



February 28, 2012

Honorable Mark Leno, Chair
Senate Budget and Fiscal Review Committee

Honorable Robert Blumenfield, Chair
Assembly Budget Committee

Honorable Ricardo Lara, Chair
Joint Legislative Audit Committee

**Final Audit Report—Energy Resources Conservation and Development Commission,
Renewable Resource Trust Fund, for the Fiscal Year Ended June 30, 2011**

In accordance with Public Resources Code section 25751(g), the Department of Finance respectfully submits its final audit report on the Energy Resources Conservation and Development Commission's (Commission) Renewable Resource Trust Fund (Fund), for the fiscal year ended June 30, 2011. This section requires an annual financial audit of the Fund, with a final report to the California Legislature by March 1 of each year.

The enclosed report includes an unqualified opinion on the Fund's financial statements and contains one internal control finding. The Commission's response to the report finding is incorporated into this final report.

We appreciate the Commission's assistance with this audit. If you have any questions, please contact me or Kimberly Tarvin, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Senator Huff, Vice Chair of the Senate Budget and Fiscal Review Committee
Senator Padilla, Chair of the Senate Energy, Utilities, and Communications
Committee
Senator Fuller, Vice Chair of the Senate Energy, Utilities, and Communications
Committee
Senator Simitian, Chair of Budget Subcommittee No. 2 on Resources,
Environmental Protection, Energy, and Transportation
Senator Dutton, Vice Chair of the Joint Legislative Audit Committee
Assembly Member Nielsen, Vice Chair of the Assembly Budget Committee
Assembly Member Bradford, Chair of the Assembly Utilities and Commerce
Committee
Assembly Member Fletcher, Vice Chair of the Assembly Utilities and Commerce
Committee
Assembly Member Gordon, Chair of the Assembly Budget Subcommittee No. 3 on
Resources and Transportation
Mr. Gregory Schmidt, Secretary of the Senate
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Ms. Diane Boyer-Vine, Legislative Counsel's Office
Ms. Tiffany Roberts, Legislative Analyst's Office
Mr. Keali'i Bright, Deputy Secretary for Legislation, Natural Resources Agency
Mr. Kip Lipper, Senate Pro Tempore Policy Consultant
Ms. Gabrielle Zeps, Speaker of the Assembly Policy Consultant
Ms. Catherine Freeman, Consultant to the Senate Budget and Fiscal Review
Committee
Ms. Gabrielle Meindl, Consultant to the Assembly Budget Committee
Mr. Cameron Valderrama, Consultant to the Joint Legislative Audit Committee
Ms. Kellie Smith, Consultant to the Senate Energy, Utilities, and Commerce
Committee
Ms. Sue Kateley, Consultant to the Assembly Utilities and Commerce Committee
Mr. Wade Teasdale, Consultant to the Senate Republican Caucus
Ms. Rocel Bettencourt, Consultant to the Senate Republican Caucus
Mr. Daryl Thomas, Consultant to the Assembly Republican Caucus
Mr. Chris Holtz, Consultant to the Assembly Republican Caucus



Transmitted via email

February 28, 2012

Mr. Robert Oglesby, Executive Director
Energy Resources Conservation and
Development Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

Dear Mr. Oglesby:

**Final Report—Energy Resources Conservation and Development Commission,
Renewable Resource Trust Fund Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its financial statement audit of the Energy Resources Conservation and Development Commission's (Commission) Renewable Resource Trust Fund for the fiscal year ended June 30, 2011.

The enclosed report is for your information and use. The Commission's response to the report finding is incorporated into this final report. The Commission agreed with our finding and we appreciate its willingness to implement corrective actions. The finding in our report is intended to assist management in improving its programs. This report will be placed on our website.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Jennifer Arbis, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Mark Hutchison, Deputy Director, Administrative Services Division, Energy Resources Conservation and Development Commission
Mr. Kyle Emigh, Budget Officer, Financial Services Branch, Energy Resources Conservation and Development Commission
Mr. Tony Goncalves, Manager, Renewable Energy Office, Energy Resources Conservation and Development Commission
Mr. Mark Jones, Accounting Administrator, Energy Resources Conservation and Development Commission
Ms. Sherri Guzman, Associate Management Auditor, Energy Resources Conservation and Development Commission
Ms. Mary Lam, Associate Management Auditor, Energy Resources Conservation and Development Commission

A F_{INANCIAL} S_{TATEMENT} A_{UDIT}

Energy Resources Conservation and
Development Commission
Renewable Resource Trust Fund
for the Fiscal Year Ended
June 30, 2011

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

MEMBERS OF THE TEAM

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Jennifer Arbis
Supervisor

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

You can contact our office at:

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TABLE OF CONTENTS

Executive Summary	iv
Independent Auditor's Report.....	1
Balance Sheet.....	3
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	4
Notes to the Financial Statements.....	5
Finding and Recommendations.....	11
Response.....	13

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit in accordance with an interagency agreement with the Energy Resources Conservation and Development Commission (Commission). The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year ended June 30, 2011.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

Audit Results

The results of the audit are discussed below. See the Finding and Recommendations section of the report for additional details.

