INTERNAL AUDIT REPORT

Annual Audit of Clean Fuel Reward Program

June 8, 2022

Period Under Review:
May 1st through December 31st, 2021

Southern California Edison
Annual Audit of the California Clean Fuel Reward Program
June 8, 2022

To: Clean Fuel Reward Program Steering Committee

From: CohnReznick LLP

Subject: Results of Annual Internal Audit of Clean Fuel Reward Program

Date: June 8, 2022

I. Executive Summary

The California Clean Fuel Reward Program (CCFR or CFR) is funded through the California Air Resource Board (CARB) and administered by Southern California Edison (SCE). CohnReznick LLP was engaged to serve as the independent program auditor for the CFR program. This report reflects the results of the Annual CCFR Audit performed by CohnReznick

The LADWP receives and holds the Electric Distribution Utility's (EDU) contributions along with all interest or other earnings in a CCFR bank account in LADWP's name (the CCFR account). Payments processed through the CCFR account may include reimbursements to dealers, various program costs and expenses.

This report provides information on the scope and approach of the CCFR internal controls review.

The objective of the audit was to assess the operating effectiveness of the program's current internal controls, including controls implemented in response to prior audit recommendations.

Engagement Scope and Approach

Specific areas of focus for this review included a review of the:

- Dealer enrollment and re-evaluation of the enhanced process, including secondary verification of the enrollment
- Dealer reward and reimbursement processes, including secondary verification of claims
- Annual enrollment and claims data validation processes
- Program metric definition, monitoring and reporting
- Implementer, financial institution and program administrator billing and invoicing
- Segregation of duties (SOD) and approvals of system access, including semi-annual access reviews
- Accuracy and validity of program expenses
- Completeness and existence of account balances
- Omissions (Complaints) Process

- Initial EDU Contributions for large and medium EDUs
- Background checks performed for new Maritz employees and existing employees assigned to the CCFR project

Engagement Approach:

- A sample of transactions was taken and tested for each of the areas of focus to assess the operating effectiveness of the established CCFR controls in place. Our testing techniques included inquiry, observations, and re-performance of the control activities.
- Analytics were used to analyze the claims processed and dealers onboarded activities listed below.
    - Claims Aging analysis for the claims paid - Calculating the difference between the submitted date and the payment date for each claim ID
    - Duplicate claim processing activity
    - Duplicate invoice analysis
    - Paid claims without payment dates
    - In process claims identified as paid
    - Retailer Length of time to approve a retailer
    - Duplicate retailers
    - Retailers with same address

Results:

The results of the review revealed the following issues:

1. Processed Claims – One claim was erroneously paid.
2. Access Controls – One employee with access did not conform with Maritz's standard operating procedures and SOD protocols.
3. Background Checks - One employee was hired prior to the completion of a background screening.
4. Omissions (Complaint) Process – Further improvement (from prior audit finding) is needed in the processing and recording of complaints.

An additional report was issued regarding the completeness and existence of account balances, program expenses and initial contributions for large and medium EDU's.
See Appendix A

II. Findings and Recommendations

1. Issue: Processed Claims - One claim was erroneously paid.

One payment was made for a claim that had a discrepancy between the sale date on the lease agreement and the sale date on the registration and the Maritz Automotive Rebate Admin System. This claim should have been rejected due to the date discrepancy.

We determined that the AI (Artificial Intelligence) validation implemented would not detect this error as it was performed manually by the Call Center Auditor.

Risks:

Unauthorized and/or inaccurate payment of claims

Recommendation:

Maritz should implement an additional review of manual validations performed by the Call Center Auditor.

Management response:

This original claim should not have been Approved; it should have been initially Rejected due to the sales date on the Lease Agreement not matching the sales date on the claim. In this case, the Retailer could have then resubmitted the claim with the corrected Sales Date. However, the vehicle sale itself has been confirmed as being valid and eligible for reimbursement.

Typically, if there is a conflict between the automated checks/AI validations of a claim and the human auditor's validation, the Claim will be reviewed by a second human auditor, per our 2-Auditor Workflow as outlined in the SOP. Because the Claim Sales Date check is reviewed only by a human auditor, there weren't any conflicts, so the claim did not go to a second auditor. Maritz does not recommend implementing an additional manual validation on every Claim, as the current process significantly minimizes the risk of inadvertent errors and fraudulent submissions being processed. In addition, a second manual audit on every Claim would require additional costs, which are not currently budgeted.

In addition to the Claim automated checks/AI validations and auditor validations, there are post-sale validations to provide an even greater assurance that the paid claims are valid. Maritz confirmed that all other aspects of this claim were valid, and this VIN matched the post-sale Registration match. We believe the retailer inadvertently entered the 4/29/21 Sale Date in error. Maritz is dedicated to ensuring that all possible steps are taken to ensure high quality standards when validating claims, including monitoring Claims auditors weekly and providing coaching/counseling feedback as needed, as well as resolving any possible claim corrections necessary.

