



Transmitted via e-mail

August 13, 2014

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

Dear Mr. Clanon:

**Final Report—Examination of California Public Utilities Commission Corrective Action Plan**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its examination of the California Public Utilities Commission's (CPUC) corrective action plan (CAP) in response to Finance's Budget process audit report issued January 10, 2013.

The enclosed report is for your information and use. The CPUC's and Office of Ratepayer Advocates' (ORA) responses to the report observations are incorporated into this final report. CPUC and ORA agreed with our observations and we appreciate their willingness to implement corrective actions. This report will be placed on our website.

A detailed, updated CAP addressing the observations and recommendations is due within 90 days from receipt of this letter. The CAP should include milestones and target dates to correct all remaining deficiencies.

We appreciate the assistance and cooperation of CPUC and ORA. If you have any questions regarding this report, please contact Cheryl McCormick, Assistant Chief, 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  
Mr. Joseph Como, Acting Director, Office of Ratepayer Advocates, California Public Utilities Commission

EXAMINATION REPORT

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California Public Utilities Commission  
Corrective Action Plan  
in response to  
January 2013 Budget Process Performance Audit

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

## **MEMBERS OF THE TEAM**

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# TABLE OF CONTENTS

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Executive Summary .....	1
Background and Scope.....	2
Results.....	4
Appendix A: List of January 10, 2013 Audit Observations and Recommendations.....	11
Appendix B: Detailed Examination Results: Corrective Action Status and Evaluations.....	14
Response.....	23

# EXECUTIVE SUMMARY

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In accordance with the Department of Finance's fiscal responsibilities, the Office of State Audits and Evaluations (Finance) examined the California Public Utilities Commission's (CPUC) corrective actions in response to our January 10, 2013 audit report titled, "California Public Utilities Commission Budget Process Performance Audit." The objective of our examination was to verify whether CPUC's corrective actions were implemented as reported in its corrective action plan and adequately addressed the January 10, 2013 audit observations.

## **Results Summary**

Based on our examination, CPUC partially implemented corrective actions to adequately address the January 10, 2013 audit observations. CPUC's reported status of corrective actions was generally consistent with the results of our testing. CPUC has made significant progress towards improving its budget operations; however, additional improvements are necessary. Of the 46 corrective actions reported, we identified 15 instances where additional corrective actions are necessary for CPUC to fully address the audit observations.

CPUC's corrective actions have focused on strengthening its management practices over budgeting and fiscal functions, and improving forecasting and monitoring processes for telecommunications public purpose program funds. Additional effort is needed on budgeting and monitoring of non-telecommunications funds, as well as some fiscal processes. If the audit observations are not completely addressed, CPUC's ability to prepare and present reliable and accurate budget information continues to be at risk.

To continue improving operations, CPUC must provide an updated corrective action plan within 90 days, and continue providing updates until all observations and recommendations have been addressed and corrective actions fully implemented.

## 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, in addition to authorizing video franchises. CPUC is dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy.<sup>1</sup> CPUC currently administers 14 special funds.

Included in the 14 special funds is the Public Utilities Commission Ratepayer Advocate Account, which funds the Office of Ratepayer Advocates (ORA). ORA's mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. ORA advocates for customer and environmental protections.<sup>2</sup>

In 2012, the Department of Finance, Office of State Audits and Evaluations (Finance), audited CPUC's budgeting practices and procedures. The related report, dated January 10, 2013 titled "California Public Utilities Commission Budget Process Performance Audit,"<sup>3</sup> identified significant weaknesses within CPUC's budget operations, compromising its ability to prepare and present reliable and accurate budget information. These weaknesses were organized into seven observations, each with detailed recommendations. The report required CPUC to develop a corrective action plan to address the observations and recommendations, and provide Finance with updates on the implementation progress of those corrective actions every 90 days. CPUC has timely submitted corrective action plan updates every 90 days; the last update was submitted on January 15, 2014.

## SCOPE

The objective of our examination was to verify whether CPUC's corrective actions were implemented as reported and adequately addressed the January 10, 2013 audit observations.<sup>4</sup>

Budgeting processes used to develop the fiscal year 2014-15 Governor's Budget for the ten special funds audited in our January 10, 2013 report were evaluated. Other funds maintained by CPUC were not included in our examination. The ten funds are listed in Table 1 on the following page.

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

<sup>2</sup> Ibid.

<sup>3</sup> A copy of the report can be found at [www.dof.ca.gov](http://www.dof.ca.gov).

<sup>4</sup> See Appendix A for a list of the January 10, 2013 audit observations and recommendations.

**Table 1: CPUC Special Funds Included in Corrective Action Plan Examination**

	Fund Number	Fund Name
1	462	Public Utilities Commission Utilities Reimbursement Account
2	464	California High-Cost Fund-A Administrative Committee Fund <sup>5</sup>
3	470	California High-Cost Fund-B Administrative Committee Fund <sup>5</sup>
4	471	Universal Lifeline Telephone Service Trust Administrative Committee Fund <sup>5</sup>
5	483	Deaf and Disabled Telecommunications Program Administrative Committee Fund <sup>5</sup>
6	493	California Teleconnect Fund Administrative Committee Fund <sup>5</sup>
7	3015	Gas Consumption Surcharge Fund
8	3089	Public Utilities Commission Ratepayer Advocate Account
9	3141	California Advanced Services Fund <sup>5</sup>
10	995 <sup>6</sup>	Reimbursements

CPUC and ORA management are responsible for the content of the corrective action plan, and ensuring stated corrective actions addressed the audit observations and were implemented as reported. Finance's responsibility is to verify the implementation and adequacy of the corrective action plan based on our examination. This examination was limited to the practices and procedures outlined in CPUC's corrective action plan updates.

Except as discussed in the following paragraph, we conducted this examination in accordance with *Government Auditing Standards* for attestation engagements. Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our examination objective. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our examination objective.

Finance and CPUC are both 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. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

This report is intended solely for the information and use of the CPUC and ORA, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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<sup>5</sup> Telecommunications public purpose program fund.

<sup>6</sup> Fund 995 was created by Finance for budgetary purposes only and is not a fund in the State Treasury System; however, we included it as a fund administered by CPUC.

Based on our examination, the California Public Utilities Commission (CPUC) partially implemented corrective actions to adequately address the January 10, 2013 audit observations. CPUC has made significant progress towards improving its budget operations; however, additional improvements are necessary. The focus of CPUC's corrective actions has been on strengthening management practices over budgeting and fiscal functions, and improving forecasting and monitoring processes for telecommunications public purpose program funds. Additional efforts are needed on budgeting and monitoring of non-telecommunications funds, as well as some fiscal processes. If the audit observations are not completely addressed, CPUC's ability to prepare and present reliable and accurate budget information for all funds continues to be at risk.

