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Transmitted via e-mail

April 1, 2014

Mr. Paul Clanon, Executive Director  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Dear Mr. Clanon:

**Final Report—California Public Utilities Commission Fiscal Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal audit of the California Public Utilities Commission's (CPUC) Transportation Reimbursement Account and Utilities Reimbursement Account for the fiscal years 2010-11 through 2012-13.

The enclosed report is for your information and use. CPUC's response to the report observations is incorporated into this final report. CPUC agreed with our observations and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

Although CPUC's response indicates certain corrective actions have already been implemented, or are in progress, we have not evaluated the sufficiency or effectiveness of those actions. Instead, a detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 90 days from receipt of this letter, and then every 90 days thereafter, until all deficiencies are corrected. The CAP should include milestones and target dates to correct all deficiencies. Upon receipt, Finance will review the CAP to ensure it fully addresses the observations and recommendations noted in our report. After CPUC has implemented all corrective actions, Finance may perform fieldwork to verify whether the actions were implemented as reported. The CAP should be e-mailed to [OSAEReports@dof.ca.gov](mailto:OSAEReports@dof.ca.gov).

We appreciate the assistance and cooperation of the CPUC. If you have any questions regarding this report, please contact Cheryl McCormick, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Michael R. Peevey, President, California Public Utilities Commission  
Ms. Michelle Cooke, Deputy Executive Director for Budget and Administration, California Public Utilities Commission  
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel  
Mr. Gregory Schmidt, Secretary of the Senate, Office of the Secretary of the Senate  
Mr. E. Dotson Wilson, Chief Clerk, Office of the Chief Clerk, California State Assembly  
Ms. Amy Leach, Journal Clerk, Office of the Chief Clerk, California State Assembly

California Public Utilities Commission  
Fiscal Audit of  
Transportation Reimbursement Account and  
Utilities Reimbursement Account  
Fiscal Years 2010-11 through 2012-13



Source: California Public Utilities Commission

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

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## EXECUTIVE SUMMARY

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Pursuant to the 2013-14 Budget Act, the Department of Finance (Finance), conducted a fiscal audit of the California Public Utilities Commission's (CPUC) funds. Specifically, Finance audited the Public Utilities Commission Transportation Reimbursement Account (Transportation Account) and the Public Utilities Commission Utilities Reimbursement Account (Utilities Account) for fiscal years 2010-11 through 2012-13.

The audit objectives were to evaluate CPUC's:

- Methodologies for annually determining the user fee rates as defined in Public Utilities Code sections 421 and 431.
- User fee assessment and collection practices.
- User fee expenditure practices.

### Results Summary

CPUC was unable to substantiate the user fee rate methodologies for most transportation and utility companies, nor could it ensure fees were properly assessed or collected. Additionally, CPUC could not demonstrate whether user fees collected were expended on related program activities. CPUC has recently enhanced some of its fiscal management practices, but significant weaknesses still exist requiring corrective action.

CPUC must implement and strengthen processes related to the Transportation and Utilities Accounts user fees. To improve operations, CPUC must develop a corrective action plan within 90 days to address the observations and recommendations noted in this report.

# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

The California Public Utilities Commission (CPUC), headquartered in San Francisco, regulates privately owned electric, natural gas, telecommunications, water, railroad, rail transit, and passenger transportation companies. CPUC was established in 1911 by Constitutional Amendment as the Railroad Commission. The Public Utilities Act of 1912 expanded CPUC's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroad and marine transportation companies. CPUC serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement.<sup>1</sup> CPUC is overseen by five commissioners, who serve staggered six-year terms. The Governor appoints one of the five to serve as commission president.

The Public Utilities Commission Transportation Reimbursement Account (Transportation Account) was established in 1983 by Public Utilities Code section 403, for the purpose of funding expenses incurred by CPUC to regulate common carriers and related businesses. The common carriers and businesses paying user fees into the Transportation Account include passenger stage corporations, charter-party carriers, pipeline corporations, for-hire vessel operators, common carrier vessel operators, railroad corporations, commercial air operators, and every other common carrier and related business subject to the jurisdiction of CPUC.<sup>2,3</sup>

The Public Utilities Commission Utilities Reimbursement Account (Utilities Account) was established by Public Utilities Code section 402, for the purpose of supporting the activities of CPUC. The Utilities Account is to be funded by a reasonable user fee imposed upon each public utility CPUC regulates and each applicant or holder of a state franchise to provide video service. Public utilities include electric, gas, telephone, telegraph, water, sewer system, and heat corporations, and every other public utility providing service directly to consumers or subscribers.<sup>4</sup>

### Transportation Account Fee Payer Types:

- Railroad Corporations
- Passenger Vehicle Operators
- Vessel Operators
- Pipeline Corporations
- Commercial Air Operators

### Utilities Account Fee Payer Types:

- Video Franchise Holders
- Electric Corporations
- Telephone and Telegraph Corporations
- Water and Sewer System Corporations
- Gas Corporations
- Heat Corporations

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<sup>1</sup> CPUC website, [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

<sup>2</sup> Public Utilities Code section 401, et al.

<sup>3</sup> See Appendix A for a listing of Transportation and Utilities Accounts user fees as of fiscal year 2012-13.

<sup>4</sup> Public Utilities Code section 402, et al.

## SCOPE

Pursuant to the 2013-14 Budget Act, the Department of Finance (Finance), conducted a fiscal audit of CPUC's Transportation Account and Utilities Account. Prior to initiating the engagement, the scope of the audit was defined jointly by CPUC and Finance in consultation with the Legislature. Finance audited the Transportation and Utilities Accounts for fiscal years 2010-11 through 2012-13. Our audit objectives were as follows:

- Evaluate CPUC's methodologies for annually determining user fee rates as defined in Public Utilities Code sections 421 and 431.
- Evaluate user fee assessment and collection practices.
- Evaluate user fee expenditure practices.

