, where applicable, and applying the California State Treasurer's Office Pooled Money Investment Account's Average Annual Yields published at www.treasury.ca.gov/pmia-laif/historical/annual.asp.

CMO grant agreement sections H.3.j and H.8.a; CORE grant agreement sections G.7.h and G.8.a; and HVIP grant agreements G18-HVIP-01 section H.7 and G19-HVIP-01 section H.9, state advanced funds shall be placed in an interest-bearing account and interest accrued shall be tracked and used for eligible grant-related expenses or returned to CARB. In addition, all grant agreements state interest earnings shall be reported to CARB.

Recommendations:

- A. Continue to comply with grant agreement requirements by placing advanced funds in interest-bearing accounts.
- B. Monitor and report interest earned on advanced funds and ensure earnings are expended in accordance with grant agreement requirements.
- C. Work with CARB to amend grant agreement(s) before departing from requirements.

Schedule 1: CMO Summary

Grant Number	Fiscal Years	Total Revenue	Total Expenditures (Excluding In-Kind)	Resulting Balance
G17-CDMC-01	2017-18, 2018-19, and 2019-20	\$ 17,730,973	\$ 3,520,218	\$ 14,210,755 ⁸

Schedule 2: CMO Revenue

Grant Number	Fiscal Years	Project Funds	Administrative Funds	Total Revenue
G17-CDMC-01	2017-18, 2018-19, and 2019-20	\$ 14,099,200	\$ 3,631,773	\$ 17,730,973

Schedule 3: CMO Expenditures

Grant Number	Fiscal Years	Project Expenditures	Administrative Expenditures	Total Expenditures	In-Kind Expenditures
G17-CDMC-01	2017-18, 2018-19, and 2019-20	\$ 171,973	\$ 3,348,245	\$ 3,520,218	\$ 969,266 ⁹

Schedule 4: CORE Summary

Grant Number	Fiscal Years	Total Revenue	Total Expenditures	Resulting Balance
G17-CORE-01	2017-18 and 2018-19	\$ 31,696,117	\$ 23,119,296	\$ 8,576,821 ¹⁰

Schedule 5: CORE Revenue

Grant Number	Fiscal Years	Project Funds	Administrative Funds	Total Revenue
G17-CORE-01	2017-18 and 2018-19	\$ 29,727,775	\$ 1,968,342	\$ 31,696,117

Schedule 6: CORE Expenditures

Grant Number	Fiscal Years	Project Expenditures	Administrative Expenditures	Total Expenditures
G17-CORE-01	2017-18 and 2018-19	\$ 21,150,954	\$ 1,968,342	\$ 23,119,296

⁸ Remittance of resulting balance, if any, not required until 90 days following the grant's end date of June 30, 2025.

⁹ Actual in-kind expenditures exceeded the \$820,000 requirement.

¹⁰ Remittance of resulting balance, if any, not required until 90 days following the grant's end date of May 15, 2025.

Schedule 7: HVIP Summary

Grant Number	Fiscal Year	Total Revenue	Total Expenditures (Excluding In-Kind)	Resulting Balance
G13-AQIP-02	2013-14	\$ 15,000,000	\$ 15,000,000	\$ 0
G14-AQIP-02	2014-15	9,837,547	9,837,547	0
G15-LCTI-05	2015-16	12,000,000	12,000,000	0
G16-HVIP-01	2016-17	71,000,000	71,000,000	0
G17-HVIP-01	2017-18	157,044,970	147,436,910	9,608,060 ¹¹
G18-HVIP-01	2018-19	10,503,596	952,649	9,550,947 ¹²
G19-HVIP-01	2019-20	No revenue or expenditures as of June 30, 2021. ¹³		
G20-HVIP-01	2020-21			