CPUC management recognizes the need for additional improvements to its budgeting processes, and its corrective action progress demonstrates its ability to successfully implement change. CPUC's reported status of corrective actions was generally consistent with the results of our testing.

In its corrective action plan, CPUC described 46 planned actions in response to our audit. Through our examination, we concluded 34 of the 46 actions, as described, adequately addressed the audit observations. However, we identified only 31 of the actions have been fully implemented and 15 items require additional action by CPUC to completely address the audit observations. These instances are summarized in Table 1 and detailed in the following observations and recommendations.

Appendix B provides additional explanation related to the corrective actions and examination results.

**Table 1: Examination Results<sup>1</sup>**

January 10, 2013 Audit Observation	Corrective Actions Reported by CPUC	Corrective Actions Implemented	Corrective Actions Adequately Addressing Audit Observation	Additional Actions Required by CPUC
1. Ineffective management practices over budgeting functions.				
a. Ineffective organizational structure and assignment of budgeting responsibilities.	6	5	4	2
b. Ineffective communication and coordination.	6	6	6	0
c. Insufficient staff training.	4	2	2	2

<sup>1</sup> Results are organized by the January 10, 2013 audit observations. The status of CPUC's reported corrective actions is further detailed in Appendix B of this report.

January 10, 2013 Audit Observation	Corrective Actions Reported by CPUC	Corrective Actions Implemented	Corrective Actions Adequately Addressing Audit Observation	Additional Actions Required by CPUC
d. Outdated duty statements.	2	2	2	0
e. Limited written policies and procedures.	3	2	2	1
2. Forecasting methodologies need improvement.	4	3	3	1
3. Budget monitoring practices need improvement.	2	0	0	1
4. Fiscal management practices need improvement.				
a. Incorrect fund classification and recording of transactions.	2	2	2	0
b. Outdated cost allocation plan.	1	0	0	1
c. Deficient encumbrance practices.	1	0	0	1
5. Appropriation adjustments may not be equitably allocated among funds.	1	0	0	1
6. Non-compliance with statutory requirements.	10	5	9	5
7. Inadequate fund balance reconciliations.	4	4	4	0
<b>Total</b>	<b>46</b>	<b>31</b>	<b>34</b>	<b>15</b>

The following observations detail the status of corrective actions and recommendations CPUC should implement to adequately address the audit observations. Observation numbers and topics correspond to the January 10, 2013 audit observation numbers.

### **Observation 1: Ineffective Management Practices over Budgeting Functions Continue**

CPUC partially implemented adequate corrective actions to address Audit Observation 1. The previous audit observed several weaknesses in fiscal controls and fund administration, specifically:

- a. Ineffective organizational structure and assignment of budgeting responsibilities.
- b. Ineffective communication and coordination.
- c. Insufficient staff training.
- d. Outdated duty statements.
- e. Limited written policies and procedures.

Upon issuance of our January 2013 audit report, CPUC's budgeting roles and responsibilities were defined and reorganized, additional Budget Office staff were hired, staff with budget responsibilities received on-the-job training, duty statements were updated, and policies and procedures were documented. Although these controls were strengthened, not all audit recommendations were implemented. CPUC and the Office of Ratepayer Advocates (ORA)

need to improve communication over fiscal/budgeting practices. Additional budget and fiscal-related training is necessary for staff with budgeting responsibilities. Further, CPUC has not documented an overall budget policy describing budgeting goals, direction, and priorities of the organization. Finally, as described in greater detail in Observations 2 and 3, CPUC has not documented methodologies for forecasting and monitoring non-telecommunications special funds' budgets.

### Recommendations:

CPUC should continue efforts to fully implement the following corrective actions:

- A. Frequent and ongoing collaboration with ORA to improve and strengthen communication practices and facilitate coordination and transparency of information. Many of the CPUC and ORA budgeting tasks are interdependent for successful completion. Effective and efficient communication between CPUC and ORA is essential when producing reliable and accurate budgets. Information shared should be appropriately supported and understandable by both parties.
- B. Provide training for staff with budgeting responsibilities on Schedule 10s and 10Rs, accruals, encumbrances, and home base coding.
- C. Implement policy to provide cross-training of essential budget functions to alleviate the development of key person dependencies.
- D. Document overall CPUC budget policy describing the budgeting goals, direction, and priorities of the organization; communicate the newly developed Budget Change Proposal policy to relevant staff; and document forecasting and monitoring methodologies for all special funds.

### Observation 2: Forecasting Methodologies Still Need Improvement

CPUC implemented corrective forecasting actions for the six telecommunications public purpose program funds, adequately addressing Audit Observation 2. However, CPUC has not implemented corrective actions for the four non-telecommunications funds included in our January 10, 2013 audit report:

- Fund 462: Public Utilities Commission Utilities Reimbursement Account
- Fund 3015: Gas Consumption Surcharge Fund
- Fund 3089: Public Utilities Commission Ratepayer Advocate Account
- Fund 995: Reimbursements

The four non-telecommunications funds evaluated did not incorporate all audit recommendations in the development of the fiscal year 2014-15 Governor's Budget forecasts, summarized in Table 2 below:

#### Budget Forecasting Prior Audit Recommendations

- Develop and document forecasting policies and procedures.
- Assess the viability of forecast assumptions.
- Perform year-to-year trend analysis of budget and actual revenues and expenditures.
- Consider impact of forecasts on overall fund condition, cash reserves, and surcharge rates.
- Compare previously budgeted revenues and expenditures to actual.
- Maintain adequate supporting documentation.
- Ensure supervisor and management review of forecast projections.

**Table 2: Summary of Forecasting Recommendations Not Implemented by Fund**

Fund	Audit Recommendation
462, 3015, 995	Policies and procedures were not developed or documented for forecasting fund activity.
462, 3015, 3089, 995	Year-to-year trend analyses of budgeted and actual revenues and expenditures were not performed.
462, 3015	Impact of forecasts on cash reserves and surcharges was not considered.
462, 3015, 3089, 995	Previously budgeted revenues and expenditures were not compared to actual amounts during the budget forecasting process.
462, 3015	Adequate supporting documentation for forecasts was not maintained.
462, 3015, 3089, 995	Second level or supervisory review of Governor's Budget amounts at the fund program level were not performed.

CPUC used the practices of previous budget years when developing the 2014-2015 budgets for the above funds. CPUC did not implement all audit recommendations for these funds because they prioritized improving the budgeting process of telecommunications funds. Improvements to Fund 3089 were also dependent on the complete implementation of other audit recommendations, as discussed further in Observations 4, 5, and 6.

