

# **SCARY SECRETS OF GHG REPORTING**

**(THAT COULD COST YOU \$500k+)**

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## INTRODUCTION

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In 2024 California law (SB 253) created penalties of up to \$500,000 on companies for incomplete GHG reporting.<sup>1</sup> The U.S. EPA has also levied fines for non-compliance or faulty GHG reporting.<sup>2</sup> And, when Volkswagen’s emissions scandal was made public the brand and the stock price took a massive hit.<sup>3</sup> These are avoidable situations.

Failure to produce accurate greenhouse gas (“GHG”) emissions inventories can present organizations with risks, many of them hidden or underestimated. It is often tempting to use internal resources or even general-purpose accounting firms to prepare the GHG materials for stakeholders, including investors, regulators, customers and more. But, there are many pitfalls to avoid. Why? GHG accounting is highly specialized and comes with a maze of pitfalls and ‘gotchas’ that could cost you serious time, money, and legal fees. Our experience at FSI and 3rd party research proves this point.

FSI, a specialized advisory firm focused on GHG and sustainability reporting, has prepared these “scary secrets” about the consequences of poor GHG accounting. This report reveals the 5 “scary secrets” we see repeatedly, along with proven strategies to avoid them. These aren’t theoretical concerns, they’re real risks backed by regulatory enforcement data, industry research, and our direct experience helping companies navigate this complex landscape.

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## Scary Secret #1: **The 30–40% Error Rate Nobody Talks About**

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### **(And Why Spreadsheets Make it Worse)**

Here's a statistic that should keep your C-Suite and Board up at night. According to a 2021 Boston Consulting Group study that surveyed 1,290 middle market and organizations with ~1,000 employees, companies estimate a +/- 30-40% average error rate in their emissions calculations.<sup>4</sup>

If your company reports 10,000 metric tons of CO<sub>2</sub>e, your actual emissions could be anywhere from 6,000 to 14,000 tons. That's not a rounding error. That's a compliance catastrophe waiting to happen. The culprit? Excel spreadsheets and manual data collection. According to GHG Protocol, 83% of companies that report on climate disclosures struggle to access relevant emissions data, making errors almost inevitable without proper systems and expertise.<sup>5</sup>

#### Why This Is Dangerous:

- Underreporting can trigger penalties when auditors discover the gap
- Over-reporting makes your carbon reduction targets mathematically impossible to achieve
- Inconsistent methodologies year-over-year flag you for regulatory scrutiny
- Manual processes leave no audit trail to defend your numbers

**And here's the kicker:** Most companies don't discover these errors until an external auditor or regulator points them out. When it's too late and too expensive to fix.

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## Tips to Avoid Costly Mistakes:

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**Tip #1: Education** = Use publicly available information from trusted sources like the U.S. EPA and GHG Protocol to gain a baseline understanding of the methodology and procedures (resource links at the end of this document).

**Tip #2: Integrate Facility Management & Utility Bill Processing Tools** = Integrating facility management and bill processing tools enhances GHG accounting by automating data capture, reducing manual errors, improving audit transparency, and streamlining cross-departmental data aggregation.

**Tip #3: Commit Resources** = Designate internal team members or create internal task forces to oversee the GHG boundary setting, data gathering, and calculations processes.

**Tip #4: Utilize Experts** = Avoid mistakes by utilizing GHG accounting professionals or outsourcing completely to 3rd party experts. General accounting firms understand GAAP, but GHG accounting operates under entirely different frameworks (GHG Protocol, ISO 14064, TCFD). Specialized firms like FSI understand the nuances of emission factors, organizational boundaries, Scope 3 categories, and regulatory requirements across jurisdictions. Think of it like tax accounting: you wouldn't use a bookkeeper for complex international tax structures. The same principle applies here.

**Tip #5: Prioritize Supplier Engagement for Scope 3 Accuracy** = Since supply chain emissions represent the largest portion of most companies' carbon footprints, establish structured supplier engagement programs. Provide suppliers with reporting templates, offer training on emissions calculation, and consider using automated tools for data collection. It's best to start with your highest-impact suppliers (those representing the largest emissions or spend) and expand systematically. Early supplier collaboration not only improves data accuracy but also helps meet California's Scope 3 requirements and demonstrates good faith efforts during the safe harbor period.