2. **Issue: Access Controls – One employee with system access did not conform with Maritz's standard operating procedures and SOD protocols.**

One employee was granted multiple permissions, the Maritz Content Specialist role as well as the Maritz Admin role.

The Maritz Content Specialist role is granted to individuals who update the website content in Maritz Admin (Maritz Automotive Rebate Admin System), CCFR Retailer

Portal, the EDU, and SCE Portals. Individuals who specialize in content creation are assigned this role. The employee also had the Maritz Admin role.

In addition, we noted that the semi-annual user access review did not pick up the above-noted conflict.

Risks:

Inappropriate access can result in unauthorized transactions.

Recommendation:

Management should ensure that user access to the CCFR system is granted in accordance with Maritz's policies and procedures and segregation of duties.

Additionally, a secondary validation should be performed for the semi-annual access review.

Management response:

The current process of granting access to the CCFR system is following the process in accordance with Maritz' policies and procedures and segregation of duties. This issue identified was discovered during the semi-annual access review; however, the resolution was not implemented until an additional inquiry was made resulting in further research. To provide an additional control, the process of granting permissions is being modified to incorporate a pre-approval review to ensure no other permissions are currently in place for the individual which the permission is being requested. Also, a second review of the semi-annual review is typically conducted to ensure all conflicts are resolved, but for the latest semi-annual review that step was omitted in error. The results of the first and second review are shared with the Maritz SCE team for review and moving forward a sign-off page will be added to capture the secondary reviews.

3. **Issue: Background Checks - One employee was hired prior to the completion of a background screening.**

   One employee (out of a total of 30 in the program) was hired prior to the completion of a background screening.

Risks:

Lack of background checks increases the risk of individuals adversely affecting the safety and security of the workplace.

Recommendation:

Maritz should ensure that background checks are performed, and employees are cleared prior to assigning any resources to work on the CCFR program.

Management response:

Maritz does typically ensure that background checks are performed, prior to assigning an employee to any project. The one employee who was hired prior to the background check being finalized did not have any access to the CCFR system. Our development partner, Perficient, was in need of an AI Architect to begin quickly to accommodate an urgent need to start scoping requirements. It was verbally agreed between Perficient and Maritz to allow the employee to begin working (i.e.: start attending meetings and developing recommended AI solution requirements) while the background screening was being performed, with the understanding if it returned anything that didn't align with the background policy, that the employee would be removed from the position. In addition, this employee was a full-time employee for Perficient and had passed background screenings prior to being hired.

4. **Issue: Omissions (Complaint) Process – Further improvement (from prior audit finding) is needed in the processing and recording of complaints.**

In a prior review, a recommendation was made to enhance the customer complaint process to provide standards for timely resolution, formalize the review of complaints, and track complaints for adequate and timely resolution.

While we noticed improvements on the processing of complaints, the new omissions (complaints) log did not contain sufficient detail related to the nature of, or resolution of the complaint. Additionally, two complaints were not included in the log. Subsequently, a secondary (working) log that detailed the reason and resolution of complaints was provided; however, the format of the log should be improved in order to support an easy review for any reader.

Risks:

- Lack of formal tracking and review over customer complaints could lead to unresolved issues.
- Also, better tracking and analysis of omissions can assist Maritz and SCE in resolving operational issues.

Recommendation:

Maritz should make the following enhancements to the Omissions process:

- The Omissions process should be further enhanced to provide an additional level of detail that includes insight on the complaint received and the resolution of that item.
- Management should consider consolidating the logs versus having to maintain two logs.
- Complaint information should be summarized to provide insight into operational issues noted when resolving complaints.
- Further, as part of the monitoring of the complaints, the reviewer should verify that complaints logged by the call center include sufficient details for tracking, analyzing, and reporting.
- Management should consider utilizing an automated system that tracks all complaints from input of the initial complaint through resolution.

While Maritz is not contractually obligated to provide complaint information, the summary complaint information may be useful to help improve the program. We recommend that a summary of the types of complaints and operational issues encountered be provided to SCE and the Steering Committee periodically.

Management response:

During the course of the program, Maritz has continued to look for ways to improve and enhance how complaints/omissions need to be handled and documented. As new situations arose, Maritz developed processes/procedures and worked with SCE to gain approval of the approach. Updates have been provided to SCE in status meetings and on an ad-hoc basis as needed.

Over time, Complaints (which are very minimal), were able to be handled and resolved by a Contact Center agent via phone/chat/email and did not need to be escalated or tracked separately. The current process to keep a detailed tracking log of all Reward Omission cases is due to this being the only type of situation that needs to be formally tracked/investigated/resolved, at this point in time. Detailed information on each case is included in the log and a dedicated resource manages the follow-up/resolution of each case. In some cases, either the Retailer or the Customer do not respond to follow-up attempts, so the Omission may be outstanding for an extended period of time.