**Recommendations:**

For the four non-telecommunications funds noted above, CPUC should implement the following corrective actions:

- A. Develop and document key policies and procedures for forecasting revenue and expenditure activity. Policies and procedures developed should be consistent with the Governor's policy direction described in Finance's annual Budget Letters, periodically reviewed and revised, and approved by executive management. Policies and procedures should be communicated and readily accessible to staff.
- B. Ensure forecasting models include:
  - Performing year-to-year trend analyses of budgeted and actual revenues and expenditures. Trend analyses provide information over the long-term and help supplement the estimation process by evaluating the significance of increases/decreases, including whether they are expected to be temporary or longer-term.
  - Considering the impact of forecasts on cash reserves and surcharge rates, to maintain fund solvency and prudent reserves.
  - Comparing previously budgeted revenues and expenditures to actual amounts and investigating variances. Reasons for variances should be considered when assessing the reasonableness of budget year forecasts.
  - Maintaining adequate supporting documentation and rationale for budget forecasts, in accordance with CPUC's record retention policy and the State Administrative Manual (SAM).
- C. Develop procedures to ensure supervisory and management review of forecasted projections and Governor's Budget amounts.

### Observation 3: Budget Monitoring Practices Still Need Improvement

CPUC implemented corrective monitoring actions for the six telecommunications public purpose program funds, adequately addressing Audit Observation 3. However, similar to Observation 2, CPUC has not implemented corrective actions for the four non-telecommunications funds: Funds 462, 3015, 3089, and 995.

The four non-telecommunications funds did not incorporate all audit recommendations for budget monitoring of the 2014-15 Governor’s Budget current year information, as identified in Table 3:

**Budget Monitoring  
Prior Audit Recommendations**

- Develop and document monitoring policies and procedures.
- Compare budget to actual revenues or expenditures and analyze if budgeted amounts are likely to materialize.
- Monitor fund balances and surcharge rates to maintain solvency and prudent reserves.
- Adjust the Current Year column of the Governor’s Budget according to the results of the

**Table 3: Summary of Monitoring Recommendations Not Implemented by Fund**

Fund	Audit Recommendation
462, 3015, 995	Policies and procedures were not developed or documented for monitoring fund activity.
462, 3015, 3089, 995	Budgeted revenues or expenditures were not compared to actual amounts or analyzed if budgeted amounts were likely to materialize.
462, 3015	Cash reserves and surcharge rates were not reviewed or monitored to maintain fund solvency or prudent reserves.
3015	Adequate supporting documentation for updates to the current year column of the 2014-15 Governor’s Budget was not maintained. Adjustments were made in order to prevent a future negative fund balance.

Similar to Observation 2, CPUC did not implement all audit recommendations for these funds because they prioritized improving the budgeting and monitoring process of telecommunications funds.

**Recommendations:**

For the four non-telecommunications funds noted above, CPUC should implement the following corrective actions:

- A. Develop and document policies and procedures for monitoring revenue and expenditure activity. Policies and procedures developed should be consistent with the Governor’s policy direction described in Finance’s annual Budget Letters, periodically reviewed and revised, and approved by executive management. Policies and procedures should be communicated and readily accessible to staff.
- B. Strengthen monitoring practices by:
  - Comparing budget to actual revenues or expenditures and analyzing if budgeted amounts are likely to materialize.
  - Monitoring surcharge rates to maintain fund solvency and prudent reserves.

- Adjusting the Current Year column of the Governor's Budget according to the results of monitoring processes, and maintaining supporting documentation for any adjustments.

#### **Observation 4: Fiscal Management Practices Still Need Improvement**

CPUC partially implemented corrective actions to address Audit Observation 4. The previous audit observed the following weaknesses in CPUC's fiscal management practices:

- a. Incorrect fund classification and recording of transactions.
- b. Outdated cost allocation plan.
- c. Deficient encumbrance practices.

CPUC successfully implemented corrective actions addressing the incorrect fund classification and recording of transactions by developing policies and procedures, correctly classifying funds and recording transactions, and improving communication within the CPUC Accounting Unit.

CPUC has developed a comprehensive cost allocation plan and a draft had been completed as of April 2014. However, as of our fieldwork date, the plan had not been finalized because CPUC and ORA were still working toward concurrence of allocation methodologies. Implementation of a finalized plan was scheduled for July 1, 2014.

CPUC has partially implemented updated encumbrance practices. Encumbrance policies and procedures were revised and implemented for multi-year contracts; however, encumbrances for Fund 3141-California Advanced Services Fund grant awards have yet to be recorded in accordance with SAM and audit recommendations.

#### **Recommendations:**

CPUC should implement the following corrective actions:

- A. Collaborate with ORA to finalize and implement an updated cost allocation plan. Ensure the plan equitably allocates and assigns indirect costs to CPUC and ORA programs, and conforms to SAM chapter 9200 requirements.
- B. Execute updated encumbrance policies regarding Fund 3141 grant awards.

#### **Observation 5: Appropriation Adjustments Still May Not be Equitably Allocated Among Funds**

CPUC's corrective action response accurately describes the status of the Audit Observation 5 recommendation: CPUC has not developed methodology or rationale for allocating appropriation adjustments among its funds. Implementation is planned by July 1, 2014.

#### **Recommendation:**

- A. CPUC should develop, document, and implement a methodology that equitably distributes appropriation adjustments among CPUC's funds.

## **Observation 6: Continued Non-Compliance with Statutory Requirements Regarding Office of Ratepayer Advocates**

CPUC and ORA partially implemented corrective actions to address Audit Observation 6. The previous audit observed ORA did not prepare the Fund 3089 budget, as required by Public Utilities Code section 309.5(c). ORA has made the following improvements to its budgeting practices:

- Hired a Budget Officer with experience in state accounting practices and budgets, and documented their responsibilities in a duty statement.
- Subscribed to Finance communication lists regarding California State Accounting and Reporting System (CALSTARS) and budgeting topics.
- Received training on CALSTARS.
- Developed proposed budgeting processes and policies.

Although the above improvements have been implemented, ORA's successful, independent development of the Fund 3089 budget did not occur for the 2014-15 Governor's Budget. This is in part dependent on CPUC and ORA's concurrent approval and implementation of the updated cost allocation plan (discussed in Observation 4), and CPUC developing a rationale for equitably allocating appropriation adjustments (discussed in Observation 5). Further, CPUC's and ORA's communication practices require additional improvement to facilitate coordination and transparency of information.