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## Scary Secret #2: **You May Be Behind Schedule**

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### **(Without Knowing It)**

According to the U.S. EPA, for a typical company with \$1 billion in annual revenue, preparing GHG accounting, including Scope 1 and 2 emissions, usually takes about 2 to 4 months, assuming good data access and organizational readiness.<sup>6</sup> This covers the standard inventory and disclosure process, which includes planning, boundary definition, data collection, calculation, and verification steps. Companies new to GHG accounting or with complex operations spend significantly longer, especially if external audits or assurance are required.

Regulatory guidelines, such as California's SB 253, expect initial GHG reports to be based on the prior fiscal year, with final reporting due the following year (i.e. - fiscal year 2025 data reported by June 2026).<sup>7</sup> Scope 3 emissions, which are more complicated and time-consuming due to supply chain analysis, can extend the process, often requiring an additional year before mandatory reporting kicks in.

These are typical timelines for companies already maintaining solid records, but lack of preparation or poor data quality can significantly increase the time required, so you want to be prepared well in advance.

**Here's the problem:** California SB 253 requires that fiscal year 2025 emissions must be reported by June 1, 2026, which means that companies should already be knee-deep in data collection.<sup>8</sup> Yet most companies we speak with haven't started. They're waiting for "more clarity" or assuming they can handle it with a quick project next quarter.

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## Tips To Plan Effectively:

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### Here's what happens when you wait too long:

- You're forced to hire expensive consultants at premium rush rates (often 2x+ normal fees)
- Your internal teams work overtime, burning out your best people and jeopardizing other critical projects
- Data quality suffers because there's no time for proper verification
- You miss deadlines and face penalties or file incomplete reports that trigger audits

**The companies that succeed start 12-18 months before their first filing deadline.**

## Tips To Plan Effectively:

**Tip #1: Backwards Planning** = Work backwards from reporting deadlines and prepare internal and external resources well in advance of disclosure deadlines and create a GHG inventory management plan which formalizes what needs to be measured, where data comes from, and who is responsible.

**Tip #2: Use Tools and Templates** = Tools like the U.S. EPA's GHG Inventory is a great place to start to understand the different scopes of emissions, data sources required, and basic concepts.

**Tip #3: Create a "Dry Run" Report 6 Months Early** = Even if you're not required to report this year, create a complete GHG inventory as if you were filing tomorrow. This reveals data gaps, identifies resource constraints, and gives you time to fix problems before they're compliance issues. FSI offers complimentary dry-run assessments to help companies understand their readiness level.

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## Scary Secret #3: **Safe Harbor Periods Create a False Sense of Security**

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### **(The Real Work Takes Longer Than the Grace Period)**

Here's the misconception about California's SB 253 and SEC climate rules: Companies see phrases like "safe harbor," "phased implementation," and "Scope 3 comes later" and assume they have plenty of time. The problem: The complexity of GHG accounting only reveals itself once you start. And by then, the safe harbor period is over.

### **Consider the reality:**

- California's initial "safe harbor" for assurance ends in 2026, but building an assurance-ready system takes 12-18 months
- You can't verify data quality until you've collected a full year's worth of data
- Scope 3 requires supplier engagement programs that take 6-12 months just to establish
- Third-party verifiers need 2-3 months to complete attestation, and they won't start until your data is ready

Here's what we see repeatedly: Companies wait too long to begin. Then they discover their data infrastructure isn't adequate, their suppliers aren't prepared, and their internal teams don't understand the methodologies. At that point, "catching up" means paying premium rates for rushed consulting work, or filing incomplete reports that don't meet the actual requirements despite technically being "on time." The real danger isn't regulatory penalties during safe harbor. It's emerging from safe harbor completely unprepared for the standards that follow. And you can't afford to be unprepared.

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## Planning Tips:

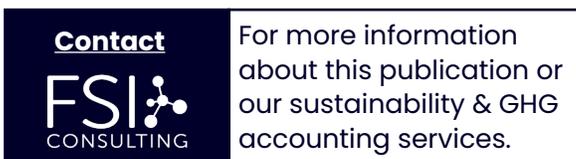
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GHG compliance is now table stakes for most large companies, private equity backed firms, and thousands of other organizations facing investor demands and expanding regulatory frameworks. Companies doing business in California must report their greenhouse gas emissions and climate-related financial risks, regardless of public or private status.<sup>9</sup> Even companies not directly covered by regulations face pressure from value chain partners who need your emissions data for their own Scope 3 requirements. The market isn't waiting for regulatory deadlines, 89% of investors now factor ESG into investment decisions,<sup>10</sup> meaning companies emerging from safe harbor periods without proper GHG infrastructure will find themselves at a competitive disadvantage in capital markets, customer relationships, and supplier negotiations.