Schedule 8: HVIP Revenue

Grant Number	Fiscal Year	Project Funds	Administrative Funds	Total Revenue
G13-AQIP-02	2013-14	\$ 14,025,763	\$ 974,237	\$ 15,000,000
G14-AQIP-02	2014-15	9,149,332	688,215	9,837,547
G15-LCTI-05	2015-16	11,160,000	840,000	12,000,000
G16-HVIP-01	2016-17	66,187,927	4,812,073	71,000,000
G17-HVIP-01	2017-18	146,704,629	10,340,341	157,044,970
G18-HVIP-01	2018-19	9,550,947	952,649	10,503,596
G19-HVIP-01	2019-20	No revenue as of June 30, 2021.		
G20-HVIP-01	2020-21			

Schedule 9: HVIP Expenditures

Grant Number	Fiscal Year	Project Expenditures	Administrative Expenditures	Total Expenditures	In-Kind Expenditures ¹⁴
G13-AQIP-02	2013-14	\$ 14,025,763	\$ 974,237	\$ 15,000,000	\$ 1,156,871
G14-AQIP-02	2014-15	9,149,332	688,215	9,837,547	125,484
G15-LCTI-05	2015-16	11,160,000	840,000	12,000,000	0
G16-HVIP-01	2016-17	66,187,927	4,812,073	71,000,000	0
G17-HVIP-01	2017-18	137,096,569	10,340,341	147,436,910	0
G18-HVIP-01	2018-19	0	952,649	952,649	0
G19-HVIP-01	2019-20	No expenditures as of June 30, 2021.			
G20-HVIP-01	2020-21				

¹¹ Remittance of resulting balance not required. Resulting balance was encumbered by the grant's end date of May 31, 2021 and subsequently expended by September 30, 2021.

¹² Resulting balance not required to be expended by end of the audit period, June 30, 2021. Funds not expended by May 2, 2024 are to be remitted to CARB.

¹³ Fiscal years 2019-20 and 2020-21 are ongoing grants which may continue to receive and expend grant funds.

¹⁴ In-kind expenditures are encouraged for HVIP grant agreements, but are not required.



April 17, 2023

Cheryl L. McCormick, CPA
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Department of Finance
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**CALSTART Response to Fiscal Compliance Audit Confidential Draft
Report No. 22-3900-090**

**Clean Transportation
Technologies and Solutions**

www.calstart.org

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Ms. Cynthia Williams
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Earthshot

Dear Ms. McCormick:

CALSTART acknowledges receipt of the California Department of Finance's Confidential Draft Audit Report No. 22-3900-090 titled "CALSTART Fiscal Compliance Audit," dated April 3, 2023. CALSTART has reviewed the Confidential Draft Report and responds to the draft findings and recommendations as stated herein. CALSTART appreciates the DOF audit team's efforts in preparing this report and the opportunity to provide a response.

Our responses to the three Findings and associated Recommendations are as follows:

Finding 1: Personnel Expenditures Claimed Exceeded Costs Incurred

A. Fee

CALSTART acknowledges the Department of Finance findings and recommendations, while emphasizing that CALSTART acted in good faith and without intent to charge any improper or unallowable costs. Specifically, the fees charged were for the benefit of the California Air Resources Board's (CARB) programs, and to further its programs. CALSTART's longstanding policy, in the absence of language prohibiting such fees, has been to charge fees – such as those charged here – on all its federal, state, and commercial contracts. The fees are used to support activities critical to the success of CALSTART's mission, provide financial stability, and protect against the higher business risks inherent in the management and performance of larger and more complex programs.

CALSTART was transparent in its billing of fees. In the Clean Mobility Options (CMO) program, CALSTART explicitly stated and identified all fees charged, including those now under discussion. In the Clean Off-Road Equipment (CORE) program, CALSTART discussed the fees in communications with CARB —through emails exchanged with

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CARB's staff specifically regarding the fees— and received no information from CARB indicating these billings were objectionable or improper under the agreement. Under these circumstances, CALSTART reasonably concluded that the billing of these fees was proper.