### **Recommendations:**

After CPUC and ORA implement the recommendations for Observations 4 and 5, ORA should implement the following corrective actions:

- A. Assume responsibility for the development of the Fund 3089 budget consistent with state laws, regulations, and Finance budget policies and direction.
- B. Develop processes and procedures to facilitate the coordination and transparency of information shared with CPUC during the budget process. Information shared should be appropriately supported and understandable by both parties. It is imperative both ORA and CPUC foster effective communication and coordination when completing annual budgeting and fiscal tasks.

**California Public Utilities Commission (CPUC)  
List of January 10, 2013 Audit Observations and Recommendations**

Audit Observation Reference	Audit Recommendation Reference	Audit Recommendation	CPUC Response # <sup>1</sup>
1a: Ineffective Organization Structure and Assignment of Budgeting Responsibilities.	A	Increase staffing in the Budget Office to enable more of the budget functions to be under the direct oversight of the Budget Office and Administrative Services Division Director. Key functions of the budget process and associated tasks should be identified and workload studies performed to determine the necessary staffing levels. Tasks should be assigned to those with a level of education and experience that is commensurate with their assigned duties.	1, 2, 3
	B	Establish and clearly define the roles, responsibilities, and authority of those performing budgeting tasks within and between program divisions, Fiscal Office, Budget Office, and executive management.	4, 5
	C	Develop processes to ensure the Budget Office is knowledgeable and apprised of key decisions and methodologies which impact fund budgets. The Budget Office should be the sole unit within the California Public Utilities Commission (CPUC) responsible for all budget functions and equipped to respond to CPUC management and Finance regarding matters involving its budget.	6
1b: Ineffective Communication and Coordination.	D	Develop processes and procedures to facilitate effective horizontal and vertical communication and coordination among those responsible for budget development, monitoring, and reporting. Processes should be detailed so that staff are apprised of the appropriate contact persons and their associated responsibilities. This information should be communicated and readily accessible to staff to avoid duplication of efforts and confusion.	7, 8, 9, 10, 11, 12
1c: Insufficient Staff Training.	E	Develop a comprehensive training program for staff with budgeting responsibilities. The training program should focus on the internal and external budget process and tasks and the importance of staff's role in the process. Training should include, but not be limited to, guidance on compiling and reviewing budget related information such as Schedule 10s and 10Rs, CALSTARS reports, and accrual and encumbrance processes.	13, 14, 15, 16
	F	Implement policy to provide cross-training of essential budget functions to alleviate the development of key person dependencies.	16
1d: Outdated Duty Statements.	G	Update duty statements so that roles and responsibilities are representative of the tasks performed and management expectations are clearly defined. Further, the roles and responsibilities of budget control officers should be clarified. Duty statements should be periodically reviewed and revised to remain current. Further, should staff change positions and/or promote, a new duty statement should be developed specific to that staff's new role. Additionally, CPUC should develop a process whereby the contents of duty statements are communicated to staff both verbally and in writing and evidence of this communication documented.	17, 18

<sup>1</sup> Response number corresponds to Appendix B.

Audit Observation Reference	Audit Recommendation Reference	Audit Recommendation	CPUC Response # <sup>2</sup>
1e: Limited Written Policies and Procedures.	H	<p>Document and regularly update key budget and fiscal policies and procedures. Policies and procedures should be regularly reviewed and revised, approved by executive management, and communicated and readily accessible to staff. Specific components of CPUC's budgeting process policies and procedures should include, at a minimum:</p> <ul style="list-style-type: none"> <li>- Overall CPUC budget policy describing the budgeting goals, direction, and priorities of the organization.</li> <li>- Overall budget process identifying tasks, responsible parties, and timelines.</li> <li>- Methodologies for developing fund budget forecasts.</li> <li>- Fund balance reserve policy consistent with state laws and regulations.</li> <li>- Processes for resolving negative or excessive fund balances.</li> <li>- Development and processing of Budget Change Proposals (BCPs).</li> </ul>	19, 20, 21
2: Forecasting Methodologies Need Improvement.	A	Develop and document key policies and procedures for forecasting all funds' revenue and expenditure activity. Policies and procedures developed should be consistent with the Governor's policy direction described in Department of Finance (Finance) annual Budget Letters, periodically reviewed and revised, and approved by executive management. Policies and procedures should be communicated and readily accessible to staff.	22, 23
	B	<p>Ensure forecasting models include:</p> <ul style="list-style-type: none"> <li>- Assessing the viability of assumptions. Only probable and supported assumptions should be included in the forecast. If an unexpected situation arises, the fund's budget can be revised through the BCP process.</li> <li>- Performing year-to-year trend analyses of budgeted and actual revenues and expenditures. Trend analyses provide information over the long-term and help supplement the estimating process by evaluating the significance of increases/decreases, including whether they are expected to be temporary or longer-term in duration.</li> <li>- Considering the impact of forecasts on overall fund condition, including cash reserves, fund balances, and surcharge rates, to maintain fund solvency and prudent reserves.</li> <li>- Comparing previously budgeted revenues and expenditures to actual amounts and investigating variances. Reasons for variances should be considered when assessing the reasonableness of budget year forecasts.</li> <li>- Maintaining adequate supporting documentation and rationale for budget forecasts, in accordance with CPUC's record retention policy and the State Administrative Manual (SAM).</li> </ul>	22, 23
	C	Consider using the expenditure forecasting model implemented by Fund 0493 as an underlying basis for development.	24
	D	Develop procedures to ensure supervisory and management review of forecast projections.	25
3: Budget Monitoring Practices Need Improvement.	A	Develop and document policies and procedures for monitoring all funds' revenue and expenditure activity. Policies and procedures developed should be consistent with the Governor's policy direction described in Finance's annual Budget Letters, periodically reviewed and revised, and approved by executive management. Policies and procedures should be communicated and readily accessible to staff.	26
	B	<p>Ensure monitoring methodologies include:</p> <ul style="list-style-type: none"> <li>- Comparing budget to actual revenues or expenditures and analyzing if budgeted amounts are likely to materialize.</li> <li>- Monitoring fund balances and surcharge rates to maintain fund solvency and prudent reserves.</li> <li>- Adjusting the Current Year column of the Governor's Budget according to the results of monitoring processes.</li> </ul>	27
4a: Incorrect Fund Classification and Recording of Transactions.	A	Work with Finance to ensure proper classification of shared and non-shared funds.	28
	B	Develop procedures to record Deposits in Surplus Money Investment Fund and short term loan receivable transactions that are in accordance with the California State Accounting and Reporting System (CALSTARS) and SAM policy.	28, 29
4b: Outdated Cost Allocation Plan.	C	Develop a written cost allocation plan that is in conformity with SAM Section 9203 guidance. Specifically, the cost allocation plan should include detailed information regarding the costs being allocated, the allocation methodology, the frequency of the allocation, and the rationale for the allocation base. The plan should be supported by appropriately cross-referenced working papers or system documentation, updated periodically, and retained for reference.	30

<sup>2</sup> Response number corresponds to Appendix B.