Because of significant changes to CPUC deposit practices, we audited user fee deposits through September 30, 2013. Our audit was limited to the fiscal practices and procedures related to the Transportation and Utilities Accounts user fees. We did not evaluate other revenue sources for these funds. Additionally, we did not evaluate CPUC's regulation or enforcement of transportation and utility companies, or the efficiency and effectiveness of program operations.

CPUC management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and administrative requirements.

## METHODOLOGY

To address the audit objectives, we performed the following general procedures:

- Interviewed key personnel to gain an understanding of CPUC's overall operations, methodologies for determining user fees, processes for assessing and collecting user fees, and expenditure processes for the Transportation and Utilities Accounts.
- Reviewed applicable legal provisions, regulations, policies, procedures, and program guidelines significant to the audit objectives.
- Reviewed relevant websites and CPUC Resolutions to gain an understanding of CPUC operations and user fee processes.
- Reviewed audit reports and other publications significant to the audit objectives.
- Performed a risk assessment to define detailed audit procedures, including evaluating key internal controls as they relate to the audit objectives.

Additionally, specific procedures were performed as follows:

Audit Objective	Procedures
Evaluate CPUC's methodologies for annually determining user fee rates.	<ul style="list-style-type: none"><li>• Reviewed and evaluated data to determine the methodologies used, including whether the methodologies considered forecasted program demands, past actual demands, a reasonable reserve, and overall fund condition.</li><li>• Determined whether methodologies were documented, periodically reviewed, and revised.</li></ul>

Evaluate user fee assessment and collection practices.	<ul style="list-style-type: none"> <li>• Identified and evaluated processes established to notify transportation and utility companies of user fees due.</li> <li>• Verified assessed and collected user fee rates were in accordance with CPUC Resolutions, for a sample of user fee payments.</li> <li>• Evaluated whether CPUC assessed user fees appropriately for a sample of active and suspended transportation and utility companies.</li> <li>• Evaluated if CPUC appropriately addressed over-, under-, and un-paid user fees, for a sample of transportation and utility companies.</li> <li>• Determined if a sample of user fee revenues were appropriately and accurately recorded in CPUC's official accounting records and user fee information systems.</li> </ul>
Evaluate user fee expenditure practices.	<ul style="list-style-type: none"> <li>• Reviewed a sample of Transportation and Utilities Accounts expenditures to determine if they were supported, authorized, accurately recorded, and in accordance with CPUC's mission and objectives.</li> <li>• Evaluated the accuracy of employee and division salary expense allocation, for a sample of employees and divisions reimbursed by the Transportation and Utilities Accounts.</li> <li>• Identified the total amount of Transportation and Utilities Accounts revenues and expenditures for each program type for the purpose of determining if the composition of expenditures was commensurate with the user fee revenue types collected.</li> </ul>

We assessed the reliability of CPUC's user fee information system data by (1) obtaining and analyzing reports of required data elements, (2) reviewing existing information about the data and the systems from which they were produced, (3) interviewing agency officials knowledgeable about the data, and (4) reviewing existing documentation related to the data sources. Although the user fee information systems' design appeared to operate reliably, we determined that the user fee data from these systems were not sufficiently reliable for the purposes of this report. The impact of this is further detailed in the Results section of this report.

Except as discussed in the following paragraph, we conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

In connection with our audit, there are certain disclosures required by generally accepted government auditing standards. Finance is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.



The California Public Utilities Commission (CPUC) could not substantiate the user fee rate methodologies for most transportation and utility companies, nor could it ensure fees were properly assessed or collected. Further, CPUC could not demonstrate whether user fees collected were expended on related program activities. These weaknesses significantly impair CPUC's ability to effectively develop appropriate user fee rates and manage the Public Utilities Commission Transportation Reimbursement Account (Transportation Account) and the Public Utilities Commission Utilities Reimbursement Account (Utilities Account).

Although CPUC has recently taken steps to enhance fiscal and programmatic accountability over user fees and agreed improvements to existing practices are necessary, additional controls and procedures must be established and implemented.

To improve CPUC's processes related to the Transportation and Utilities Accounts user fees, we provide the following observations and recommendations. The results of our audit are based on our review of documentation, other information made available to us, and interviews with key staff.

## Observation 1: Appropriateness of User Fee Rates is Unknown

Public Utilities Code sections 421 and 431 require CPUC to annually determine reasonable fees to be paid by transportation and utility companies subject to the jurisdiction of CPUC. Of the 11 transportation and utility fee payer types under the Transportation and Utilities Accounts, only the railroad corporation and video franchise holder fee rates were supported and annually reviewed. Although these two fee payer types have supported methodologies, overall fund condition and reserves were not considered when establishing fees. For the remaining user fee rates, we observed the following:

*CPUC Could Not Demonstrate How User Fee Rates were Developed*

CPUC could not attest to the reasonableness of the methodologies for determining 9 of 11 user fees audited. Discussions with key CPUC management and staff indicated the methodologies for determining these user fees were unknown. No documentation or institutional knowledge exists regarding how fees were determined. Employees responsible for the last user fee adjustments no longer work at CPUC. As a result, CPUC cannot assess whether transportation and utility companies are over or under charged through the user fee process. Consequently, as transportation and utility companies collect amounts from their customers sufficient to pay these user fees, customers could be inappropriately charged.