In order to provide overall metrics to SCE, Maritz summarizes the Omission cases in a tracking spreadsheet and shares that with SCE. The development of an automated system to track/report on the Omissions cases is not currently included in the CCFR budget but could be scoped if desired by SCE.

Appendix A

INTERNAL AUDIT REPORT

Clean Fuel Reward Program

Internal Audit of Bank Reconciliations, Invoice Approval, and Initial EDU Funding

March 30, 2022

To: Clean Fuel Reward Program Steering Committee

From: CohnReznick LLP

Subject: Results of Internal Audit of Bank Reconciliations, Invoice Approval, and Initial EDU Funding

Date: March 30, 2022

I. Executive Summary

The California Clean Fuel Reward Program (CCFR or CFR) is funded through the California Air Resource Board (CARB) and administered by Southern California Edison (SCE). CohnReznick LLP was engaged to serve as the independent program auditor for the CFR program. This report is a supplement to the Annual CCFR Audit and was performed to document the work performed by CohnReznick to be used by the Los Angeles Department of Water and Power (LADWP) and the external auditor of the City of Los Angeles.

The LADWP receives and holds the Electric Distribution Utility's (EDU) contributions along with all interest or other earnings in a CCFR bank account in LADWP's name (the CCFR account). Payments processed through the CCFR account may include reimbursements to dealers, various program costs and expenses.

This report provides information on the overall objectives, scope, and approach of the review of the CCFR account's reconciliation and invoice approval processes as well as a review of the EDU's initial contributions to the CCFR Program.

The objective of the audit was to assess the operating effectiveness controls over the bank reconciliation process, initial funding of EDU contributions and approval of invoices.

Engagement Scope and Approach

1. The scope of the audit included the CCFR account bank reconciliations performed for the months of February, April, and June 2021. The review included the following:

   - Verifying that the reconciliations were approved by a manager or designated approver.
   - Tracing cash totals listed in the reconciliation to the CCFR account bank statement and the SAP general ledger.
   - Tracing total expenses for the month to the general ledger balance.
   - Reviewing reconciling items noted in the bank reconciliation, if any.
   - Tracing opening and ending balances as well as deposits and withdrawals noted in the bank reconciliation to the bank statement.

- Spot checking links and formulas on the Summary and Approval and CCFR account Bank Reconciliations tabs for accuracy and completeness of deposits, withdrawal and expense information extracted from the general ledger.
- Obtaining and validating parameters used to extract SAP Financial statement information.

Note: The February and April bank reconciliations were previously reviewed during the Interim Audit and reported in December 2021.

2. Verifying that the large and medium initial EDUs contributions made to the CCFR account were equal to or above the amounts specified in the CCFR Governance document. This was performed by tracing the amount of initial EDU funding listed on the governance document to the bank statements.

3. Verifying a sample of invoices for proper Steering Committee approval as specified in the Program's governance agreement.

Results:
The results of the review of the bank reconciliations performed by SCE revealed that controls were properly designed and operating effectively. We were able to validate items on the reconciliation to the bank statement, general ledger and supporting documentation. We verified that the large and medium EDUs made their initial contributions without exception. In addition, all of our sampled invoices were approved for payment by the Steering Committee.

We did identify a deficiency where the reconciliation did not properly highlight reconciling items in the February and June 2021 CCFR account bank reconciliations. Management was subsequently able to provide support substantiating the reconciling items. Additionally, management communicated that going forward, all reconciling items and related support will be included as part of the bank reconciliations. Refer to Section II Findings and Recommendations.

We also identified two process improvements – Refer to Section II for details related to the process improvements.

II. Findings and Recommendations

Issue: Management did not highlight reconciling items in the bank reconciliations for February and June 2021.

Recommendation:
Management should clearly highlight reconciling items noted when performing and documenting the bank reconciliations. The reason for the reconciling items should be clearly noted and management should follow for resolution of the reconciling items. The three reconciling items noted in the February and June reconciliations

were related to chargeback and timing differences for rewards paid on the last day of the month.

Management response:

We agree with the fact that the reconciling items were not clearly identified in the documentation. The information was factored into the final, approved document, but was manually included in a manner that was not clear. Going forward, the team has implemented methods to clearly identify reconciling items. Operationally, the team has also determined ways to minimize the carry over reconciling items to provide a cleaner view.

III. Process Improvements

1. Management includes a job aid within the CCFR Program Reconciling Workbook which outlines all steps taken by the preparer to perform the bank reconciliation. However, the review procedures performed by management are not included in the job aid.

   Management should document the review steps to be performed by management when reviewing the bank reconciliations.

2. Our review of the formulas within the bank reconciliation workbook revealed one instance (February 2021) where the total for the period was incorrect due to the formula not being carried down to the correct line in excel. This error affected the total expense noted on one of the tabs in the bank reconciliation workbook (SCE Cost Summary Tab). However, the error did not affect the overall accuracy of the reconciliation.

   Management should implement an ongoing and robust review of calculations and formulas to ensure the accuracy of the reconciliations.