## Planning Tips:

**Tip #1: Conduct a Comprehensive Gap Assessment Now** = Companies should immediately evaluate their current state against upcoming requirements by conducting a thorough gap assessment. Map out which regulations apply to your organization (California SB 253/261, international frameworks), identify what data you currently collect versus what's required, and assess your reporting infrastructure.

**Tip #2: Build Cross-Functional Compliance Teams** = GHG compliance requires coordination across finance, operations, procurement, legal, and IT departments. Establish a cross-functional team with clear roles and executive sponsorship to ensure data flows properly from all business units.



## Scary Secret #4: **GHG Accounting Violations are Severe**

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Greenhouse gas accounting violations can carry substantial financial penalties that can cripple a company's bottom line. Does your company do business in California? California's Climate Corporate Data Accountability Act (SB 253) authorizes administrative penalties of up to \$500,000 per reporting year for certain violations on companies that fail to comply with emissions reporting requirements or those that submit incomplete disclosures.<sup>11</sup>

At the federal level, the U.S. EPA has gone after companies through the Greenhouse Gas Reporting Program, imposing significant fines on violators including: a \$382,473 penalty against IGas Companies, \$275,000 against Harp USA Inc., and \$247,601 against Artsen Chemical America LLC for late or inaccurate submissions.<sup>12</sup> Despite the fact that political pressure may influence reduced regulation in the short term, the greenhouse gas problem is here to stay and it's not worth risking inaccurate or non-compliant GHG accounting.

Beyond direct financial penalties, the brand damage from GHG accounting violations can be devastating. When Volkswagen was caught using software to bypass U.S. EPA emissions standards, the company's stock plummeted more than 50%.<sup>13</sup> Not only that, the company paid \$30 billion in fines and settlements, and multiple executives faced criminal charges. The real "secret" here is that compliance isn't binary (compliant vs. non-compliant). It's a spectrum, and regulators are watching who demonstrates good faith effort versus who treats it as a checkbox exercise.

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## Planning Tips:

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**Tip #1: Implement Third-Party Verification Early** = Don't wait until reporting deadlines to engage independent verifiers. Establish relationships with qualified third-party assurance providers well in advance because early verification helps identify gaps in data collection systems, ensures compliance with relevant standards, and provides time to address any material issues before you publish your GHG emissions figures and take a risk that penalties come into play. This proactive approach also demonstrates good faith efforts to regulators.

**Tip #2: Establish Robust Internal Controls** = Create a comprehensive audit trail for all emissions data by implementing strong internal controls similar to those used in financial reporting. This includes segregation of duties, documented procedures for data collection and calculation, regular internal reviews, and clear accountability structures. Strong controls not only prevent errors but also protect companies from penalties by demonstrating systematic compliance efforts, which regulators consider when determining enforcement actions.

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## Scary Secret #5: **Your Competitors Are Probably Ahead of You**

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While you're reading this report, your competitors are likely already implementing sophisticated GHG accounting programs. And they're using their climate leadership as a competitive weapon:

1. In RFPs: Major corporations now require suppliers to disclose Scope 1-3 emissions or risk disqualification
2. In Investor Pitches: Companies with verified emissions data and reduction targets attract premium valuations
3. In Talent Acquisition: Top candidates (especially younger workers) actively seek employers with strong ESG programs
4. In Customer Relationships: B2B buyers increasingly choose vendors with transparent, verified climate data

The companies compliant in 2025 didn't start preparing last quarter. They started 2-3 years ago. They've already:

- Built automated data collection systems
- Established supplier engagement programs
- Completed third-party verification
- Set science-based reduction targets
- Integrated climate data into quarterly reporting

Where does your company stand in comparison? More importantly, how will you respond when your largest customer requires verified emissions data for their next RFP, and you can't provide it? Is your company fully ready to tackle SB 253?