### Unsupported User Fee Methodologies

#### Transportation Account

- Passenger Vehicle Operators
- Vessel Operators
- Pipeline Corporations
- Commercial Air Operators

#### Utilities Account

- Electric Corporations
- Telephone and Telegraph Corporations
- Water and Sewer System Corporations
- Gas Corporations
- Heat Corporations

### *Non-Compliance with Public Utilities Code for Annually Determining User Fees*

CPUC has not annually determined user fees as required by Public Utilities Code sections 421 and 431, or justified that adjustments were not necessary. Except for the railroad corporation fees, all other Transportation Account user fee rates were last adjusted in fiscal year 2008-09 or earlier. Except for the video franchise holder fee, all other Utilities Account user fee rates were last adjusted in 2007-08 or earlier. See Appendix A for a detailed list of transportation and utility entities and when their user fee rates were last updated. Failure to annually review user fees increases the risk that rates are not reflective of, or sufficient to meet, current operational needs.

#### **Recommendations:**

- A. Develop and document a methodology for determining user fee rates. At a minimum, the methodology should include:
  - i. Evaluation of organizational needs by analyzing program activities. Determine priorities and resources as required. Ensure activities are in compliance with Public Utilities Code and consider emerging public issues.
  - ii. Incorporation of Finance's zero-based budgeting guidance into the development of the Transportation and Utilities Accounts' annual budgeting process.
  - iii. Ensure user fee rates produce a total revenue amount equal to the authorized CPUC budget for the same year, as developed through the zero-based budgeting process.
  - iv. Adjustments appropriated by the Legislature.
  - v. Consideration of appropriate reserve and overall fund condition by evaluating the impact each user fee type has on the Transportation Account or Utilities Account revenues and expenditures.
- B. Annually determine user fees to be paid by transportation and utility companies, as required by Public Utilities Code sections 421 and 431. When appropriate, justify and document decisions for not making adjustments to user fee rates.

#### **Observation 2: CPUC Could Not Ensure it Properly Assessed, Collected, and Recorded All User Fees**

CPUC's processes for assessing, collecting, and recording user fees need improvement. The weaknesses described in the following paragraphs impair CPUC's ability to manage its user fee programs and increases the potential for significant losses of user fee revenues for which it is entitled. The State Administrative Manual section 8776.6 states each department will develop collection procedures that will assure prompt follow-up on receivables. Public Utilities Code section 405, et al., allows CPUC to suspend or revoke the operating authority of a delinquent fee payer. Government Code section 13401, et al., requires each state agency to maintain effective systems of internal accounting and administrative control as an integral part of its management practices. Internal accounting and administrative controls are the methods through which reasonable assurances can be given that measures adopted by state agency heads to check the accuracy and reliability of accounting data are being followed. We observed the following weaknesses:

### *CPUC Did Not Consistently Pursue Collections of Delinquent User Fees*

CPUC did not consistently initiate collection efforts for 8 of 11 user fee types when transportation and utility companies miscalculated, under paid, or did not pay required user fees. Except for the passenger vehicle operators, vessel operators, and video franchise holders, no fiscal or program processes existed for the regular collection of delinquent fees. It was unclear what division or individuals at CPUC were responsible for pursuing collections of delinquent fees. CPUC occasionally initiated collection efforts for delinquent Telephone and Telegraph user fees; however, this practice was not consistently performed. Uncollected revenues could restrict CPUC's ability to implement and perform necessary regulatory activities. The fiscal impact could not be quantified due to CPUC's inability to ensure the accuracy of its user fee data and record retention, as described below.

### *Data Reported in User Fee Invoice Statements was Not Verified or Reviewed for Accuracy*

Self-reported revenue and sales information from transportation and utility companies was used to calculate user fees due, with no verification by CPUC of the amounts reported or calculated. This information was reported via user fee invoice statements submitted to the CPUC. Occasionally, self-reported revenue and sales data was missing from completed user fee invoice statements entirely, or calculations for owed user fees were inaccurate. Without proper procedures to ensure the accuracy of reported revenue and fee calculations, the risk of loss of user fees for which CPUC is entitled is increased.

### *Total User Fee Revenues Collected by Class Could Not Be Determined*

User fees were not accounted for separately by each class of transportation or utility company, as required by Public Utilities Code section 409.5. Although the California State Accounting and Reporting System (CALSTARS) is CPUC's official accounting system, two subsidiary information systems were used to record user fee revenue data: the User Fee System (UFS) and the Transportation Management Information System (TMIS). CPUC relied on UFS and TMIS data to identify the total user fees collected from each class of transportation or utility company. However, the revenues recorded in UFS and TMIS did not agree to the total CALSTARS user fee revenues for 2010-11, 2011-12, and 2012-13. CALSTARS recorded user fee revenues were greater than UFS/TMIS by \$4.8 million, \$10.6 million, and \$3.6 million, respectively for these years. Reconciliations between CALSTARS, UFS, and TMIS were not regularly performed. CPUC cannot effectively determine user fee rates or monitor revenues when it does not have accurate totals of revenues collected by class of company.

### *User Fee Revenue Data was Unreliable*

Data entry errors and missing data in UFS and TMIS occurred. Examples of errors include:

- Incorrect dollar amounts entered.
- Incorrect types of user fees recorded.
- Incorrect payment dates entered.
- Unrecorded payments in UFS and TMIS.
- Missing data fields in UFS. The UFS User Fee Payment record screen used for recording user fee invoice statements did not include all fields for the data used in calculating user fees due, i.e. adjustments or deductions to gross revenue.

Additionally, UFS data could be modified or deleted by users with change access without detection. Without established controls to ensure data changes are valid, user fee information records may be incorrect. Further, no second level reviews or reconciliations of user fee invoice statement data entry were performed. Because of these data integrity issues and the inability to reconcile these systems to CALSTARS, user fee revenue data was deemed unreliable. Unreliable data prevents CPUC from monitoring user fees and impairs its ability to properly manage program activities.

