

Attestation Engagements (Audits) for the HFC Allocation Program *Guidance for Certified Public Accountants*

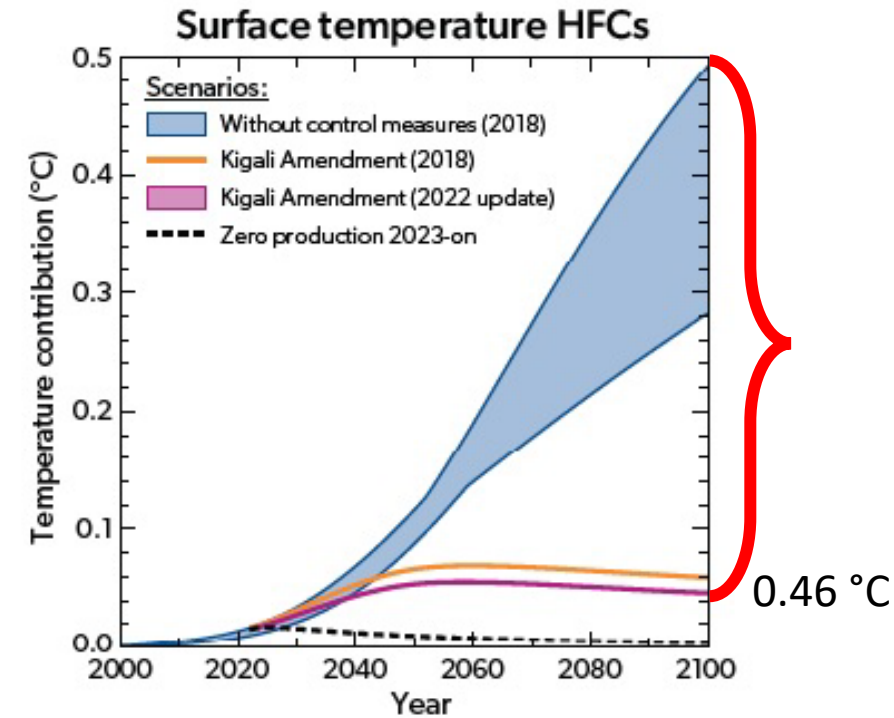
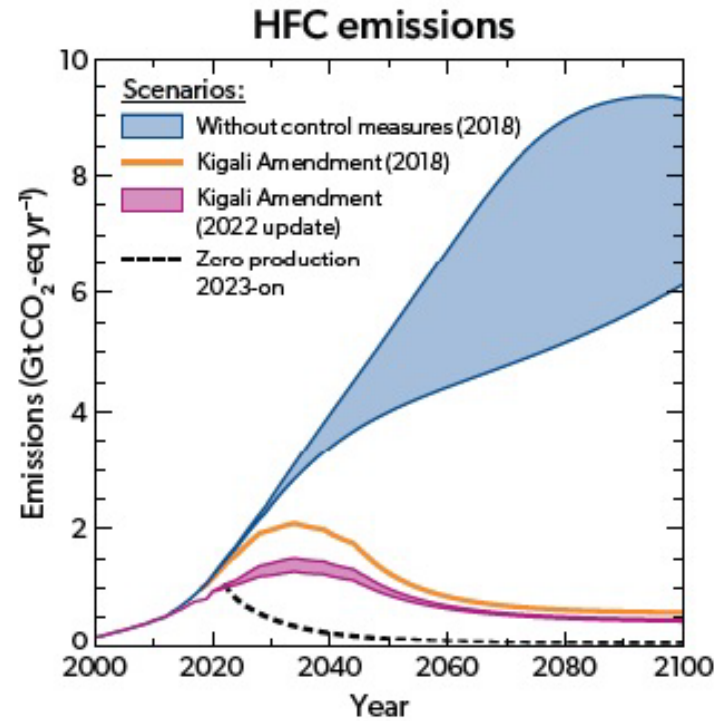
March 12, 2024

Agenda

- Hydrofluorocarbons (HFCs) and The American Innovation and Manufacturing (AIM) Act Overview
- Auditing Overview
- Auditing Requirements
 - Producers, Importers, Exporters
 - Application-specific Allowance Holders
 - Reclaimers and Fire Suppressant Recyclers
- Preparing and Submitting Audit Reports
- Resources
- Questions