Audit Observation Reference	Audit Recommendation Reference	Audit Recommendation	CPUC Response # <sup>3</sup>
4c: Deficient Encumbrance Practices.	D	Document encumbrance policies and procedures and ensure those procedures: <ul style="list-style-type: none"> <li>- Are consistently applied by CPUC staff.</li> <li>- Include a periodic evaluation of encumbrances to ensure balances are appropriately adjusted to reflect expected expenditures.</li> <li>- Are communicated to CPUC staff responsible for managing encumbrances.</li> <li>- Recognize Fund 3141 grant award resolutions as a valid encumbering document. Per SAM section 8340, the resolution can be considered an "other document" by which an appropriation can be encumbered.</li> <li>- Are consistent with SAM requirements.</li> </ul>	28, 29, 31
5: Appropriation Adjustments May Not be Equitably Allocated Among Funds.	A	CPUC should develop, document, and implement a methodology that equitably distributes appropriation adjustments among CPUC's funds.	32
6: Non-Compliance with Statutory Requirements.	A	Office of Ratepayer Advocates (ORA) should assume responsibility for the development of the Fund 3089 budget consistent with state laws, regulations, and Finance budget policies and direction.	33, 34, 35, 36, 37
	B	ORA's budget development process should be documented, identify all the responsible parties and their duties, and budgeting methodologies should be logical and supported.	38, 39
	C	ORA and CPUC should develop processes and procedures to facilitate the coordination and transparency of information shared during the budget process since both parties are dependent on one another to complete their respective budget tasks. Information shared should be appropriately supported and understandable by both parties.	40, 41
	D	ORA's budget should be submitted to the commission for approval.	42
7: Inadequate Fund Balance Reconciliations.	A	To prevent or resolve future variances between the Governor's Budget, CPUC and State Controller's Office (SCO) fund balances, CPUC should: <ul style="list-style-type: none"> <li>- Adhere to Budget Letter 12-22.</li> <li>- Ensure Surplus Money Investment Fund related transactions, loans, and transfers are appropriately recorded.</li> <li>- Implement processes so that regular reconciliations between SCO and CPUC Fiscal Office accounting records are performed, and corrective action is taken to resolve variances.</li> <li>- Continue to ensure reconciliations performed are reviewed by appropriate levels of management.</li> <li>- Ensure the Budget Office uses data for the Governor's Budget from Fiscal Office records that agree to SCO records, including prior year adjustments, and beginning and ending fund balances.</li> </ul>	43, 44, 45, 46

<sup>3</sup> Response number corresponds to Appendix B.

**Detailed Examination Results: California Public Utilities Commission (CPUC) Corrective Action Status and Evaluation**

Audit Observation Reference	Audit Recommendation Reference	CPUC Response #	CPUC Corrective Action Response and Status <sup>1</sup>	Corrective Action Implemented. <sup>2,3</sup>	Corrective Action Adequately Addresses Audit Observation <sup>3</sup>	Additional Actions Required <sup>3</sup>	Comments
1a: Ineffective organization structure and assignment of budgeting responsibilities.	A	1	CPUC has centralized responsibility for all budget functions within Administrative Services. This process has included knowledge transfer from staff reporting to the Executive Division to Administrative Services via interviews and joint process documentation.  Status: Completed.	Y	Y	N	
		2	Working with the Governor's Office and Department of Finance (Finance), the CPUC has increased its staffing in the Budget Office by adding three additional Associate Budget Analyst positions, and also reassigned a Staff Services Analyst position to the Budget Office.  Status: Completed.	Y	Y	N	
		3	CPUC has established a two year, limited term Staff Services Manager II position to oversee and coordinate the agency's Corrective Action Plan as well as its Fiscal and Budget Units.  Status: Completed.	Y	Y	N	
	B	4	CPUC has re-defined key budgeting roles and responsibilities within Administrative Services, as well as all Divisions with budget-related roles.  Status: Completed.	Y	Y	N	
		5	As part of its effort to transfer and capture knowledge and improve transparency, the CPUC's Budget Office has documented key policies and processes related to budgetary functions. This includes the internal review of Budget Change Proposals (BCPs) and the process by which the agency's internal budget is initially allocated.  Status: Completed.	P	P	Y	BCP policies were documented but not distributed to relevant staff. CPUC's overall budget policy and internal budget allocation processes have not been documented.

<sup>1</sup> Information reported in CPUC Corrective Action Plan submitted January 2014.

<sup>2</sup> Legend: Y = Yes, N = No, P = Partially.

<sup>3</sup> Summary of examination results.

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	C	6	<p>The newly-defined roles and responsibilities (see CPUC's response to Recommendation A) describe how Administrative Services is now the main point of contact with Finance.</p> <p>Status: Ongoing. The Director of Administrative Services is working with Finance along with Budget Office staff to improve communications and stay apprised of changes and Finance requirements and requests. CPUC continues to work with Office of Ratepayer Advocates (ORA) on its role and participation in this process.</p>	Y	P	Y	Communication practices between CPUC and ORA have improved since the previous audit; however, additional efforts are necessary to ensure a positive work environment and successful completion of CPUC and ORA goals.
1b: Ineffective communication and coordination.	D	7	<p>CPUC expects that the newly-defined roles and responsibilities (see CPUC's response to Recommendation A) will sufficiently clarify how the Budget and Fiscal Offices will interact with other CPUC Divisions as it relates to the development and monitoring of both the Governor's Budget and internal operating budgets. This will also serve to improve communication between CPUC and Finance. Since the audit, communications and knowledge sharing between the Budget Office and Divisions has improved with more frequent emails and meetings regarding Finance requirements and processes.</p> <p>Status: Ongoing. Improving communications in this area will be a continual process.</p>	Y	Y	N	
		8	<p>The Budget Office and Human Resources (HR) have developed an updated organization chart and duty statements for Budget Office staff. All staff performing key budget functions now report to Administrative Services management.</p> <p>Status: Completed.</p>	Y	Y	N	
		9	<p>The Communications Division is documenting the process by which communications-fund resolutions are developed, reviewed, and approved by the Commission. These processes are consistent with the new definitions of roles and responsibilities of budgetary functions within the CPUC.</p> <p>Status: A flowchart documenting this process has been completed. Accompanying documentation is undergoing final review by the Communications Division and the Budget Office to reflect changes in the Fiscal Year (FY) 2014-15 Budget Cycle.</p>	Y	Y	N	
		10	<p>The Budget Office has documented the process by which rail-fund resolutions are developed, reviewed, and approved by the Commission, and has developed a new system to track incoming revenue. This process is consistent with the new definitions of roles and responsibilities of budgetary functions within the agency.</p> <p>Status: Completed.</p>	Y	Y	N	