#### *CPUC Under-Assessed Railroad Corporation User Fees*

CPUC did not assess the Class II and III Railroad Corporation user fees in accordance with the rate approved by CPUC Resolutions M-4823 and M-4824, for 2011-12 and 2012-13, respectively. The approved rate for these fiscal years was 0.27 percent of gross revenue. CPUC assessed the fee at 0.26 percent of gross revenue. This occurred because CPUC did not revise the rate tables used in assessing Class II and III Railroad Corporation fees after they increased in 2011-12. Additionally, no secondary review of annual rates was conducted to ensure revised rates were accurately entered into UFS and TMIS.

The total under assessed user fees amounted to approximately \$19,000. Although the amount is relatively minimal, the potential impact this error could have on all user fee rates and revenues is significant. If user fee rate tables are not adjusted to reflect CPUC Resolution approved rates and no quality control reviews are established, CPUC could significantly under or over assess user fees.

After we informed CPUC of this error, staff promptly updated the user fee rate tables to reflect the correct railroad rates. User fee rate tables reflected approved fee levels for the remaining fee types during the audit period.

#### **Recommendations:**

Develop and strengthen user fee assessment, collection, and revenue recording practices. These practices should include, at a minimum:

- A. Assign responsibility to CPUC employee(s) or division(s) for monitoring user fee collections, including unpaid and under paid user fees.
- B. Actively and consistently pursue collections for all delinquent user fees including the assessment of fines/penalties, license suspension, or license revocation for payers who remain in default.
- C. Regularly monitor transportation and utility company user fee payment status.
- D. Ensure the accuracy of transportation and utility company self-reported revenues and sales, as well as the accuracy and completeness of user fee invoice statement calculations. For example, obtain and conduct periodic reviews of supporting financial records and perform recalculations of fees paid.
- E. Separately identify CALSTARS user fee revenues by class of transportation and utility company.
- F. Regularly reconcile UFS, TMIS, and CALSTARS user fee revenue data. Investigate, explain, and address any variances identified in these reconciliations. Ensure CALSTARS is adjusted to reflect the current revenues, as required.
- G. Include all required fields in calculating user fees due in UFS.
- H. Review UFS and TMIS data entry for accuracy, including the process of recording user fee invoice statement data.

- I. Strengthen controls over modifying or deleting data in UFS. For example, requiring supervisory review or maintaining a history of deleted data.
- J. Ensure user fee tables are updated when user fee rates are adjusted.

### **Observation 3: CPUC Could Not Substantiate Whether User Fees Collected were Expended on Related Industry Activities**

CPUC accounting data related to user fee revenues was determined to be unreliable, as described in Observation 2. Additionally, CPUC was unable to substantiate the appropriateness of all user fee expenditures. As a result, CPUC could not demonstrate whether user fee expenditures by class of company were commensurate with the amounts collected. Inaccurate and unreliable accounting data prevents CPUC from effectively managing its user fee programs and ensuring the equitable collection and distribution of user fees. These issues are described in greater detail below.

#### *Salary Expenditure Allocations Not Supported*

The methodologies for determining salary expenditure allocations were not always documented or known. Salaries were significant expenditures for the Transportation and Utilities Accounts and were allocated based on decisions made by CPUC management. Allocations existed for CPUC units, divisions, and individual employees. Discussions with 11 CPUC unit and division heads identified only one unit having knowledge of how or why their salary allocations were established. Further, documentation supporting certain allocations was not always retained. Because of the lack of documentation and knowledge, CPUC could not substantiate if salary expenditures allocated to the Transportation and Utilities Accounts reflected the time spent by employees on related programs or projects. This prohibits effective management of the Transportation and Utilities Accounts and assurance that user fees collected are appropriately expended.

#### *User Fee Expenditures May Not Be Commensurate with Amounts Collected*

Reliable comparisons between user fees collected and expended could not be formulated due to limitations of UFS, TMIS, and CALSTARS data described in Observation 2 and unsupported salary allocations. Without a meaningful comparison of revenues to expenditures, CPUC is prevented from determining if each class of transportation and utility company is paying user fees equitable to the costs of regulating their respective industries.

Total user fee revenues and expenditures for the Transportation and Utilities Accounts for 2010-11 through 2012-13 are presented in Appendix B. Revenue information is based on the available data in UFS and TMIS. Because of the questionable reliability of these systems, revenue data presented may significantly differ from what was actually recorded in CALSTARS. Expenditure charts are based on CALSTARS data. Similarly, the appropriateness of expenditures is also questioned as noted above.

### **Recommendations:**

Improve controls over the user fee expenditure recording processes in order to produce reliable accounting data and to ensure expenditures are commensurate with user fee revenues by type. Improvements should include, at a minimum:

- A. Ensure current salary allocations are reasonable, supported, and reflective of employees' current responsibilities and actual job functions.

- B. Develop ongoing processes for updating salary allocations as employees or divisions change responsibilities and funding sources.
- C. Upon separately identifying CALSTARS user fee revenues by class of transportation and utility company, compare user fee revenues to expenditures when annually determining user fee rates.

#### **Observation 4: Ineffective Management Practices Exist**

Government Code section 13401 requires each state agency to maintain effective systems of internal accounting and administrative control as an integral part of its management practices. The following deficiencies in management practices related to user fee development, collection, and expenditures were observed:

##### *Decentralized Processes and Limited Oversight*

No centralized employee or unit was actively responsible for the overall management of the Transportation and Utilities Accounts. Oversight for these two accounts and the user fee process was inconsistent and incomplete. While CPUC divisions may monitor some of the user fees on an individual user fee type basis, no one at CPUC was responsible for the overall active monitoring and management of the Transportation and Utility Accounts, from user fee development through user fee collections and expenditures. Further, CPUC did not evaluate how user fee levels impacted overall fund balances and reserves.