A global HFC phasedown is expected to avoid up to 0.5°C of global warming by 2100

- HFCs are climate-damaging greenhouse gases with global warming potentials (GWPs) hundreds to thousands of times higher than carbon dioxide (CO₂)
- Absent effective regulations, HFC use and emissions are expected to continue increasing rapidly worldwide



WMO Scientific Assessment of Ozone Depletion: 2022, GAW Report No. 278, Figure ES-4

- The American Innovation and Manufacturing (AIM) Act was enacted December 27, 2020
- The AIM Act authorizes EPA to address (HFCs) in three main ways:
 - Phase down HFC production and consumption through an allowance allocation and trading program
 - Promulgate certain regulations for purposes of maximizing reclamation and minimizing releases of HFCs and their substitutes from equipment
 - Facilitate sector-based transitions to next-generation technologies through restrictions on HFCs

HFC Allocation Program

- EPA published the Allocation Framework final rule in October 2021 (86 FR 55116)
- Established the HFC production and consumption baselines from which reductions are calculated
- Codified the phasedown schedule in the AIM Act
- Required that allowances must be expended starting on January 1, 2022, to produce or import bulk HFCs (with limited exceptions)
- Established a methodology for issuing allowances for 2022 and 2023
 - We recently issued a regulation that established the methodology for issuing allowances for 2024 – 2028
- Program includes robust enforcement and compliance mechanisms

Enforcement and Compliance Mechanisms

- Allocation Framework Rule established the following mechanisms:
 - Administrative consequences to revoke, retire and withhold allowances in addition to potential civil and criminal enforcement action
 - Labeling
 - Data transparency
 - Recordkeeping and reporting
 - Third-party auditing

Auditing Overview

- **Purpose of auditing:** To verify that reports submitted to EPA are accurate and ensure the integrity of the HFC Allocation program
- **When audits are due:** May 31 of each year
- **Compliance period:** January 1 – December 31 of the prior year
 - All activity that occurred during the compliance period, including requests for application-specific allowances must be reviewed
- **Who is subject to the auditing requirement**
 - Producers, importers, and exporters of regulated HFCs
 - Application-specific allowance holders
 - HFC reclaimers and fire suppressant recyclers
- **Documentation to be submitted by May 31**
 - Summary of findings (e.g., list of discrepancies identified)
 - A final report identifying the applicable procedures specified in the regulations along with the corresponding findings for each procedure, including a list of all records reviewed
- **Full list of auditing requirements:** [40 CFR 84.33](https://www.ecfr.gov/current/title-40/section-84.33) (<https://www.ecfr.gov/current/title-40/section-84.33>)

Auditing Overview Cont'd

- Informed by AICPA, EPA determined that HFC audits will use agreed-upon procedures as they focus on compliance with specific regulations
- Ami Beers from AICPA will next explain agreed-upon procedures

AUP Engagement in Accordance with AT-C 215

- Practitioner must be independent
- Practitioner performs procedures and reports the findings
- Procedures are not open to varying interpretations or do not use ambiguous language* (e.g., general review, check, test)
- Practitioner report should include all procedures performed and results of findings
- No opinion or conclusion is provided

**Paragraph .27A of AT-C Section 215 provides examples of acceptable descriptions of actions as well as descriptions of actions that generally are not acceptable because they are not sufficiently precise or have an uncertain meaning.*

AICPA will develop guidance with illustrative procedures and findings based on the EPA guidance.

General Agreed Upon Procedures Requirements

- Compare information reported to EPA with the entity's data maintained consistent with the recordkeeping and reporting requirements in [40 CFR 84.31](https://www.ecfr.gov/current/title-40/section-84.31) (<https://www.ecfr.gov/current/title-40/section-84.31>)
- Review all other reports submitted to EPA under [40 CFR Part 84 Subpart A](https://www.ecfr.gov/current/title-40/part-84/subpart-A) (<https://www.ecfr.gov/current/title-40/part-84/subpart-A>)
- Document your procedures and report all variances to EPA

