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August 19, 2016

Ursula Lai  
California Environmental Protection Agency  
Air Resources Board (ARB) – Stationary Source Division  
LCFS Program Planning and Management Branch – Verification  
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RE: Proposed LCFS Verification Program

Ms. Lai,

Christianson & Associates, PLLP is a full-service public accounting firm located in Willmar, MN that has worked with renewable fuels producers for over 20 years, providing technical assistance and professional independent services that promote industry compliance.

Our staff participated in your July 29, 2016 workshop via web access and respectfully submits the following comments for your consideration in the development of a mandatory third-party verification program.

#### **Lead Verifier Requirements**

During the July 29th workshop, ARB outlined their efforts to create an accreditation avenue for RFS QAP providers as lead verifiers. We appreciate that ARB is listening to stakeholders' concerns about the pool of verifiers being too small, and we applaud your efforts in exploring ways to expand the pool of verifiers. We also specifically appreciate ARB being open to considering verifiers from the RFS programs.

We are concerned, however, that the inclusion of RFS QAP, which will only add a maximum of 5 providers, will not enlarge this pool enough. We believe that independent, licensed professionals, such as Certified Public Accountants (CPAs) who have the proper experience in biofuels industry auditing, should also be added to this pool of verifiers. CPAs have already been vetted as having the level of independence necessary under other regulatory programs to act as independent third-parties, and our proven expertise and reliability in these verification services should not be overlooked by ARB towards qualification as individual verifiers under LCFS.

The American Institute of CPAs (AICPA) is the certification authority for professional CPAs, providing oversight for professional CPA licensure and setting industry standards. The AICPA certification entails

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rigorous educational, hands-on experience, ethics, auditing, and continuing education standards. CPA certification involves in-depth and on-going education to ensure that those holding this license have a solid background and remain up-to-date with developments in the discipline. CPAs must also adhere to stringent business ethical standards and code of conduct independence and confidentiality. These features—independence, accountability, auditing practices—are all assets prescribed by the proposed language in the LCFS regulation.

Many CPAs like those at Christianson & Associates are already well-ingrained in the biofuels industries, providing a number of general and compliance services to these industries. Importantly, the requirement for independence is built directly in to our professional standards for attest or assurance services. Just as importantly, CPAs working with the biofuels industries will already have the necessary access to the confidential information required to completed LCFS verifications. By opening LCFS verification accreditation up to qualified CPAs, ARB would not only be broadening the pool of available verifiers, they would also offer a level of protection to verified entities by reducing the amount of confidential information that must be collected and transmitted to additional outside parties. Entities requiring verification could continue to work with the CPAs they already know and trust, instead of being required to contract with an additional third-party also requiring access to their private proprietary information.

Although CPAs have our own standards requiring the proper knowledge and industry experience to take on a client, we understand the likelihood ARB would add industry experience as a prerequisite for accreditation as it has done with the other accreditation avenues. We would suggest that individuals applying for verifier accreditation under any CPA avenue would also be required to have auditing experience in a supervisory role and demonstration of industry knowledge through client work and years of service to a relevant industry.

The CPA professional standard requirements and the proposed professional experience requirements noted above, along with ARB's plan to require training classes and exams in order to achieve accreditation, would provide additional competent individuals available for verifications. This would effectively widen the pool with experts that the industry is already familiar with and utilizing.

### **Conflict of Interest**

In considering CPA licensure as an available avenue for accreditation, we would also need to look at the current conflict of interest requirements in the proposed regulations. Although this was not addressed in the July 29th workshop, we remain concerned about certain elements in this area which continue to critically limit the pool of available verifiers, especially for large companies who may work with a number of different firms in various capacities.

We would like to start by stating our concern of ARB's belief that completion of another service already requiring independence would constitute a risk to or deterrent from completing LCFS verification. As noted, CPAs already have strict independence requirements under our own professional standards, and if one of our services already requires independence, it seems reasonable that we would qualify as "independent" on other services as well. In the current proposed regulations, the conflict of interest

section repeats that “services must be conducted in accordance with or equivalent to section 95501 requirements.” In a side-by-side review, it does not appear our standards are equivalent to those stated in section 95501, as our standards do allow a certain amount of consulting with the requirement that the auditor is not making management decisions or taking on any responsibilities on behalf of the company. It is important to recognize that various professional organizations continue to uphold this standard without noting any adverse risk to integrity of independence. Therefore, we would suggest reducing the list of restricted services that are currently considered high risk; or, that ARB recognizes the AICPA independence rules and considers our professional standards as equivalent to section 95501 requirements.

The final conflict of interest item we would like to explore is the subject matter being covered under LCFS in relation to the subject matter covered in other services that may not require independence. For example, if we are assisting a client with preparation of their tax return, this work is strictly related to financial information and tax code. The LCFS verification would be verifying sales documentation for transactional verifications and production input and output quantities for pathway verifications. These two topics do not overlap, and, therefore, independence should not be impaired when working with a company in an unrelated area to the LCFS. Again, this would only need to be a consideration for services provided which do not already require independence. If ARB is concerned with the evaluation of these services, then we would support submitting annually a self-evaluation and mitigation plan as to why certain services do not impair independence for ARB’s review.

### **Firm Rotation Requirements**

The firm rotation requirement was another area that was not covered in detail in the July 29th workshop, but it continues to be a topic we believe merits attention as well. As ARB is aware, stakeholders have been vocal about the concerns over a limited pool of verifiers, and, how when/if they find someone they are comfortable with, they can only use them for a certain period of time before being forced to restart the process. We believe the firm rotation requirement is unnecessary, given the number of other safeguards already written in to the proposed regulations, and we would like to see ARB eliminate this condition. If ARB feels strongly against its complete deletion, we would like to suggest as a compromise that, similar to our public audit requirements for CPAs, this rotation be a partner rotation (or equivalent) rather than a firm rotation.

The AICPA has conducted research on the cost and effect of changing its lead partner rotation requirement to a firm rotation. The research showed that the cost of an audit is greatly increased in the first few years of the relationship and that the audit effectiveness is lowest during this time due to the audit firm not being familiar with the company and its policies and procedures. As a result, the AICPA has decided not to move to a firm rotation requirement.

This knowledge should be valuable to ARB in its consideration of firm rotation requirements in LCFS verification. In changing verification bodies, the new auditor needs to learn and understand the new company’s GREET model, documentation behind the model, and become familiar with how the company operates. These processes can be time-consuming and allow a lot of room for error or failure

to detect issues. We would suggest that the rotation regulations be changed to a requirement for the Independent Reviewer on the engagement to be rotated rather than the actual firm. This would allow for the direct auditing staff to still be involved on the engagement and continue gaining efficiencies and knowledge about the client, but still get a fresh pair of eyes reviewing the entity so that the final reviewer does not get too comfortable with the client and documentation. This option would allow reduced costs and added efficiencies over time while still accomplishing ARB's goals.

### **Reporting and Verifications**

During the July 29th workshop, ARB presented three verification proposals with differing reporting and verification requirements. We at Christianson & Associates support the "First alternate proposal" emphasizing quarterly verification for only the initial regulated party, annual verifications for Fuel Pathway Holders, and no quarterly reconciliations. We feel this scenario best balances the timely issuance of credits with a lowered risk of credit invalidation through ongoing verification.

Christianson & Associates thanks you for your time and consideration of our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bradley Pedersen".

Bradley Pedersen, CPA  
Partner

A handwritten signature in blue ink, appearing to read "Kari Buttenhoff, CPA".

Kari Buttenhoff, CPA  
Compliance Services Manager

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