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	D	11	<p>As part of CPUC's efforts to improve communication and transparency of its budgeting process, Divisions participated in a zero-based budget estimation exercise to demonstrate their programs' resource needs. The goal of the exercise was to help Divisions better estimate and communicate their actual budget needs rather than relying solely on previous-year's budget expenditures. CPUC management expressed their expectations that Division Managers and Budget Control Officers should actively engage in planning for their annual budget needs as part of their overall strategic goal planning.</p> <p>Status: Completed. The Operating Expenses and Equipment (OE &amp; E) information collected was used for internal budget allocation.</p>	Y	Y	N	
		12	<p>CPUC has developed an online administrative calendar to be shared agency-wide that will include important budget-related submission dates (BCPs, etc.) as well as end-of-year Fiscal and HR deadlines.</p> <p>Status: Ongoing. CPUC has created an administrative calendar which is set to go online by March 2014.</p>	Y	Y	N	
1c: Insufficient staff training.	E	13	<p>The CPUC Budget Office is now responsible for training program staff on the purposes of the various schedules prepared for the Governor's Budget; key staff requiring this training have been identified, and training for the submission of Schedule 10 (expenditure) and Schedule 10R (revenue) is planned for the development of the FY 2014-15 budget.</p> <p>Status: Ongoing. Schedule 10R and 10s training completed for FY 2013-14. Additionally, Budget Office and Accounting staff are training Division Budget Control Officers (BCOs) on reading and interpreting California State Accounting and Reporting System (CALSTARS) data and how to establish and maintain their Division's home based default codes as part of the cost allocation update process.</p>	N	N	Y	Although guidance has been provided to program staff with budgeting responsibilities, Schedule 10 and 10R, home base coding, accrual, and encumbrance training has not been provided by CPUC.
		14	<p>As the lead over the Budget and Fiscal Office's implementation of the Corrective Action Plan, the Manager of Budget and Fiscal Services will develop a BCO Manual designed to ensure program personnel that interact with the budget process have an understanding of their responsibilities, access to the correct resources, and the necessary tools to perform their duties.</p> <p>Status: Completed. BCOs now have access to the Manual and other resources in a dedicated "BCO Resources" file on the CPUC shared server. The Budget Office plans to update the manual semi-regularly as changes occur to processes, coding, etc., throughout the year.</p>	Y	Y	N	

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	E	15	<p>CPUC has significantly improved the clarity of budget data by developing reports based on CALSTARS data that have more detail and are easier for Divisions to understand. The Budget Office has provided initial guidance regarding how to read and interpret commonly-used State accounting terminology has been provided in the zero-based budget exercise (see CPUC response in 1a) and the BCO Manual, which has been completed.</p> <p>Status: Completed. The Budget Office will continue to work with Divisions to tailor reports to their needs.</p>	Y	Y	N	
	E, F	16	<p>The Budget Office will develop an annual Finance training schedule for existing staff and new hires within the unit. New hires will receive cross-training of each other's duties to ensure essential budget functions can be met during absences, etc.</p> <p>Status: Completed. All Budget Office staff will complete Finance trainings offered in 2014.</p>	N	N	Y	Budget Office staff has not been cross-trained on each other's duties.
1d: Outdated duty statements.	G	17	<p>CPUC has developed a plan to address the issue of outdated duty statements and insufficient communication of duties to employees on an agency-wide basis, with the goal that all duty statements will be updated by June 2014 and subsequently reviewed and revised no less than every two years.</p> <p>Status: Ongoing. The Position Description Questionnaire process has commenced and HR is using this information to support managers as they update staff duty statements.</p>	Y	Y	N	
		18	<p>CPUC will update its system for developing and maintaining the agency's organizational charts to provide more timely and accurate information to Division staff and Finance.</p> <p>Status: Ongoing. HR has added position numbers to its organization chart which has improved its accuracy and clarity. HR will continue to work on improvements to its system of updating its organization charts. CPUC will be consolidating some position control functions within the Budget Office to improve efficiency and timeliness of responses to Finance.</p>	Y	Y	N	
1e: Limited written policies and procedures.	H	19	<p>The CPUC hired a short-term accounting consultant to assist Fiscal Office staff with reviewing the adequacy and revising existing draft procedures for: Surplus Money Investment Fund (SMIF) transactions, operating transfers, and encumbrances as part of its response to the Corrective Action Plan.</p> <p>Status: Completed.</p>	Y	Y	N	

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	H	20	<p>CPUC considered hiring a longer-term management consultant to train Fiscal and Budget staff on how to document new processes and improve its use of existing electronic filing and document sharing tools is under review.</p> <p>Status: Administrative Services staff from the Budget and Fiscal Offices as well as Contracts, Procurement, HR, and Information Technology will be attending a day-long training in January 2014 focused on writing clear and concise processes; given the progress made in the past year, Management believes this will be sufficient training in documenting processes, and an additional consultant is not necessary.</p>	Y	Y	N	
		21	<p>CPUC is committed to documenting all critical Fiscal and Budget Office policies and processes as it works to improve transparency and overall quality of budget data. This includes the policies and procedures identified by the Finance Audit, as well as more than twenty other processes and sub processes deemed critical by Management.</p> <p>Status: Completed.</p>	P	P	Y	Forecasting methodologies have not been developed or documented for all CPUC funds. CPUC has not developed policies and procedures outlining the overall goals and policies of CPUC's budgeting functions. A fund balance reserve policy has not been documented.
2: Forecasting methodologies need improvement.	A, B	22	<p>Communications Division is documenting its processes for forecasting special fund revenues and expenditures. The updated process will incorporate all Audit recommendations regarding forecasting methodology as well as improvements to the management and oversight of the forecasting process, adherence to Finance's Annual Budget Letters and regular review and updates.</p> <p>Status: Completed. Communications Division has outlined the steps it takes to forecast fund revenues and expenditures and will be reviewing its final documentation with the Budget Office in January 2014.</p>	Y	Y	N	
		23	<p>The Budget Office will document its processes related to forecasting for Rail and Energy funds. In addition, the Budget Office will research options for a new system for tracking incoming revenue.</p> <p>Status: Documentation of the current processes (used for FY 2014-15) is complete; Budget Office staff will be working to review and revise budget forecasting processes in the coming Fiscal Year.</p>	P	P	Y	Although the forecasting process for rail and energy funds was documented and a new system for tracking revenue was developed, CPUC has not implemented most of the audit recommendations related to budget forecasting for non-telecommunications funds, i.e. Funds 462, 3015, 3089, and 995.
	C	24	<p>CPUC will review the expenditure forecasting model implemented by Fund 493 as an underlying basis for forecast development and make recommendations to Communications Division about its applicability to other funds.</p> <p>Status: Completed.</p>	Y	Y	N	