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## About FSI

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Full Scope Insights specializes in greenhouse gas accounting, carbon reduction strategies, and climate disclosure compliance. Unlike general sustainability consultants or traditional accounting firms, our team focuses specifically on the technical and regulatory complexities of GHG reporting.

Our practitioners include certified carbon accounting specialists, and experts in GHG Protocol, ISO 14064-3, TCFD, and emerging disclosure frameworks including California SB 253/261 and international standards.

We work with mid-market and enterprise companies across manufacturing, technology, financial services, and industrial sectors to:

- Achieve regulatory compliance
- Reduce carbon accounting costs through process optimization
- Build defensible, audit-ready GHG inventories
- Pass third-party verification requirements
- Transform compliance obligations into strategic advantages

**Our approach:** GHG accounting done right isn't just about avoiding penalties. It's about building trusted, defensible data that supports strategic decision making, attracts capital, and positions companies as climate-compliant leaders in their industries.

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## Next Steps

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Firms over a certain revenue threshold operating in California are subject to California's SB 253 limited assurance attestation (have to be audited by a 3rd party). Even firms operating outside the scope of these regulations need to consider advanced preparation to avoid unnecessary costs and other negative consequences. If you have questions on GHG accounting or compliance, contact the experts at FSI for an initial no-fee consultation.

### **FSI offers a complimentary 30-minute GHG Accounting Readiness**

#### **Assessment where we'll:**

- Identify which regulations apply to your specific situation
- Evaluate your current data collection capabilities
- Highlight your biggest compliance gaps
- Provide a realistic timeline and resource estimate
- Show you exactly what "done right" looks like

No sales pitch. No obligation.

Just straight answers from experts who've helped numerous companies navigate this exact challenge.

The companies that wait until they're in crisis mode pay 2-3x more for emergency solutions. The companies that act now get ahead of regulations, avoid penalties, and gain competitive advantages.

**[Request your free consultation today.](#)**

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2. U.S. EPA Violations: <https://news.bloomberglaw.com/environment-and-energy/three-hfc-importers-issued-penalties-for-alleged-air-violations>
3. VW Emissions Scandal: <https://www.universityofcalifornia.edu/news/volkswagen-scandal-fundamentally-changed-financial-markets>
4. BCG Survey: <https://www.bcg.com/press/13october2021-only-nine-percent-of-organizations-measure-emissions-comprehensively>
5. GHG Protocol: <https://ghgprotocol.org/>
6. U.S. EPA: <https://www.epa.gov/climateleadership/scopes-1-2-and-3-emissions-inventorying-and-guidance#:~:text=Compile%20and%20review%20facility%20data,EPA%20Resources>
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9. ESG Study: <https://www.capitalgroup.com/about-us/news-room/esg-global-study-2022.html>
10. SB 253 Penalties: <https://calawyers.org/business-law/californias-climate-regulations-and-compliance-requirements-are-fast-approaching/>
11. U.S. EPA Violations: <https://news.bloomberglaw.com/environment-and-energy/three-hfc-importers-issued-penalties-for-alleged-air-violations>
12. VW Emissions Scandal: <https://www.universityofcalifornia.edu/news/volkswagen-scandal-fundamentally-changed-financial-markets>
13. California Attestation: <https://frostbrowntodd.com/carb-clarifies-assurance-risk-reporting-and-entity-level-obligations-under-californias-climate-disclosure-laws/>

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## Resources:

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**California Air Resources Board (CARB) FAQ:** <https://ww2.arb.ca.gov/frequently-asked-questions>

**U.S. EPA GHG Inventory Planner:** <https://www.epa.gov/system/files/documents/2024-01/quick-start-guide-live.pdf>

**U.S. EPA Scope 1 and 2 Inventory Guidance:** <https://www.epa.gov/climateleadership/scopes-1-2-and-3-emissions-inventorying-and-guidance>

**Parsepoint Facility & Utility Bill Management Software:** <https://parsepoint.com/>

**GHG Protocol e-learning Opportunities:** <https://ghgprotocol.org/>

**World Resources Institute Greenhouse Gas Protocol:** <https://www.wri.org/initiatives/greenhouse-gas-protocol>

**GHG Accounting 101:** <https://fullscopeinsights.com/fsi-blog/ghg-accounting-101/>

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