- The Fund's financial statements are fairly presented for the fiscal year ended June 30, 2011.
- Collectively, the following internal control deficiencies increase the risk that a material misstatement to the financial statements due to error or fraud might not be prevented, or detected and corrected on a timely basis.
 - Staff access to the California State Accounting and Reporting System (CALSTARS) is not limited to ensure adequate separation of duties.
 - Disbursement approvals did not include the initials/signature and date of the staff authorizing the payment. Additionally, some claim schedules were not adequately reviewed.
 - The quarterly reconciliations between program and accounting data were not adequately documented.

INDEPENDENT AUDITOR'S REPORT

Mr. Robert Oglesby, Executive Director
Energy Resources Conservation and
Development Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

We have audited the accompanying *Balance Sheet* as of June 30, 2011, and the related *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year then ended. These financial statements are the responsibility of the Energy Resources Conservation and Development Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2011, and the results of its operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the above paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified a combination of deficiencies in the Commission's internal control we consider to be a material weakness. For additional information, see the Finding and Recommendations section.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commission's management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

January 11, 2012

BALANCE SHEET

**Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
Balance Sheet
As of June 30, 2011**

Assets

Cash and Pooled Investments (Note 1)	\$ 198,738,536
Due From Other Funds or Appropriations (Note 2)	<u>7,722,860</u>
Total Assets	<u>\$ 206,461,396</u>

Liabilities and Fund Balance

Liabilities

Accounts Payable	\$ 6,068,976
Due To Other Funds or Appropriations (Note 2)	<u>20,610,488</u>
Total Liabilities	<u>26,679,464</u>

Fund Balance (Note 3)

Restricted for Purposes Specified in <i>Chapter 854/96, Statutes of 1996</i>	<u>179,781,932</u>
Total Liabilities and Fund Balance	<u>\$ 206,461,396</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Energy Resources Conservation and Development Commission Renewable Resource Trust Fund Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended June 30, 2011

Revenues (Note 1)

Existing Technologies	\$ 14,584,825
Emerging Technologies	57,610,060
Consumer Side Incentives	729,241
SMIF Interest Income	871,071
Voluntary Contributions ¹	(58,605)
Miscellaneous Revenue	<u>1,302,958</u>

Total Revenues 75,039,550

Expenditures (Note 1)

Existing Technologies	18,880,541
Emerging Technologies	15,460,821
Consumer Education	557,796
Administration Support	<u>4,518,452</u>

Total Expenditures 39,417,610

Other Financing Sources/Uses

Operating Transfers Out (Note 4)	<u>46,398,000</u>
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Net Change in Fund Balance (10,776,060)

Fund Balance, July 1, 2010 190,557,992

Fund Balance, June 30, 2011 \$ 179,781,932

The accompanying notes are an integral part of the financial statements.

¹ A negative balance in Voluntary Contributions resulted from reclassified transactions totaling \$100,690.

NOTES TO THE FINANCIAL STATEMENTS

**Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
For the Year Ended June 30, 2011**

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The Renewable Resource Trust Fund (Fund) was created in the State Treasury by Senate Bill (SB) 90 (Sher), Chapter 905, Statutes of 1997, to account for the sources and uses of the \$540 million Fund. Assembly Bill (AB) 1890 (Brulte), Chapter 854, Statutes of 1996, required California's three major investor-owned utilities (IOUs) to collect \$540 million from their ratepayers over a four-year period to support the purposes of AB 1890. These IOUs included Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E). The California Public Utilities Commission (CPUC) Resolution E-3556 also authorized a fourth IOU, Golden State Water Company, doing business as Bear Valley Electric Service (BVES), to collect funds from its ratepayers to support the purposes of AB 1890. The ratepayer funds collected by these four IOUs pursuant to AB 1890 and CPUC Resolution E-3556 were deposited in the Fund in accordance with SB 90. The Energy Resources Conservation and Development (Commission) is responsible for the administration and distribution of these moneys.

The Fund maintains accountability for the following four distinct renewable energy programs.