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	D	25	The Director of Administrative Services now reviews submissions to Finance, including funding forecasts for FY 2013-14 and going forward. Status: Completed.	Y	Y	N	
3: Budget monitoring practices need improvement.	A	26	Current Year data adjustments process will be completed and documented for FY 2014-15. Status: Completed.	P	P	Y	CPUC has not fully implemented the audit recommendations related to monitoring for non-telecommunications funds, i.e. Funds 462, 3015, 3089 and 995.
	B	27	Additional staffing and budget tools will allow the Budget Office to monitor fund revenue and expenditures regularly. Status: Ongoing. The Budget Office has developed a new personnel position and expenditure system that will allow the Budget Office to better control and monitor personnel costs associated with reclassifications, etc. In addition, the Budget Office is now producing more detailed OE & E expenditure reports, and has begun monitoring and reporting revenue.	N	N	N	The Budget Office developed a personnel position and expenditure tracking worksheet, however, this tracking tool has not been implemented. As this tool does not specifically address the audit Observation 3 recommendations no additional action is required by CPUC regarding the tool with relation to the audit recommendations.
4a: Incorrect fund classification and recording of transactions.	A, B, D	28	CPUC has corrected the error of not recording SMIF transactions, has drafted and implemented procedures to record deposits in SMIF and short term loan receivable transactions, and has reviewed and fixed its "shared" fund classifications based on Finance review. In addition, CPUC has hired a short-term accounting consultant to evaluate and revise existing drafts of these procedures to ensure compliance with State Administrative Manual (SAM) and Finance audit findings, and assess whether they are being properly implemented by staff. Status: Completed. Short-term consultant was hired to help draft new processes and confirm the new processes are being implemented correctly.	Y	Y	N	
	B, D	29	The CPUC Accounting Unit is now meeting regularly to discuss fund reconciliation and encumbrances in part to ensure consistent recording of these transactions. Status: Completed.	Y	Y	N	
4b: Outdated cost allocation plan.	C	30	CPUC is updating its cost allocation plan and documenting all methodology used in its analysis and decision making regarding the choice of various allocation bases. Once completed, the cost allocation plan will be given a "sunset date" upon which it will be reviewed for accuracy and updated as needed. Status: Expected completion July 2014. Staff have completed a draft of the updated Cost Allocation Plan which will be implemented in FY 2014-15. The underlying methodology of the plan is in place and staff are now working to refine the analysis for ORA and Communications Division cost allocations based on feedback from those Divisions.	N	N	Y	As of the end of fieldwork, a proposed cost allocation plan had been developed, pending agreement between CPUC and ORA. The updated Cost Allocation Plan is planned for implementation by July 1, 2014.

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4c: Deficient encumbrance practices.	D	31	As described in reference to 4a (above) CPUC has hired a short-term accounting consultant to evaluate and revise existing draft encumbrance procedures for multi-year contracts to ensure compliance with SAM and Finance audit findings, and assess whether processes are being properly implemented by staff.  Status: Completed.	P	N	Y	The encumbrance process for Fund 3141 grants has been developed, but not implemented.
5: Appropriation adjustments may not be equitably allocated among funds.	A	32	CPUC has reviewed its appropriation methodology and will document and revise the methodology so that it is consistent with the output of analyses from the cost allocation plan.  Status: Expected completion July 2014. CPUC Budget Officer expects to complete this task at the same time as the cost allocation plan.	N	N	Y	CPUC has not developed an updated methodology for allocating appropriation adjustments.
6: Non-compliance with statutory requirements.	A	33	ORA and CPUC are actively engaged in reviewing and discussing budgetary roles and responsibilities related to the development of the Governor's Budget and allocation of its internal operating budget. CPUC believes that many of the improvements being made as part of this Corrective Action Plan, including the development of an updated cost allocation plan, BCO Manual, improved expenditure reporting, etc., will improve communication and coordination between ORA and Budget Office.  Status: Continuous. ORA's Director and ORA's Budget Officer have met with the Director of Administrative Services to begin the process of transferring knowledge of the components comprising ORA's budget allocations.	P	Y	Y	Communication practices between CPUC and ORA have improved since the previous audit; however, additional efforts are necessary to ensure successful completion of CPUC's and ORA's fiscal responsibilities.
		34	ORA's Budget Officer has subscribed to all Finance communication lists including CALSTARS Procedures Manual updates and CALSTARS Operations Memos as a way to acquire necessary information for maintaining and interpreting budget data accurately.  Status: Completed.	Y	Y	N	
		35	ORA's Budget Officer will meet regularly with CPUC Budget staff to verify the equitable allocation of appropriation adjustments to ORA's budget fund.  Status: CPUC began this process in March 2013 and will continue monthly internal meetings and dialogue.	N	N	Y	CPUC has not developed an updated methodology for allocating appropriation adjustments; therefore, ORA has been unable to implement corrective actions related to this budgeting task.
		36	ORA's Budget Officer will enroll in Finance CALSTARS Budget Report Training Tracks (#1 and #9) at the first available occasion that such training is offered.  Status: Continuous. Completed in April 2010, but will continue training on the new Financial Information System for California (FI\$Cal) system.	Y	Y	N	

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	A	37	ORA will assess the internal staffing resources necessary for developing and monitoring Division budget.  Status: Completed. In November 2013 ORA hired a Budget Officer with experience in state accounting practice and budgets. The Budget Officer's duties and responsibilities include oversight over Accounting/Budgets/Procurement/contracts.	Y	Y	N	
	B	38	Duties and responsibilities associated with the preparation and management of ORA's budget have been formalized within the duty statement of ORA's Budget Officer.  Status: Ongoing. The Budget Officer is performing and documenting ongoing evaluation of processes and procedures to determine all the necessary oversight and responsibilities required to properly perform the statutory requirements.	Y	Y	N	
		39	Prior to start of 2014-15 budget cycle planning process, ORA's Budget Officer will develop written processes consistent with those developed within the Budget Office as a way to document budget methodologies and limit the potential for single-person dependencies.  Status: Ongoing. Starting in March 2013 ORA's Budget Officer began meeting with Budget Office staff and will do so regularly to discuss and document processes and develop methodologies.	P	Y	Y	ORA developed budgeting policies, but implementation of these policies is dependent on the completion and implementation of the revised CPUC cost allocation plan.
	C	40	ORA and Budget Office staff developed a flow chart that reflects ORA's interactions in the budget process.  Status: Completed.	P	Y	Y	
		41	ORA will provide input and review CPUC's cost allocation plan prior to start of 2014-15 Budget Cycle.  Status: Completed. ORA met with Budget Office staff to discuss the accuracy of assigned Personal Services in its Division. This will serve as the allocation basis for most of the costs allocated to ORA. Budget Office staff will meet with ORA again to share a final, proposed cost allocation plan for the Division. ORA's Director and ORA's Budget Officer are currently assessing the accuracy and validity of the internal cost allocation presented by the CPUC.	P	Y	Y	
	D	42	The process by which ORA submits its budget for approval will be documented prior to start of 2014-15 budget cycle.  Status: Ongoing. Limited procedures were developed for 2014-15 budget cycle in light of Senate Bill (SB) 96 which changed the budget responsibility for ORA. ORA is working with Finance to develop 2015-16 detailed processes.	Y	Y	N	Chapter 356, Statutes of 2013 (Senate Bill 96) changed the requirements for ORA's budget submission, which modifies the criteria of the original Audit Recommendation.