##### *Inadequate Policies and Procedures*

Adequate policies and procedures governing user fee processes were not maintained. Without adequate written policies and procedures, staff may not clearly understand their current roles and responsibilities, user fee processes may not be consistently applied or in compliance with applicable regulations or laws, and the methodology behind user fee development processes cannot be understood. Policies or procedures did not exist for:

- Developing or adjusting user fee rates, except for the railroad corporation and video franchise holder fees.
- Utilizing various functions and reports for UFS users.
- Assessing user fees, i.e. how to communicate user fee payment requirements to transportation and utility companies.
- Collecting delinquent user fees.
- Developing salary expenditure allocations.
- Ensuring user fee tables were updated when user fee rates were adjusted.
- Ensuring the accuracy of transportation and utility company self-reported revenues and sales.
- Verifying the accuracy and completeness of user fee invoice statement calculations.
- Reviewing UFS and TMIS data entry for accuracy.

### *Record Retention System Needs Improvement*

CPUC's record retention system was incomplete and ineffective. Government Code section 14750 (a) states the head of each agency shall establish and maintain an active, continuing program for the economical and efficient management of the records and information collection practices of the agency. Information collected shall be collected and tabulated in a manner which maximizes the usefulness of the information to other state agencies and the public. An ineffective record retention system hinders the management and monitoring of the user fee process. The following types of documents could not always be located by CPUC:

Document Type	Total Missing
User fee development supporting documentation	9 of 11 user fee types
Payroll warrant registers	16 of 128 sampled
CALSTARS timesheets	9 of 19 sampled
CALSTARS salary allocation forms	36 of 98 sampled
User fee invoice statements and supporting documentation	437 of 1,120 sampled

### **Recommendations:**

Strengthen internal controls and management processes as follows:

- A. Identify the appropriate individual(s) responsible for the active, overall management of the Transportation and Utilities Accounts. The responsibilities of the individual(s) should include coordinating, participating in, or leading the annual user fee determination process for all industry types.
- B. Determine what user fee processes can be standardized for all types of fees. For processes that cannot be standardized, develop individual policies and procedures.
- C. Document and regularly update policies and procedures for user fee processes. Policies and procedures should be regularly reviewed and revised, approved by management, and communicated and readily accessible to staff.
- D. Develop record retention practices to ensure user fee information is retained in a manner which maximizes the usefulness of information to CPUC, other state agencies, and the public.

# APPENDIX A

## Transportation and Utilities Accounts User Fees as of Fiscal Year 2012-13

Account	User Fee Payer	Fee as of 2012-13 <sup>1</sup>	Last Fiscal Year Fee Adjusted
Transportation Account	Railroad Corporation	Class I: Burlington Northern Santa Fe \$1,714,497 Union Pacific \$4,200,062  Class II and III: 0.27% of gross revenue, minimum \$500 each	2012-13
	Passenger Vehicle Operators	1/4 of 1% of gross revenue, plus \$10 quarterly fee or \$25 annual fee  The fee on gross revenue derived from transportation provided in a vehicle that seats not more than 15 passengers shall be 1/3 of 1%	2008-09
	Vessel Operators	Common Carrier Vessel Operators: 1/2 of 1% of gross revenue plus \$10 quarterly fee or \$25 annual fee  For-Hire Vessel Operators: \$25 each	1992-93
	Pipeline Corporations	3/100 of 1% of gross revenue	1989-90
	Commercial Air Operators <sup>2</sup>	\$25 each	1984-85
Utilities Account	Video Franchise Holders	3.73822 cents per household in respective video franchise territory	2012-13
	Electric Corporations	0.024 cents per kilowatt hour sold	2007-08
	Telephone and Telegraph Corporations	0.18% of revenue	
	Water and Sewer System Corporations	1.5% of revenue	
	Gas Corporations	0.068 cents per therm sold	
	Heat Corporations	1.4 cents per thousand pounds of steam sold	2003-04

<sup>1</sup> CPUC Resolution M-4824 adopted Transportation Account 2012-13 user fee levels. Resolution M-4819 adopted Utilities Account 2007-08 user fee levels, except for the video franchise holder user fee, which was adopted by Resolution T-17387 for 2012-13.

<sup>2</sup> Per CPUC Transportation Enforcement Branch, Commercial Air Operators infrequently operate under the jurisdiction of CPUC. For our audit period, we noted no revenues and less than \$1,000 expenditures reported.



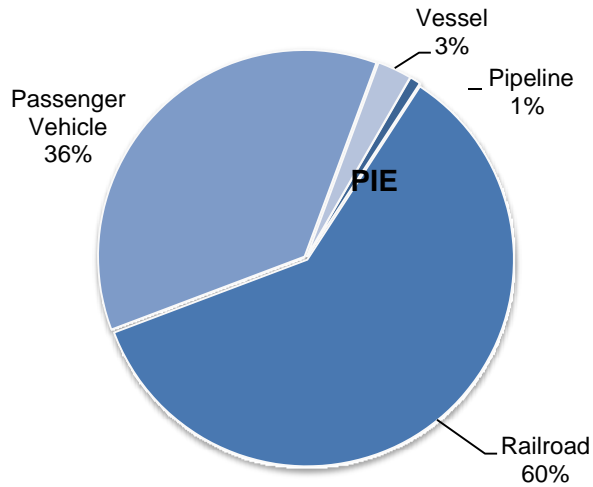
## **Transportation and Utilities Accounts User Fee Revenues and Expenditures**

The following charts present the total user fee revenues and expenditures for the Transportation and Utilities Accounts for fiscal years 2010-11 through 2012-13, based on information available in CPUC's user fee information systems and official accounting records.

User fee revenues reported are based on two systems: the User Fee System and the Transportation Management Information System. The reliability of data recorded in these two user fee systems is questionable. Readers of this report should be aware that the data presented in the user fee revenue charts may significantly differ from what was actually recorded in CALSTARS, CPUC's official accounting records.