Program	Target Award Beneficiaries
Existing Renewable Facilities	Existing solid fuel biomass, solar thermal, and wind renewable electricity generation facilities.
New Renewable Facilities	New renewable electricity generation facilities using wind, landfill gas, geothermal, small hydro, and biomass. As of July 1, 2008 this program's Fund account has been discontinued.
Emerging Renewables	Customers who install small wind systems (rated output of 50 kW or less) or fuel cells (using a renewable fuel). New residential construction installations of high-performing solar systems under the New Solar Homes Partnership, which is a component of the Emerging Renewables Program.
Consumer Education and Market Support	Consumer information, education, outreach, and public awareness campaigns.

SB 1994 (Sher), Chapter 1050 and AB 995 (Wright), Statutes of 2000, extended the collection of funds for the period commencing January 1, 2002 and ending January 1, 2012. Specifically, SB 1994 and AB 95 require California's three major IOU's to collect \$135 million annually from ratepayers for the ten-year period.

In 2006, SB 1250, Chapter 512, authorized the Commission to use funds collected from January 1, 2007 through January 1, 2012 for the continued administration and support of the Renewable Energy Program.

However, in 2007, SB 1036 (Perata), Chapter 685, terminated production incentives awarded prior to January 1, 2002 from the New Renewable Resources Account (New Renewable Facilities), except for funds encumbered for renewable energy projects that began generating electricity by January 1, 2007. The law further required the Commission to transfer the remaining unencumbered funds in the New Renewable Resources Account to the electrical corporations (serving customers subject to the renewable energy Public Goods Charge (PGC) by March 1, 2008.

The Commission administers the Fund which is shared between the Commission and the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). The Legislature authorized Senate Bill 77 (Pavely), Chapter 15, Statutes of 2010 which appropriated up to \$50 million from the Fund for the Property Assessed Clean Energy bond until January 1, 2015. Per the Public Resources Code section 26140 the moneys appropriated shall remain in the Fund until the funds are needed by the CAEATFA. All repayments of moneys disbursed pursuant to this section shall be deposited into the Renewable Resource Trust Fund. However, in 2011, SB 679 (Pavely), Chapter 597, Statutes of 2011 appropriated \$25 million of the unencumbered balance of the \$50 million to the Energy Conservation Assistance Account to be expended by the Commission.

The financial statements present information on the financial activities of the Fund only, and do not represent all of the financial activities of the Commission taken as a whole, or of the State of California.

B. Basis of Presentation—Fund Accounting

The Fund is classified as a *Governmental Cost Fund* for State of California financial reporting purposes. *Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Accordingly, non-current or long-term assets and liabilities are not presented in the accompanying financial statements; instead, these items are presented in the

notes. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

The accounting policies of the Commission conform to the State Administrative Manual based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Commission management is responsible for exercising budgetary control to ensure appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the PMIB to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month-end.

F. Revenue

Revenues consist of special levies or collections from the three primary California IOUs (PG&E, SCE, and SDG&E), interest income earned on funds deposited in SMIF, and voluntary contributions from utility consumers. Miscellaneous revenues include receipts consisting primarily of interest from utilities.

The specified amounts paid to the Commission are required to be adjusted annually by March 31 of each year based on a rate equal to the lesser of the annual growth in electric commodity sales or inflation, as defined by the gross domestic product deflator.

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

H. Retirement Plan

Regular employees of the Commission are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the State of California Comprehensive Annual Financial Report, and to the CalPERS' Comprehensive Annual Financial Report.

NOTE 2 Due to/from Other Funds or Appropriations

Due to Other Funds or Appropriations and Due from Other Funds or Appropriations represent short-term interfund payables and receivables. Specifically, the Due to Other Funds and Appropriations consists of amounts due to the clearing account in Fund 0465 (interfund reimbursements). The Due from Other Funds or Appropriations consists of interest earned from SMIF and repayment from a short-term General Fund loan.

NOTE 3 Fund Balance

The financial statements comply with the fund balance reporting requirement detailed in Governmental Accounting Standards Board (GASB) Statement Number 54, as required for financial statements issued after June 15, 2010. GASB 54 provides the following fund balance classifications:

- A. *Nonspendable Fund Balance*: Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- B. *Restricted Fund Balance*: Amounts that are restricted to specific purposes because of external constraints placed on their use by creditors, grantors, or contributors; or laws or regulations of other governments, or laws imposed through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- C. *Committed Fund Balance*: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the Fund and related accounts is the Commission and the formal action required to establish a fund balance commitment is a majority vote.
- D. *Assigned Fund Balance*: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Executive Director or designee per the Commission Bylaws, pursuant to

Health and Safety Code section 13030, can assign funds to contracts of up to \$150,000 for purposes authorized in the Act.