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7: Inadequate fund balance reconciliations.	A	43	CPUC has committed additional management attention to overseeing the Fiscal and Budget Offices with the hiring of a limited-term Staff Services Manager II to oversee the two units as well as the agency's implementation of its Corrective Action Plan and will report directly to the Director of Administrative Services.  Status: Completed.	Y	Y	N	
		44	Fiscal Office staff have been notified that they must implement Budget Letter 12-22, and any and all guidance that supersedes it. Management is committed to regularly discussing and reviewing new requirements with staff and clarifying and resolving any issues that arise from new policies, changes in processes, etc.  Status: Completed.	Y	Y	N	
		45	Fiscal Office staff will receive all necessary training regarding fund balance reconciliation from Finance.  Status: Completed.	Y	Y	N	
		46	Fiscal Office staff now meets regularly with the Budget Office to discuss data and controls, and any issues that arise when reporting to Finance.  Status: Ongoing. Regular meetings have been established between the Fiscal Office Accounting Unit and Budget Office; these ongoing issues will be continually addressed and resolved. In addition, the Accounting Administrator II <sup>4</sup> now reviews all Fiscal Office entries.	Y	Y	N	
<b>Total</b>		<b>46</b>		<b>31</b>	<b>34</b>	<b>15</b>	

<sup>4</sup> Reviewing of Fiscal Office entries is completed by the Accounting Administrator II and also delegated to other Fiscal Office supervisors.



**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



August 1, 2014

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

**Re: Response to the Department of Finance, Office of the State Audit and Evaluation Draft Report on the Examination of California Public Utilities Commission Corrective Action Plan**

Dear Mr. Sierra:

The California Public Utilities Commission (CPUC) provides this letter in response to the July 21, 2014 letter from the Department of Finance regarding the draft report on its Examination of the CPUC Corrective Action Plan. CPUC began implementing this plan in 2013 in response to an OSAE audit of CPUC's budget processes and performance. We are pleased that this report recognizes the significant progress CPUC has made so far in implementing the numerous corrective actions outlined within the plan, and we agree that several actions remain before the corrective action plan can be considered fully implemented.

As mentioned in the report, CPUC's first priorities in 2013 were to improve critical budget management functions and forecasting efforts for the agency's Public Purpose Program funds. Our planned forecasting changes related to other funds, particularly PUC Utilities Reimbursement Account (Fund 0462), must be integrated and completed in concert with three other contemporaneous changes to the budget process: the CPUC's zero based budget for FY 2015-16, changes being made to processes to evaluate and assess utility user fees, and a changeover of the statewide budget process to Fi\$cal. The changes we've made in management, staffing, training, and process documentation have laid the ground work for this next, more complex phase of implementation, and we are eager to move forward with the final changes as recommended by this audit report.

We note that the timing of the auditors' field work preceded implementation of the CPUC and ORA cost allocation plan. This plan has now been implemented and will be reassessed annually. With its implementation, we believe that 7 of the 15 remaining CPUC required actions identified by the report have either been completed, or are no longer hindered by the lack of an updated cost allocation plan. In the updated corrective action plan we will submit to DOF in 90 days, CPUC will reflect these updates, and

realign tasks so that remaining actions and DOF's recommendations will be specifically addressed and prioritized.

We look forward to continuing to work with you and your staff to improve the CPUC's budget practices. Should you have any questions, please feel free to contact Michelle Cooke, Deputy Executive Director, at (415) 703-2163.

Sincerely,

ORIGINAL SIGNED BY

Paul Clanon  
Executive Director

cc: Michael R. Peevey, President, CPUC  
Joseph Como, Acting Director, Office of Ratepayer Advocates



## ORA

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**JOSEPH P. COMO**  
Acting Director

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August 5, 2014

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

**Re: 1. Response of Office of Ratepayer Advocates (ORA) to the Department of Finance, Office of the State Audit and Evaluation Draft Report on the Examination of California Public Utilities Commission (CPUC) Corrective Action Plan; and,**  
**2. Concurrence with the August 1, 2014 Response of the CPUC**

Dear Mr. Sierra:

This letter confirms that the Office of Ratepayer Advocates (ORA) concurs with the responses of the California Public Utilities Commission (CPUC) for those observations that address the CPUC/ORA budget process. ORA continues to work with the CPUC Budget and Fiscal Office to implement the Cost Allocation Plan that was jointly finalized in June of this year.

ORA's priority is to develop and implement key budget policies and procedures as identified, and improve communication and collaboration between the CPUC and ORA. The agreed-upon Cost Allocation Plan establishes a solid framework for ORA to appropriately budget for its expenses. Since Finance's Budget Process Audit Report was issued on January 10, 2013, ORA has been established as a separate Program Budget within the CPUC's Annual Governor's Budget. This legislative action further underscored the need for the budget control and procedural requirements that Finance found lacking in its original evaluation in January of 2013. ORA has now assumed responsibility for the development of its budget, subject to final approval by Finance.

ORA will also continue to work with the CPUC Budget and Fiscal Office to improve communication practices, coordination and transparency of information, and to develop processes and procedures to implement those practices. In the updated corrective action that will be submitted to Finance in 90 days, ORA will work with the CPUC to address the remaining actions identified in the draft report.

Should you have any questions, please feel free to contact me at 415-703-2381.

Respectfully,

*"Original signed by"*

Joseph P. Como  
Acting Director

cc: Michael R. Peevey, President, California Public Utilities Commission  
Paul Clanon, Executive Director, California Public Utilities Commission  
Michelle Cooke, Deputy Executive Director for Budget and Administration,  
California Public Utilities Commission