Auditing Requirements: Producers, Importers, and Exporters

- Review the following to verify reported production, import, and export activity:
 - Data reported in the HFC Producer Quarterly Reports, HFC Importer Quarterly Reports, and HFC Exporter Quarterly Reports
 - Records documenting:
 - The amount of production and consumption allowances allocated
 - The amount, timing, and parties to allowance transfers
 - The amount of regulated HFCs imported, exported, produced, and destroyed, transformed, or sent to another entity for destruction or transformation
 - The amount of application-specific allowances allocated or conferred from other companies
 - HFCs purchased and/or sold for application-specific end-uses
 - Date and port of import or export; bills of lading and invoices; Harmonized Tariff Schedule codes
 - Number and type of containers used to store and transport HFCs
 - End-of-year inventory of HFCs
 - Batch testing results

Examples: Producer Activities

- Obtain data reported to the EPA in the HFC Quarterly Reports
- Compare this data to records kept onsite by the company (such as the quantity of each regulated substance produced at each facility). See [40 CFR 84.31\(b\)\(3\)](#)
- Confirm that the production volumes include HFCs that were emitted during production
- For HFCs produced for destruction, confirm they have been destroyed within 30/120 days
- Compare allowance balances expended to the balance statement
- Report any variances

Examples: Importer Activities

- Compare data reported in Importer Quarterly Reports to the data required to be maintained consistent with 40 CFR 84.31(c)(2) (such as the quantity of each regulated substance imported)
- Compare imports of heels to reported values
 - *(the amount of a regulated substance that remains in a container after the container is discharged or offloaded (that is no more than 10 percent of the volume of the container))* Compare values in petitions for HFCs imported for destruction to reported values
- Compare allowances expended to the balance statement
- Report variances

Auditing Requirements: Application-Specific Allowance Holders

- Review the following to verify reported HFC application-specific allowance holder activity:
 - Data reported in the HFC Application-Specific Allowance Holder Biannual Report
 - Records documenting:
 - The amount of application-specific allowances allocated
 - The amount, timing, and parties to allowance transfers
 - The amount, timing, and parties to allowances conferred
 - The total amount of HFCs purchased or sold for application-specific end-uses
 - End-of-year inventory of HFCs

Auditing Requirements: Reclaimers and Fire Suppressant Recyclers

- Review the following to verify reported HFC reclamation and recycling activity:
 - Data reported in the HFC Reclamation Quarterly Reports and HFC Fire Suppressant Recycling Quarterly Reports
 - Records documenting:
 - The quantity of each HFC received for reclamation or recycling
 - The persons sending the regulated entity HFCs for reclamation or recycling
 - The quantity of each HFC reclaimed or recycled

Examples: Reclaimers – HFCs Received for Reclamation

- Obtain all quarterly reports
- Obtain records of all HFCs received for reclamation during the compliance year as well as who submitted it
- Select a random sample (5 percent or 10 individual transactions, whichever is higher) of the total HFCs received for reclamation or recycling during the compliance period
- Compare to company records
- Report any variances

Preparing and Submitting Audit Reports

- Final audit report documents
 - 1) Summary of findings template
 - 2) A description of findings for each agreed upon procedure, including a list of all records reviewed
- Submitting final audit reports to EPA
 - **Reporting platform:** EPA's [Central Data Exchange \(CDX\)](https://cdx.epa.gov/) (<https://cdx.epa.gov/>)
 - **Program service name:** ODS: Ozone Depleting Substances
 - **Reporting tab:** Other Documents
 - **Document type:** Third-party Audit
 - **Guidance documents:**
 - [Registering with CDX](https://www.epa.gov/system/files/documents/2021-12/reporting-instructions_registering-with-cdx.pdf) (https://www.epa.gov/system/files/documents/2021-12/reporting-instructions_registering-with-cdx.pdf)
 - [Submitting Other Documents to EPA](https://www.epa.gov/system/files/documents/2021-12/reporting-instructions_submitting-other-documents.pdf) (https://www.epa.gov/system/files/documents/2021-12/reporting-instructions_submitting-other-documents.pdf)

Summary of Findings

Instructions: Provide the following information about the third-party auditor, auditee, and compliance period.

Name of Third-party Auditor:	
Name of Auditee:	
Auditee HAWK ID:	
Compliance Period (Calendar Year):	

Instructions: Provide a brief summary of the discrepancies identified. Note NA in cases where none were identified or if activity is not relevant.