- E. *Unassigned Fund Balance*: The unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

In accordance with GASB 54 the entire fund balance is classified as Restricted because the Budget Act comprises enabling legislation for the Fund. Refer to Note 1.A. for additional information.

NOTE 4 Operating Transfers Out

Operating Transfers Out represents three loans totaling \$46.398 million as follows:

- A loan of \$25 million to the General Fund authorized by the Budget Act of 2010 (Item 3360-012-0382). The Budget Act of 2010 states the repayment shall be made so as to ensure the programs supported by the Fund are not adversely affected by the loan, but no later than June 30, 2012.
- A loan of \$20 million to the General Fund authorized by Senate Bill 84 (Committee on Budget and Fiscal Review), Chapter 13, Statutes of 2011 which states the loan shall be repaid no later than June 30, 2014. The Director of Finance shall order repayment of all or a portion of this loan if he or she determines that either of the following circumstances exists: (a) the fund or account from which the loan was made has a need for the moneys, or (b) there is no longer a need for the moneys in the fund or account that received the loan. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.
- A loan of \$1.398 million to CAEATFA authorized by the Budget Act of 2010. This loan shall be repaid no later than June 30, 2013.

NOTE 5 Contingent Receivable

In September 2002, the Fund loaned \$150 million to the General Fund. As of June 2011, the General Fund repaid \$131.8 million of the \$150 million outstanding loan plus \$15.7 million in accrued interest. The unpaid balance of the loan is \$18.2 million; however, because a specific repayment date has not been established there is no assurance the loan will be repaid within a reasonable period of time. In accordance with GASB Statement Number 34, the funds will be reclassified as operating transfers-in when the loan is repaid.

NOTE 6 Subsequent Events

- A. Commission staff filed a complaint against DyoCore under Title 20, section 12311 of the California Code of Regulations. The complaint alleged that DyoCore violated the intent of the Commission's Emerging Renewables Program (ERP) and, in particular, Appendix 3, section (A) (2) of the ERP Guidebook by submitting information to the Commission that grossly overstated the

performance of the DyoCore turbine in order to have it listed by the Commission as eligible for use under the ERP. The complaint sought to have the DyoCore turbine removed from the ERP's list of eligible turbines. At its November 2, 2011 business meeting, the Commission dismissed the complaint because DyoCore stipulated the data it submitted was inaccurate and its turbine was de-listed. The Commission also adopted staff's recommendation to pay ERP applicants holding R-2s¹ for DyoCore turbines their actual and provable expenses up to a capped amount of the rebate level they would have received. Because the Commission is still working with holders of R-2 forms on payments, the total payment for all R-2 forms is not yet known.

- B. The revenue collection of the PGC ended on December 31, 2011 and legislation did not pass to extend collection of PGC funds. Several bills were introduced in the recent regular and special legislative sessions which attempted to reauthorize the PGC and/or restructure its funded programs. Because none of those bills passed, Governor Brown requested the California Public Utilities Commission (CPUC) to take action under its authority to ensure programs supported by PGC funding are instituted at their current levels.

The CPUC initiated a two phase proceeding to address PGC funding and program activities, and adopted a decision on the first phase in December 2011. The decision institutes a new surcharge, known as the Electric Program Investment Charge (EPIC), to fund renewables and research, development, and demonstration (RD&D) programs. The levels and allocations for the EPIC will be at the same levels as the current PGC after subtracting the energy efficiency component. The EPIC is instituted on an interim basis, subject to refund, until policy, programmatic, governance and allocation issues are decided in Phase Two. The decision on Phase One stated that a Phase Two decision should be issued as soon as practicable in order to ensure continuation of RD&D and renewables programs with ratepayer and public benefits. However, if the results of the proceeding do not provide funding for the Commission to continue the PGC programs, the Commission will need to implement a contingency plan. This contingency plan is currently under development with the Administration's input, but is likely to consist of the continuation of PGC programs until all funding has been exhausted.

¹ R-2 refers to a stage in the application process where the Commission has approved an applicant's initial filing and reserved funding for the rebate.

FINDING AND RECOMMENDATIONS

The Renewable Resource Trust Fund's (Fund) financial statements for the period July 1, 2010 through June 30, 2011 were materially correct. However, a material internal control weakness was identified that requires corrective action by the Energy Resources Conservation and Development Commission (Commission). With average yearly expenditures of approximately \$40 million, implementing the following recommendations will provide better oversight for transactions entered into the *California State Accounting and Reporting System (CALSTARS)*, promote accountability of staff, and reduce the risk that unauthorized transactions could occur without timely detection or correction.

