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April 19, 2018

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

RE: Proposed LCFS Verification Program

Christianson PLLP is a full-service public accounting firm located in Willmar, Minnesota that has worked with renewable fuel producers for 30 years, providing technical assistance and professional independent services that promote industry compliance. We are currently a RIN attest provider under the Renewable Fuels Standard and work primarily with biofuels producers. We are interested in becoming a verification body for fuel pathway holders for the upcoming LCFS verification requirement and respectfully submit the comments below pertaining to the proposed verification program.

CONFLICT OF INTEREST

Christianson PLLP employs 50+ people and provides a number of different services within the renewable fuels industry. Our financial audit service team typically requires 5-6 employees for a single engagement, which is the largest team our services require. Since any one engagement requires at most 5-6 employees, there is ample room to build additional firewalls and mitigate potential conflicts while still maintaining familiarity with the client and gaining efficiencies through data collected during other services. To require the entire firm of 50 people to meet all conflict of interest requirements would disqualify us for a number of our normal clients.

We would like to suggest that the services noted as high conflicts only be prohibited if someone on the LCFS verification team for a particular entity is completing one of those services. If the verification body firm is completing those services, we would suggest they be noted as a medium level conflict where we can provide a mitigation plan explaining to CARB the firewalls in place, including using separate staff for various services. In addition to allowing us to complete a mitigation plan, CARB could also require a disclosure of any concentrations, where the total revenue from a particular client makes up 10% or more of total firm revenue. Where concentrations are present, it would indicate that there is potential for false positive statements on LCFS verifications in order to maintain other work. As long as the client is not a concentration to the firm as a whole, then revenue percentages should not make a difference in independence evaluations.

If CARB is not agreeable to the suggestions in the paragraph above, then we would like to discuss permanently moving §95503(b)(2)(G) Service related to development of information systems, including providing accounting software or consulting on the development of environmental management systems, unless those systems will not be part of the validation or verification process, to a medium conflict. Typically, the software and support services provided for clients are done by a completely separate department that does not include accounting staff that work on general services or compliance verification type services. These service teams act within the firm like they are two separate entities even though they are held under a single firm name.

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There are already a number of firewalls between these departments of the company to help maintain our professional independence for other audit services and, therefore, we should be able to mitigate this conflict with CARB as well.

There is also a high conflict of interest item that we believe needs further definition. Currently, the proposed regulations notes the following as a high conflict item:

<u>§95503(b)(2)(N) Bookkeeping or other services related to accounting records or financial statements;</u>

The wording for this high conflict item is very vague and would imply that anything having to do with the financial statements would be excluded. We would recommend updating the text for this high conflict item to state, **"Bookkeeping and other non-attest services related to accounting records or financial statements, excluding services and results of those services that will not be part of the validation or verification process."**

Attest services are services that only a Certified Public Accountant (CPA) can perform and generally include audit, review and compilation of financial statements and agreed upon procedures (the RIN attest), among other services, most of which require independence. These services are unique to a CPA because they require passing the Uniform CPA Examination, adhering to a strict code of ethics, complying with professional standards and meeting ongoing professional development and education requirements. Many of these services require independence with the client, and we have therefore already demonstrated our independence, so they should not be included as a high conflict.

The final conflict of interest item that we would like CARB to consider is the formation of new entities. If the conflict of interest items are not adjusted to allow more room for mitigation plans and offering of other services, then the solution that has been discussed within the industry and with CARB staff is to form a new entity to handle LCFS verification services. If a new entity is formed following CARB's guidelines for minimum employee requirements, and ensuring there is no related party ownership issues, we would still be individually contracting employees from Christianson to assist with the verification work. This means that, realistically, we would go through the work of creating a new entity and maintaining the paperwork, insurance, etc., but would actually be using the same employees that CARB is not allowing under the current proposed rules. In order to save money, time and paperwork, we urge you to seriously consider applying the high conflict items to only the verification team for a particular regulated party and allowing the conflicts at the firm level to be mitigated.

FIRM ROTATION

We have previously stated in numerous public comment letters that we believe the firm rotation requirement should be removed from the proposed rule and continue to support that opinion. At the same time, we do understand that it is helpful to have someone new review audit and verification data, and we would support a lead verifier rotation on the LCFS verifications.

In past letters, we have cited numerous reasons why the firm rotation is not necessary for this proposed rule. The additional auditor independence, objectivity, and professional skepticism gained from a firm rotation does not outweigh the substantial cost, efficiency, and effectiveness lost. The Public Company Accounting Oversight Board (PCAOB) has done extensive research on this topic, which included auditing certified public accounting firms and collecting a vast amount of data supporting their stance of only requiring audit partner rotation.