CALSTART acknowledges the grant agreements did not explicitly authorize payment of any fees; nor, however, did the grant agreements explicitly disallow any such payments. Under the circumstances, CALSTART reasonably believed the fees were permissible under the terms of the grant agreements as CARB had paid the fees when invoiced previously and CARB had raised no objections to them under either the CORE or the CMO programs. Moreover, in offset, CALSTART has managed CARB'S funded programs more efficiently than originally expected and charged CARB far less for HVIP-related administration costs than was authorized under the grant agreement. It should be noted that on May 19, 2021, CALSTART requested a reallocation of \$652,807 from unused administrative budget allocation to project funds —under G17-HVIP-01— thereby benefiting CARB's programs by increasing the number of vouchers provided.

Remedy:

- As stated by DOF in the Draft Audit Report —in the closing paragraph of Finding 1— the money in question could have been used to fund additional vouchers. Therefore, CALSTART has coordinated with CARB and will return \$1,380,865 to be used for additional vouchers to deploy clean technologies.
- Moving forward, CALSTART will ensure its billing practices align with all grant agreement requirements for claiming eligible administrative expenditures.

Planned completion of implementation: May 2025.

B. Ceiling rates

CALSTART concurs with the Department of Finance draft findings and recommendations.

CALSTART used the “ceiling rates” in earlier HVIP agreements. Effective with the reporting period beginning April 1, 2020, the billing methodology was changed with retroactive effect to May 2018. Since



then, CALSTART has claimed hourly billing rates based on the actual cost incurred (fully burdened labor cost) and no longer based on ceiling rates.

Remedy:

- As stated by DOF in the Draft Audit Report—in the closing paragraph of Finding 1—the funds in question could have been used for additional vouchers. Therefore, CALSTART has coordinated with CARB and will return \$484,612 to be used for additional vouchers to deploy clean technologies.
- Moving forward, CALSTART will ensure its internal billing practices align with all grant agreement requirements for claiming eligible administrative expenditures.

Planned completion of implementation: May 2025.

Finding 2: Project Expenditure Voucher Exceeded Allowable Cap

CALSTART concurs with the Department of Finance draft findings and recommendations. As stated in the audit report, CALSTART relied on a third-party consulting and engineering firm, which did not implement the \$500,000 maximum voucher limitation, to process vouchers.

Remedy:

- CALSTART has implemented additional internal controls and procedures to strengthen our oversight of vendors and ensure this issue does not reoccur.
- CALSTART has coordinated with CARB and will return \$50,000 to be used for additional vouchers to deploy clean technologies.

Planned implementation date: July 2023

Finding 3: Advanced Funds Not Placed in Interest-Bearing Accounts

CALSTART concurs with the Department of Finance draft findings and recommendations. As stated in the draft audit report, the bank fees associated with maintaining interest-bearing accounts would have exceeded any interest that might have been earned, thus negating any financial benefit in using interest-bearing accounts. Therefore, CALSTART's decision not to use interest-bearing accounts was economically sound and in CARB's financial interest.



Remedy:

- CALSTART has placed all advanced funds in interest-bearing accounts beginning October 2022, and will use the related earnings, if any, in accordance with the terms of the grants.

Planned implementation date: Action complete

CALSTART is implementing each audit recommendation and is fully committed to administering all programs in accordance with applicable laws, rules, regulations, and grant terms and conditions.

We appreciate the work of the Department of Finance audit team and the opportunity to comment on the draft report. If there are any questions relating to our comments or if any additional information is needed, please contact me via email at jboesel@calstart.org or by phone at (626) 744-5607.

Respectfully,

John Boesel, CEO

Cc: Alice Kindarara, Branch Chief, Acquisitions, Administrative Services Division, California Air Resources Board
Sydney Vergis, Division Chief, Mobile Source Control Division, California Air Resources Board
Lucina Negrete, Assistant Division Chief, Mobile Source Control Division, California Air Resources Board
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