FINDING: **Risk of Errors And Unauthorized Transactions**

Condition: Collectively, the following deficiencies in the Commission's internal control increase the risk of material misstatement to the Fund's financial statements due to error or fraud:

- *CALSTARS Access*—Several accounting staff have access to a majority of functions within CALSTARS including receipts, disbursements, vendor edit and other table functions, and check processing functions.
- *Disbursement Approval Documentation*—Expenditure documentation provided to the accounting office for processing the new Renewables Facilities and new Solar Homes Partnership payments did not include the initials or signature of the program staff authorizing the payment or the date of the authorization.
- The supporting documentation in some claim schedules was not reviewed by the accounting office in detail prior to submission to the State Controller's Office for payment.
- *Reconciliation Documentation*—Program staff described procedures performed to reconcile the program and accounting data quarterly. However, the reconciliations are not adequately documented.

Criteria: The Financial Integrity and State Manager's Accountability Act of 1983 (Government Code sections 13400-13407) requires that the head of each state agency establish and maintain an adequate system of internal control within their agencies. Key elements of a satisfactory system of internal accounting and administrative controls include limited access to information systems, adequate separation of duties, timely reconciliations, and expenditure authorizations.

Recommendations: The Commission should:

- A. Evaluate accounting staff access to CALSTARS and limit each individual's access to only those functions required to perform their duties. If necessary, consider realigning staff duties to enhance the segregation of functions. Ongoing supervisory review of accounting activities will also help ensure errors or fraud will be timely identified and resolved.
- B. Require program staff to document their review and approval of expenditures prior to payment.
- C. Ensure accounting staff consistently review the supporting documentation in claim schedules prior to submission to the State Controller's Office for payment.
- D. Adequately document all accounting and program records reconciled, issues identified and resolved, signatures of the preparer and reviewer, and dates prepared and reviewed.

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET
SACRAMENTO, CA 95814-5512
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February 9, 2012

Mr. David Botelho, Chief
California Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

Subject: Response to Draft Financial Audit Report of the Renewable Resources Trust Fund for the Fiscal Year Ended June 30, 2011

Thank you for allowing the California Energy Commission (Energy Commission) to review and respond to the draft report. Below is the Energy Commission's response to the Draft Financial Audit Report of the Renewable Resources Trust Fund (RRTF) for the fiscal year ended June 30, 2011.

FINDING – Risk of Errors And Unauthorized Transactions

The Energy Commission agrees with this finding. In consideration of the recommendations provided, the Energy Commission has taken the following steps to alleviate the finding.

CALSTARS Access – The Accounting Administrator evaluated the accounting staff access to CALSTARS, realigned staff duties, and communicated the change in duties to the staff. Access to the vendor table functions is limited to designated accounts payable staff. This policy was effective as of November 2011.

Disbursement Approval Documentation – The Renewable Energy Office Manager met with the Existing Renewable Facilities Program, Emerging Renewable Program, and New Solar Homes Partnership staff to reiterate the importance of the disbursement approval process. The staff are required to initial, or sign, and date the expenditure documentation before routing to the Accounting Office for payment. The hardcopies of the documentation will be kept by the respective staff in the Renewable Energy Office.

In addition, the Accounting Administrator will ensure that all claim schedules are reviewed for supporting documentation prior to submitting the claim schedules to the State Controller's Office for payment.

Reconciliation Documentation – Both the Renewable Energy Office Manager and the Accounting Administrator communicated the importance of having their staff sign and date the reconciliation records in both the Renewable Energy Office and Accounting Office records. This includes proper documentation of any reconciliation issues identified and resolved. The signed reconciliation records and supporting documentation will be kept either in hardcopies or electronically (as appropriate) in the respective offices.

Sincerely,

ORIGINAL SIGNED BY

Robert P. Oglesby
Executive Director

cc: Mr. Mark Hutchison, Deputy Director, Administrative Services Division, Energy Commission
Mr. Kyle Emigh, Budget Officer, Administrative Services Division, Energy Commission
Mr. Tony Goncalves, Office Manager, Renewable Energy Office, Energy Commission
Mr. Mark Jones, Accounting Administrator, Financial Services Branch, Energy Commission
Ms. Sherri Guzman, Associate Management Auditor, Administrative Services Division, Energy Commission
Ms. Mary Lam, Associate Management Auditor, Administrative Services Division, Energy Commission