



April 17, 2023

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

**CALSTART Response to Fiscal Compliance Audit Confidential Draft
Report No. 22-3900-090**

**Clean Transportation
Technologies and Solutions**

www.calstart.org

Board of Directors

Mr. John Boesel
CALSTART

Ms. Dawn Fenton
Volvo Group North America

Mr. Yuri Freedman
Southern California Gas
Company

Mr. Andrei Greenawalt
Via

Ms. Karen Hamberg
Deloitte LLP
Chair Emeritus

Ms. Chelle Izzi
Walmart

Ms. Julia Grinshpun
JP Morgan

Mr. Mark Patten
NextEra Energy

Ms. Katie Sloan
Southern California Edison

Mr. Chris Stoddart
New Flyer of America

Ms. Cynthia Williams
Ford Motor Company

Mr. Bob Wyman
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

OFFICES IN :

48 S. Chester Ave PASADENA, CA 91106 | 1607 Cole Blvd. LAKEWOOD, CO 80401 | 67 35th St. 5th floor Ste B508 BROOKLYN, NY 11232 |
2600 Tenth Street, Suite 407, BERKELEY, CA 94710 | 200 E. Big Beaver TROY, MI 48063 | 168 Smolian Circle, SANTA ROSA BEACH, FL 32459



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
Tess Sicat, Chief, Heavy Duty Off-Road Strategies Branch, Mobile Source Control Division, California Air Resources Board
Peter Christensen, Chief, Innovative Strategies Branch, Mobile Source Control Division, California Air Resources Board
Jason Crow, Manager, Innovative Strategies Branch, Mobile Source Control Division, California Air Resources Board
Sam Gregor, Manager, Innovative Strategies Branch, Mobile Source Control Division, California Air Resources Board
Richelle Bishop, Manager, Innovative Strategies Branch, Mobile Source Control Division, California Air Resources Board
Nathan Dean, Manager, Innovative Strategies Branch, Mobile Source Control Division, California Air Resources Board
Piero Stillitano, Chief Financial Officer, CALSTART
Jeffrey Caperton, Accounting Director, CALSTART
John Boesel, President & CEO
David Chow, Vice President, Chief Operation Officer
Jessica Olson, Vice President, Policy



Jasna Tomic, Vice President