DEPARTMENT OF FINANCE
ARNOLD SCHWARZENEGGER, GOVERNOR
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February 9, 2010

Ms. Melissa Jones, Executive Director
Energy Resources Conservation and
Development Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

Dear Ms. Jones:

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

The Department of Finance, Office of State Audits and Evaluations (Finance), 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, 2009.

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 the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at http://www.reportingtransparency.ca.gov within five working days of this transmittal.

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,

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

Enclosure

cc: 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

A Financial Statement Audit

Energy Resources Conservation and Development Commission Renewable Resource Trust Fund For the Fiscal Year Ended June 30, 2009

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

093360076DDR

January 2010

MEMBERS OF THE TEAM

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This report is also available on our website at http://www.dof.ca.gov.

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EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit in accordance with an interagency agreement between the Energy Resources Conservation and Development Commission and Finance. 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, 2009.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- As necessary, report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

Audit Results

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2009.
- We identified a material internal control weakness related to the reconciliation process for the asset accounts.

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

DEPARTMENT OF FINANCE
ARNOLD SCHWARZENEGGER, GOVERNOR
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INDEPENDENT AUDITOR'S REPORT

Ms. Melissa Jones, 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, 2009, 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, 2009, and the results of 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, we considered the Commission's internal control over financial reporting 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 our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described in the *Finding and Recommendation* section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency referred to above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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.

Nicla Lucia, CPA

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

January 15, 2010

Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
Balance Sheet
As of June 30, 2009

Assets	
Cash and Pooled Investments (Note 1)	$ 178,337,326
Due From Other Funds or Appropriations (Note 2)	31,724,896
Total Assets	$ 210,062,222
Liabilities and Fund Balance	
Liabilities	
Accounts Payable	$ 7,437,063
Due To Other Funds or Appropriations (Note 2)	758,473
Total Liabilities	8,195,536
Fund Balance (Note 3)	
Reserved For Encumbrances	43,940,767
Reserved for Unencumbered Balances of Continuing Appropriations	157,925,919
Total Fund Balance	201,866,686
Total Liabilities and Fund Balance	$ 210,062,222

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, 2009

Revenues (Note 1)	
Existing Technologies	$ 14,451,009
Emerging Technologies	57,081,484
Consumer Side Incentives	722,550
SMIF Interest Income	3,511,564
Voluntary Contributions	1,179
Escheatment of Unclaimed Checks/Warrants	53,110
Total Revenues	75,820,896
Expenditures (Note 1)	
Existing Technologies	20,452,026
New Technologies	708,177
Emerging Technologies	9,455,725
Consumer Education	2,434,570
Administration Support	7,194,136
Total Expenditures	40,244,634
Other Financing Sources	
Operating Transfers Out	10,900,000
Net Change in Fund Balance	24,676,262
Fund Balance, July 1, 2008	177,190,424
Fund Balance, June 30, 2009	$ 201,866,686

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

Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
For the Year Ended June 30, 2009

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 (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 requires 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 Energy 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) by March 1, 2008.

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. 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 that 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 may also include receipts consisting primarily of unclaimed checks escheated to the Fund.

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.

For the period July 1, 2008 to June 30, 2009, the allocation is as follows:

Southern California Edison Company (SCE)	$ 29,757,000
Pacific Gas and Electric Company (PG&E)	36,048,043
San Diego Gas and Electric Company (SDG&E)	6,450,000
Total	$ 72,255,043

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 and appropriations consists of a loan to the General Fund for $31.1 million and interest earned and accrued at June 30 on pooled money investments held in SMIF.

NOTE 3 Fund Balance

The term *fund balance* is defined as the excess of the assets of a fund over its liabilities. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balance that are legally segregated for specific uses.

Reserved for Encumbrances represents goods and services that are ordered, but not received, by the end of the fiscal year.

Reserved for Unencumbered Balances of Continuing Appropriations represents the unencumbered balances of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

NOTE 4 Operating Transfers Out

Operating Transfers Out represents a loan of $10,900,000 to the General Fund authorized by the Budget Act of 2008 (Item 3360-011-0382). The Budget Act of 2008 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, 2013.

NOTE 5 Contingency

In September 2002 the Renewable Resource Trust Fund loaned $150 million to the General Fund. As of June 2008, the General Fund had 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 that the loan will be repaid within a reasonable period of time. In accordance with Governmental Accounting Standards Board Statement Number 34, the funds will be reclassified as operating transfers-in when the loan is repaid.

NOTE 6 Subsequent Event

The Budget Act of 2009 (Item 3360-011-0382) authorized a loan of $35,000,000 to the General Fund. The Budget Act of 2009 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, 2011.

FINDING AND RECOMMENDATION

During our audit of the California Energy Commission's (Commission) Renewable Resource Trust Fund (Fund), we noted a matter concerning the accounting and administrative controls that we consider a material weakness. If left uncorrected, this condition could compromise the accuracy of the Fund's financial statements.

FINDING **Inadequate Reconciliation Procedures**

Condition: For all accounts other than the cash account, the Commission only reconciles the total assets to the State Controller's Office's (SCO) total assets. As a result, a $31.1 million loan to the General Fund was recorded in the Cash in State Treasury account instead of the Due From Other Funds account. Because this error was not identified and corrected timely, the year-end financial reports provided to the SCO were materially misstated. In October 2009, the Commission reclassified the $31.1 million as Due From Other Funds, which is correctly reflected in the audited financial statements.

Criteria: Section 7921 of the State Administrative Manual requires agencies to reconcile their accounts with the like accounts maintained by the SCO. It further requires agencies to resolve reconciling items timely to prevent significant differences at year-end.

Recommendation: The Commission should develop procedures to reconcile each asset account to the SCO's records and ensure that reconciling items are timely resolved.

CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET
SACRAMENTO, CA 95814-5512
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January 28, 2010

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

Subject: Response to the Draft Report of the Renewable Resource Trust Fund Financial Statement Audit for the Fiscal Year Ended June 30, 2009

Dear Mr. Botelho:

This is in response to the letter dated January 26, 2010, concerning the California Energy Commission's (Energy Commission) draft report on the Renewable Resource Trust Fund Financial Statement Audit. Enclosed is the Energy Commission's response to the reconciliation process for the asset account.

I want to thank your staff for providing the Energy Commission the opportunity to review and comment on the draft report. The Energy Commission values audits such as this and views them as an opportunity to identify issues which may exist so that appropriate corrective action can be taken.

Sincerely,

MELISSA JONES
Executive Director

Enclosure

California Energy Commission's Response

FINDING – Inadequate Reconciliation Procedures

Condition: For all accounts other than the cash account, the Energy Commission only reconciles the total assets to the State Controller's (SCO) total assets. As a result, a $31.1 million loan to the General Fund was recorded in the Cash in State Treasury account instead of the Due From Other Funds account. Because this error was not identified and corrected in timely, the year-end financial reports provided to the SCO were materially misstated. In October 2009, the Energy Commission reclassified the $31.1 million as Due From Other Funds, which is correctly reflected in the audited financial statements.

RESPONSE:

The Energy Commission has already implemented procedures to reconcile each asset account to the SCO's records.