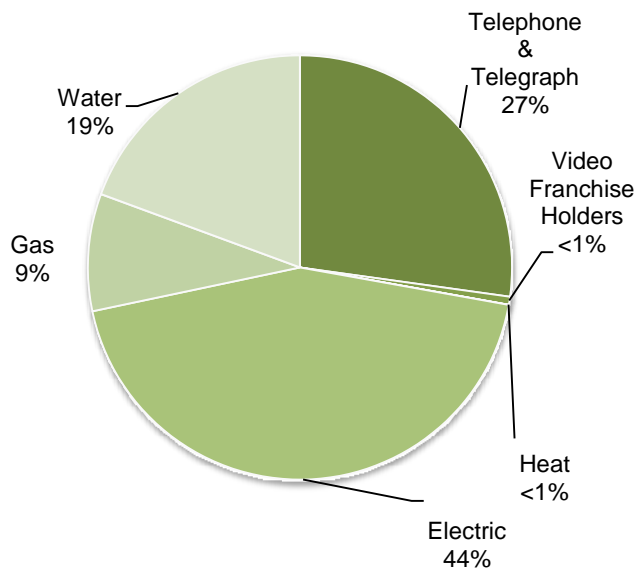
Expenditures reported are based on CALSTARS. Similarly, the appropriateness of expenditures is also questionable. For more information, see Observations 2 and 3 in the Results section.

**Transportation Account User Fee Revenues**  
**Fiscal Years 2010-11 through 2012-13**  
(Dollars in Thousands)



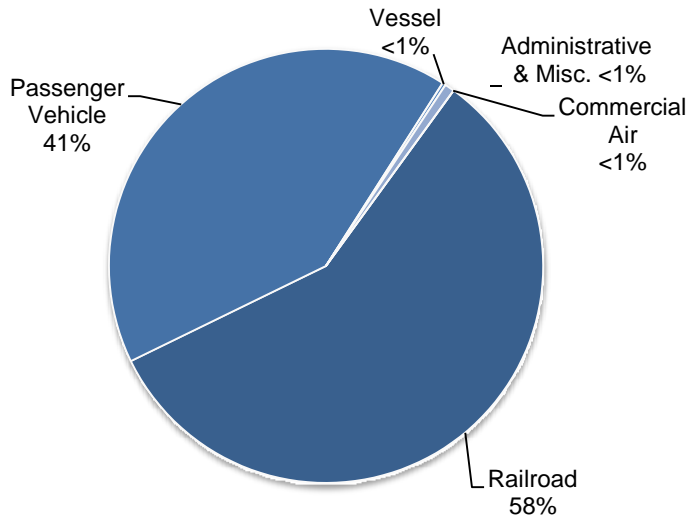
Transportation Company Type	Total User Fee Revenues
Railroad	\$ 18,008
Pipeline	253
Passenger Vehicle	10,907
Vessel	803
<i>Total</i>	\$ 29,971

**Utilities Account User Fee Revenues**  
**Fiscal Years 2010-11 through 2012-13**  
(Dollars in Thousands)



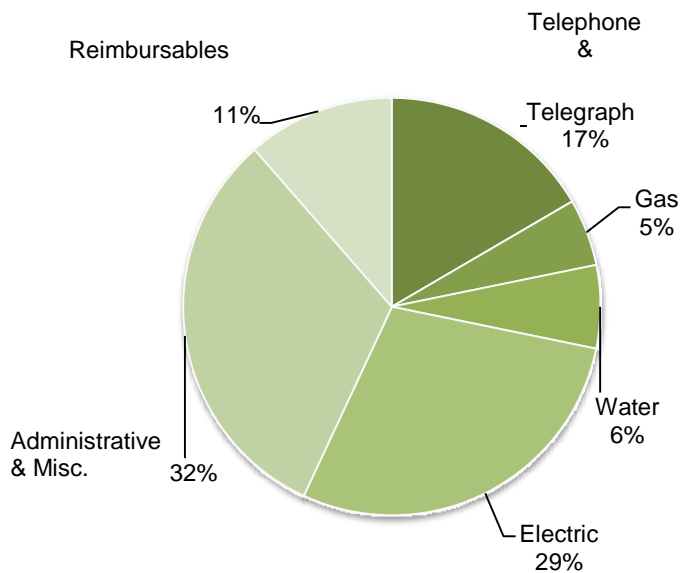
Utility Company Type	Total User Fee Revenues
Telephone & Telegraph	\$ 83,362
Electric	134,477
Gas	27,358
Water	59,403
Heat	28
Video Franchise Holders	1,871
<i>Total</i>	\$ 306,499

**Transportation Account Expenditures**  
**Fiscal Years 2010-11 through 2012-13**  
(Dollars in Thousands)



Expenditure Program Type	Total Expenditures
Railroad	\$ 18,046
Passenger Vehicle	12,881
Vessel	75
Administrative & Miscellaneous	251
Commercial Air	< 1
<i>Total</i>	\$ 31,253

**Utilities Account Expenditures**  
**Fiscal Years 2010-11 through 2012-13**  
(Dollars in Thousands)



Expenditure Program Type	Total Expenditures
Telephone & Telegraph	\$ 63,482
Electric	109,985
Gas	19,919
Water	24,653
Administrative & Miscellaneous	121,088
Reimbursable Expenditures <sup>1</sup>	43,749
<i>Total</i>	\$ 382,876

<sup>1</sup> Contracted third party expenditures to be reimbursed.