They have noted that most of the errors that go unnoted were due to lack of technical competence or experience, insufficient supervision or deficiencies in the firm methodologies, not pro-client bias going into the engagement.

Additional support for the PCAOB's findings comes from our own experience with the RIN Attest Engagements required by the US EPA. Often times when we obtain new clients for the RIN attest, we find errors that the previous auditor did not. This is generally due to a lack of technical knowledge and experience, or difference in procedures being completed from firm to firm with no EPA oversight. CARB has already mitigated these factors by requiring a sampling plan that notes the risk assessment, list of documents to be tested, and many other audit planning items. CARB can review these plans at any time upon request and can view the actual procedures being completed and address any deficiencies with the verification body. CARB will also be requiring verification body team members to complete a CARB hosted training and test to become accredited prior to providing verifications. This accreditation process will mitigate the lack of technical knowledge and experience problems where errors are normally found upon rotation.

CARB has also reserved the right to audit the verification bodies. If there are concerns with long-standing relationships, we would suggest that CARB specifically choose some of these verification reports to audit so that they can ensure that the long standing relationship is not having an effect on the auditor's independence or professional skepticism. If CARB feels that there is bias in the procedures being performed due to the relationship, then rotation could be required at that time.
Finally, we also wanted to call attention to the limited effect the firm rotation will have for the verifications. It is very likely with the limited pool of verifiers that the regulated parties will identify two firms that they are comfortable with and will rotate between those two firms. This means that there are essentially two audit teams that they will always work with and will get limited exposure to new firms and new procedures. This limited benefit is not worth the added cost and lost effectiveness of the verifications through firm rotation. Including a lead verifier rotation would provide a new look at the data while still maintaining the verification team staff and the efficiencies gained with their knowledge and experience with the regulated party.

QUARTERLY VERIFICATION

We recommend that the current regulation allow an optional quarterly verification to be completed by the verification bodies. The sample selections for each quarter would be proportionate to renewable fuel output depending on the production cycles of the reporting entity. Additionally, a sampling plan would be created by the verification body and available upon CARB's request prior to the commencement of the quarterly verification. This option would allow the verification body an even distribution of verification work throughout the year instead of condensing it after year-end. All findings would still be reported in a corrections log that would be available to CARB.

In addition, the quarterly verification would allow for the identification of issues at an earlier date, rather than waiting 6-8 months after the reporting year before identifying problems. We do not have the intention of this being a mandatory quarterly verification, but rather an option of completing this work on a quarterly basis.

PREDECESSOR REVIEW UPON CHANGE OF VERIFICATION BODY

Each year, the verification body will be required to audit two years of data maintained for the GREET model. We would like to suggest that CARB consider adding an option of doing a predecessor review of the prior year's documentation so that procedures do not need to be redone on the prior year numbers when a new client is obtained by a verification body.
This would work similar to financial statement audit requirements, where the new verification body would work with the prior verification body to arrange a time to review the prior year's audit file to become comfortable with the accuracy of the prior year numbers rather than redoing audit procedures on the prior year data. This would save both the verification body and the regulated party time and money by not having to completely verify all the prior year numbers for a second time.

LCFS READINESS PERIOD

We have had discussions with companies that have shown interest in acquiring services to assist in preparing them for LCFS verification implementation. We would like to offer these clients some assistance, but also do not want to trigger a high risk conflict of interest in doing so. The idea is to complete many of the verification data checks on 2019 data and to draft a mock corrections log and report to give the client an idea of where they may have issues. This would allow them to make corrections or changes to their processes and documentation prior to the actual implementation period.

Our firm would provide the client with the errors that we would be logging and reporting if the verification regulation was effective, but we would not be advising or consulting on corrective action plans. The corrections log maintained during this interim period would not be accessible to CARB. This would allow the entity to identify errors prior to the LCFS reporting period, making a smoother and more accurate implementation. It would also allow us as the verification body to test and adjust our verification procedures and start creating documentation and reports in anticipation of the effective date of the rule. We would also anticipate bringing questions to CARB and sending in mock reports so that CARB could see and approve our deliverables prior to implementation. We would not need anything in the regulation to address this service, we would just like confirmation that if we provide this service that we will not be restricted from doing the verification when the rule becomes effective, and also that we are not starting the clock on any rotation rules that may still be in play.

Christianson PLLP thanks you again for the consideration of our comments and would welcome any further discussion related to the statements made in this letter.

Sincerely,

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