Activity Type	Summary of Discrepancies Identified
Producer	
Importer	
Exporter	
Application-specific Allowance Holder	
Reclaimer or Fire Suppressant Recycler	

Registering with EPA's Central Data Exchange (CDX)

1. Visit <https://cdx.epa.gov/> and select “Register with CDX”
2. Locate and select “ODS: Ozone Depleting Substances” from the list of active program services
3. Fill out the user information
4. Search for your Organization or enter Organization Information
5. Activate your account
6. Complete electronic verification or submit a signed electronic signature agreement (ESA) through U.S. Postal Mail to EPA

Submitting your Report

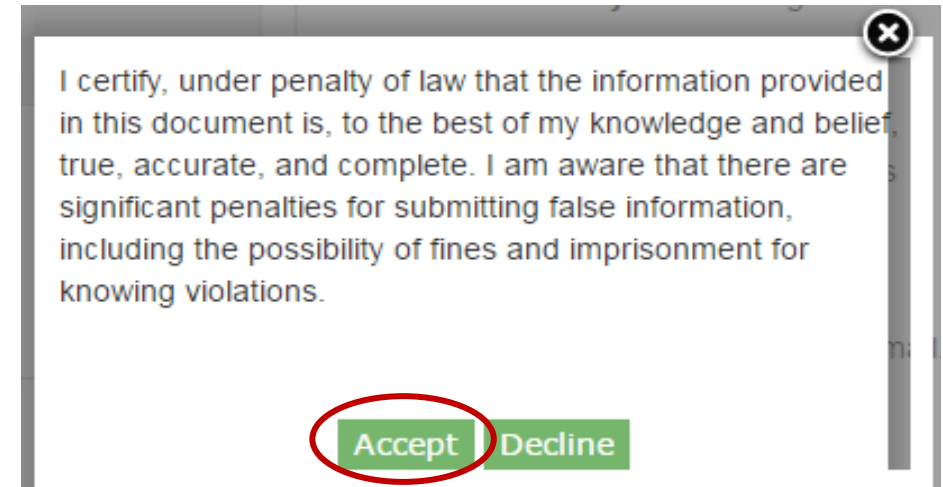
1. Go to <https://cdx.epa.gov/> and log into your CDX account
2. From the “MyCDX” tab, select “Ozone Depleting Substances”
3. From the CDX ODS home page, select “Other Documents”
4. Select “Create New Submission”
5. Create a passphrase

What is a Passphrase?

- The passphrase is used as an encryption key to protect the contents of your submission
- Each time you create a new submission, you will be asked to create a passphrase
- The same passphrase may be used for all submissions
- A single passphrase may be used by all CDX users in your organization

Submitting your Report

6. Enter your Organization's Primary Contact Information
7. Select "Third-party Audit" as your Document Type
8. Upload Documents
9. Confirm all information is correct and click "Save and Submit"
10. Click "Sign, Encrypt, and Submit"
11. Certify the accuracy of your submission by clicking "Accept"
12. Complete the eSignature



- [HFC Allocation Program Regulatory Actions](https://www.epa.gov/climate-hfcs-reduction/regulatory-actions-allowance-allocation-and-reporting)
(<https://www.epa.gov/climate-hfcs-reduction/regulatory-actions-allowance-allocation-and-reporting>)
- [HFC Allocation Program Reporting and Recordkeeping web page](https://www.epa.gov/climate-hfcs-reduction/reporting-and-recordkeeping-resources)
(<https://www.epa.gov/climate-hfcs-reduction/reporting-and-recordkeeping-resources>)
- [Auditing Guidance, ODS Recordkeeping and Reporting Resources](https://www.epa.gov/ods-phaseout/ozone-depleting-substances-ods-recordkeeping-and-reporting)

(<https://www.epa.gov/climate-hfcs-reduction/reporting-and-recordkeeping-resources>)

(<https://www.epa.gov/ods-phaseout/ozone-depleting-substances-ods-recordkeeping-and-reporting>)

- Central Data Exchange
- Other Document Submission Instructions
- [Access Other Document Submissions Through EPA's Central Data Exchange \(CDX\)](https://cdx.epa.gov/)
(<https://cdx.epa.gov/>)
- [HFC Allocation Rule Reporting Help Desk](https://www.epa.gov/climate-hfcs-reduction/forms/hfc-allocation-rule-reporting-helpdesk)
(<https://www.epa.gov/climate-hfcs-reduction/forms/hfc-allocation-rule-reporting-helpdesk>)

Resources, continued

- Frequently Asked Questions on our website
- Send questions to hfcallocation@epa.gov

Questions?