**R**ESPONSE

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## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



March 21, 2014

Mr. Richard, R. Sierra, CPA  
Chief, Office of the State Audits and Evaluations  
Department of Finance  
915 L St.  
Sacramento, CA 95814-3706

**Re: Response to the Department of Finance, Office of the State Audits and Evaluation Draft Report on the California Public Utilities Commission Fiscal Audit**

Dear Mr. Sierra:

The California Public Utilities Commission (CPUC) provides the following information in response to the March 14, 2014 letter from the Department of Finance regarding the audit of the CPUC Transportation Reimbursement Account and Utilities Reimbursement Account for the fiscal years 2010-11 through 2012-13. We take seriously the constructive actions recommended in the audit and are already improving our methods of assessing and collecting utility user fees as a result. We are mapping out our corrective actions in response to the Audit's observations with the goal of making all necessary changes to processes and procedures, and documentation to address all recommendations. Several corrective actions have already been implemented. We look forward to providing you with a detailed corrective action plan that sets forth our specific implementation milestones.

**Observations 1a and 1b: CPUC Cannot Demonstrate How User Fee Rates Were Developed and Non-Compliance with Public Utilities Code of Annually Determining User Fees**

The Audit finds a lack of documentation and knowledge of the methodology to substantiate how 9 of 11 user fee payer types were developed, and did not find that these rates were annually reviewed or supported as required by Public Utilities Code sections 421 and 431, or justified that adjustments were not necessary.

**Response:** CPUC agrees with this observation. User fees for railroad operations and video franchise holder fees are the only fees that have been regularly reviewed since 2007. Historically, reviews for other fees were done by Executive or program staff that no longer work for the agency. We acknowledge a significant gap in institutional knowledge during this time period and a lack of coordination to ensure compliance with Public Utilities Code. CPUC is currently preparing an agency-wide zero-based budget for Fiscal Year 2015-2016. This process will result in a bottom-up analysis of program needs and will ultimately serve as a foundation for the annual assessment of user fees. Concurrent with the identification of program needs, CPUC is developing the framework and process to annually review each of its user fees to ensure revenues are being properly assessed, and are commensurate with program expenditures. CPUC made initial structural and process changes to address this issue in early 2013 when the Director of Administrative Services began overseeing all budgeting functions for the agency. Over the last year, five positions were redirected to focus on budget functions, including a Manager of Budget and Fiscal Services. These changes make Administrative Services the central coordinator for annual user fee review efforts and support methodology development, documentation and

related fund forecasting. The resulting processes will clearly define the roles of the Administrative Services Budget Office and program staff and set expectations and areas of responsibility. The Manager of Budget and Fiscal Services will coordinate these efforts and Budget Analysts will provide data and analytical support to program staff participating in user fee methodology development and review.

**Observation 2a: CPUC Does Not Consistently Pursue Collections of Delinquent User Fees**

The Audit finds that CPUC did not consistently initiate collection efforts when transportation and utility companies owed money, and with the exception of passenger vehicle operators, vessel operators and video franchise holders, no fiscal program processes existed for the regular collection of delinquent fees or revocation of payers in default. The audit also noted unclear roles and responsibilities within CPUC regarding collection efforts.

**Response:** CPUC agrees with this observation. CPUC regulates more than twelve thousands companies within the State that contribute revenue to the Public Utilities and Transportation Accounts, and does not have the staffing capacity to dedicate the staff necessary to collect fully on all outstanding revenue. Given this, CPUC has historically taken a targeted approach to revenue collection, focusing on the public safety aspect of revoking licenses of active passenger-carrier operators (limo drivers, etc.) rather than actively pursuing often relatively small (less than \$100) delinquent payments from out-of-service and most likely out of business companies. For non-transportation utilities, we agree that CPUC needs a more consistent and robust approach for collecting or writing off outstanding fees. CPUC is reviewing ways to improve the coordination of collection activities performed by the Fiscal Office, and program and legal staff.

**Observation 2b: Data Reported in User Fee Invoice Statements is Not Verified or Reviewed for Accuracy**

**Response:** CPUC agrees with this observation. CPUC is reevaluating its user fee reporting requirements and collection process for all utilities, and anticipates making significant changes and improvements. CPUC is researching best practices used by other State Utilities Commissions that would require minimal additional staffing to implement. This could include changes to revenue reporting forms, requiring utilities to certify their submissions and include financial statements, as well as possible partnerships with other State agencies to provide revenue verification services.

**Observation 2c: Total User Fee Revenue Collected By Class Cannot be Determined**

The Audit finds that user fees were not accounted for separately by class and that CPUC's subsidiary revenue recording and tracking systems (UFS and TMIS) did not agree with the total accounting (CALSTARs) record of revenue. The Audit also found that reconciliations between CALSTARs, UFS and TMIS were not regularly performed.

**Response:** CPUC agrees with this observation. TMIS and UFS are subsidiary systems that were designed to allow for tracking of revenue by class. Unfortunately, lapses in data entry and reconciliation of TMIS and UFS during Fiscal Years 2010-2011 through 2012-2013 resulted in those systems underreporting revenue as compared to CALSTARs. CALSTARs reflects actual total revenue received. Corrective actions to address this began in fall 2013 and as of March, 2014 CPUC is now recording revenue by user fee type in CALSTARs (this occurred after the Audit observation period). Additionally, reconciliation of data between the three systems, CALSTARs, UFS and TMIS, are underway and CPUC is working to hire staff to specifically support this activity.

#### **Observation 2d: User Fee Data is Unreliable**

The Audit finds data entry errors and missing data in CPUC's subsidiary revenue tracking systems (UFS and TMIS), no secondary level reviews or reconciliation of user fee invoice statement data, and a lack of access controls within UFS.

**Response:** CPUC agrees with this observation and has established new Fiscal Office review procedures to ensure a secondary level of data review and reconciliations. Access control changes to UFS have already been made as recommended by the Audit.

#### **Observation 2e: Under-Assessed Railroad Corporation User Fees**

The Audit finds that CPUC did not accurately assess Class II and III Railroad Corporation fees for 2011-12 and 2012-13.

**Response:** CPUC agrees with this observation and, as noted by the Audit, has updated user fee rate tables to reflect the correct railroad rates. In addition, CPUC Fiscal Office is actively pursuing collections efforts for under-collection of revenues where necessary and will implement an annual management review of activities to ensure that user fee tables are promptly updated to reflect all changes to user fees.

#### **Observation 3a: Salary Expenditures Allocations Not Supported**

The Audit finds that the methodologies for determining salary expenditure allocations were not always documented or known, and documentation supporting certain allocations was not always retained.

**Response:** CPUC agrees with this observation and has already taken action to increase budgetary control over salary expenditures. The Manager of Budget and Fiscal Services now signs and approves all changes to established positions, and beginning April 1, 2014 will also approve forms authorizing hiring and staff salary allocation. In addition, the salary allocation form that specifies allocation to funding sources has been changed to require justification and supporting documentation. Forms indicating salaries paid by the Office of Ratepayer Advocates (ORA, Fund 3089) must be approved by the ORA Budget Officer. Additionally, CPUC will develop a methodology and schedule for reviewing its staff salary allocation regularly – this will likely occur as part of the agency's annual cost allocation plan review and updates. Staff are analyzing current salary allocations tied to the Public Utilities Transportation Reimbursement Account, comparing percentages to actual staff timesheet submissions in the agency's Work Tracking System (WTS); significant variations between the allocation and the actual time will be evaluated by supervisors and the Budget Office and corrected in CALSTARs if necessary. CPUC is also considering ways it can use WTS data to directly bill actual staff time worked to different funding sources.

#### **Observation 3b: User Fee Expenditures May Not be Commensurate with Amounts Collected**

The Audit finds that because of issues related to the reliability for revenue reported in UFS and TMIS, and supporting documentation on salary allocation, user fee expenditures may not be commensurate with amounts collected.

**Response:** CPUC agrees with this observation. CPUC continues working to resolve the broader issues of proper user fee assessment and expenditures against funds through a number of actions, a number of which have already been described:



*Actions already taken:*

- CPUC has moved budgeting activities under the control of the Director of Administrative Services and has significantly increased the size of its Budget Office staff.
- CPUC has implemented new budgetary controls for staff hiring and the process for establishing staff salary allocations.
- CPUC is improving the accuracy of revenues recorded in TMIS, UFS and CALSTARS through the implementation of a second level of data entry review, regular reconciliation of data between the systems, and recording revenue in CALSTARS by fee type.

*Planned Actions:*

- CPUC will develop a process and methodologies to annually assess utility user fees for the industries described. The CPUC will incorporate the zero-based budget the agency is preparing as the basis for the evaluation of program needs, fund forecasting and the related evaluation of user fees.
- CPUC will reevaluate its user fee reporting and collection process and verification requirements for all of its utilities.

**Observation 4a: Ineffective Management Practices Exist – Decentralized Processes and Limited Oversight**

The Audit finds that there is no centralized employee or unit that is responsible of the overall management of the Transportation and Utilities Reimbursement Accounts and that oversight of the two accounts, the user fee process is inconsistent and incomplete, and CPUC does not evaluate how user fee levels impact overall fund balances and reserves.

**Response:** CPUC agrees with this observation. As described in Observation 1, CPUC's Manager of Budget and Fiscal Services will take the lead in coordinating an annual review of user fees with the Transportation Enforcement, Energy, Water, and Communications programs. Budget Office staff will support annual user fee review efforts, methodology development, documentation and related fund forecasting.

**Observation 4b: Ineffective Management Practices Exist – Inadequate Policies and Procedures**

The Audit found that adequate policies and procedures governing user fee processes were not maintained.

**Response:** This finding is consistent with the January 2013 Audit observation that covered generally the same time period. CPUC agrees with this observation and will clarify agency roles in the annual user fee review process described above. We will require baseline documentation on methodology be maintained and regularly reviewed to avoid future lapses in institutional knowledge. In addition, CPUC will document processes for all of the additional activities noted by the Audit.

**Observation 4c: Ineffective Management Practices Exist –Record Retention System Needs Improvement**

The Audit recommends that CPUC strengthen its internal controls and management processes related to record retention.

**Response:** CPUC agrees with this observation. The CPUC Fiscal Office is reorganizing its user fee invoice statements to ensure they are filed and maintained consistently. Additionally, CPUC Administrative Services will review current file retention policies and processes in its Human Resources and Fiscal Offices and will strengthen practices when necessary. CALSTARS timesheets and salary allocation forms are now being filed more consistently and accurately (post-Audit period) due to a change in personnel and increased supervision in the Fiscal Office. Finally, clear

expectations for documentation and file retention will be part of the annual review of user fees and related fund forecasting.

**Summary of Response**

Like the January 2013 Audit, this Audit identifies that the CPUC management practices over its administrative functions were ineffective over the general same time period. With the zero-based budget development underway, new and expanded staffing in Budget and Fiscal Offices, and enhanced oversight at the senior management level we are confident that by the Fiscal Year 2015-2016 budget, we will have corrected the deficiencies identified. As described, we have already taken corrective actions and are preparing a comprehensive corrective action plan to ensure that all observations and recommendations are addressed and remedied. We look forward to continuing to work with you and your staff to improve the CPUC's practices.

Should you have any questions, please feel free to contact Michelle Cooke, Deputy Executive Director for Budget and Administration and Administrative Services Director, at (415) 703-2163.

Sincerely,

ORIGINAL SIGNED BY:

Paul Clanon  
Executive Director

cc: Michael R. Peevey, President, CPUC  
Michelle Cooke, Deputy Executive Director/Administrative Services Director, CPUC