

CALIFORNIA ENERGY COMMISSION

Audit Report

ACCOUNTS RECEIVABLE AUDITS PROGRAM

July 1, 2016, through June 30, 2018



BETTY T. YEE
California State Controller

July 2020



BETTY T. YEE
California State Controller

July 14, 2020

Rob Cook, Deputy Director
California Energy Commission
1516 9th Street
Sacramento, CA 95814

Dear Mr. Cook:

The State Controller's Office audited the California Energy Commission's (CEC) accounts receivable and write-off process for the period of July 1, 2016, through June 30, 2018. The purpose of the audit was to determine whether CEC's accounts receivable and write-offs are legal, proper, and have sufficient supporting documentation.

Our audit found that:

- CEC staff members did not complete the workbook report correctly, resulting in a \$21,207,761 discrepancy;
- CEC staff members did not write off an unknown amount of uncollectible accounts receivable; and
- The CEC had inadequate documentation to support accounts receivable.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Lisa Negri, Chief Auditor
California Energy Commission
Rachael Rectenwald, Accounting Administrator II
California Energy Commission

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the California Energy Commission's (CEC) accounts receivable and write-off process for the period of July 1, 2016, through June 30, 2018.

Our audit found that:

- CEC staff members did not complete the workbook report correctly, resulting in a \$21,207,761 discrepancy;
- CEC staff members did not write off an unknown amount of uncollectible accounts receivable; and
- The CEC had inadequate documentation to support accounts receivable.

Background

We conducted the audit pursuant to Government Code (GC) section 12418, which states, "The Controller shall direct and superintend the collection of all money due the State, and institute suits in its name."

The CEC, established by the Warren-Alquist Act in 1974, is the State's primary energy policy and planning agency. The CEC is made up of five Commissioners appointed by the Governor and confirmed by the California State Senate. The CEC was created to reduce energy costs and environmental impacts of energy use while ensuring a safe, resilient, and reliable supply of energy.

Objectives, Scope, and Methodology

The audit period was July 1, 2016, through June 30, 2018. The objectives of our audit were to determine whether:

- The CEC maintained adequate internal controls over the accounts receivable and write-off reporting process;
- The CEC complied with applicable state laws, rules, regulations, and policies related to the accounts receivable and write-off process; and
- The CEC's accounts receivable and write-off transactions were accurate, approved by authorized personnel, and properly recorded.

We achieved our audit objectives by:

- Reviewing the CEC's policies and procedures applicable to accounts receivables and write-offs;
- Reviewing prior audits and reviews related to the administration of accounts receivable and write-off transactions completed by the CEC's internal audits unit;
- Interviewing members of the CEC's accounting team responsible for processing accounts receivable and write-off transactions;
- Gaining an understanding of the CEC's internal control over receivables and write-offs; and
- Testing and examining accounting records and source documents.

The random sample, using the random number generator on Excel and excluding duplicates, included 49 (or 10%) of 498 transactions totaling \$6,220,770 (or 6.5%) of a total \$96,955,168.

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

We limited our review of the CEC's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found that:

- CEC staff members did not complete the workbook report correctly, resulting in a \$21,207,761 discrepancy;
- CEC staff members did not write off an unknown amount of uncollectible accounts receivable; and
- The CEC had inadequate documentation to support accounts receivable.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the CEC's accounts receivable and write-off processes.

Views of Responsible Officials

We issued a draft audit report on March 2, 2020. Rob Cook, Deputy Director, responded by letter dated March 16, 2020 (Attachment), agreeing with the audit results. This final audit report includes the CEC's response.

Restricted Use

This report is solely for the information and use of CEC and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

July 14, 2020

Findings and Recommendations

**FINDING 1—
Failure to complete
the workbook
correctly**

Our audit found an accounts receivable balance discrepancy between the \$112,477 reported to SCO by the CEC in its workbook and the \$21,207,761 reported by the CEC in its annual Budgetary/Legal Basis Financial Statements.

CEC staff did not report the correct accounts receivable number on the workbook submitted to SCO; the report incorrectly presented detail information on the accounts receivables balance, and the number and amount of delinquent accounts. CEC staff members were not properly trained and lacked knowledge of how to properly complete the workbook report.

Per GC section 16583.2, state agencies must submit an annual report to the Controller of the state agencies' accounts receivable and discharged accounts.

Recommendation

We recommend that the CEC:

- Review and analyze its accounts receivable;
- Ensure that future workbooks submitted to SCO reflect accurate information in accordance with GC section 16583.2; and
- Train staff members how to properly complete the workbook report.

CEC's Response

The CEC concurs with the State Controller's findings.

**FINDING 2—
Failure to write off
uncollectible
accounts receivable**

The CEC did not write off any accounts receivable during the audit period.

When the California State Accounting and Reporting System merged with the Financial Information System for California, all of the CEC's accounts receivable dates were changed to the date of the merge. As a result, we could not determine aging dates of accounts receivable, and we are unsure how long accounts receivable have been outstanding.

In its current system, CEC records indicate that a receivable is incoming when, in fact, that receivable is uncollectible and should be submitted for write-off. Discharging the receivable relieves the CEC from pursuing collection. If all reasonable collection procedures do not result in payment, a department may request to "write off" or discharge uncollectible amounts. Failure to do so may cause the CEC to overstate its accounts receivable.

State Administrative Manual (SAM) section 8776.6 states that each department should review its accounts receivable no less than quarterly, to identify uncollectible amounts for discharge. When a department identifies uncollectible amounts, it should file an application for discharge from accountability with the SCO.

GC section 13941 provides that, under certain conditions, state departments may file applications with the SCO for discharge from accountability for the collection of taxes, licenses, fees, or other money due and payable to the State.

GC section 12438 provides that departments may refrain from collecting taxes, license, fees, or money owed to the State if the amount be collected is \$500 or less, and the amount owed to the State is uncollectible or does not justify the cost of collection.

Recommendation

We recommend that the CEC:

- Reconcile the two accounting systems to identify the outstanding accounts receivable date and the actual original aging dates; and
- Ensure that accounts receivable are written off appropriately, in accordance with SAM section 8776 and GC sections 13941 and 12438.

CEC's Response

The CEC concurs with the State Controller's findings.

**FINDING 3—
Inadequate
documentation to
support accounts
receivable per *State
Administrative
Manual*
section 8776**

We found no Human Resource personnel documents to support one employee accounts receivable. We tested 49 of 489 transactions; account receivable transaction number 00004870, in the amount of \$17.88, was missing supporting documentation.

Employee documentation may have been misfiled, as CEC staff members were unable to locate employee accounts receivable records.

Without proper supporting documentation, the CEC cannot ensure that prompt and ongoing action has been taken for the collection of accounts receivables.

SAM section 8776 states that departments must ensure that proper recordkeeping is maintained. All efforts made toward the collection of receivables should be documented to include the dates and types of collection effort. Accounts receivable source documents (e.g. invoices), and documentation of collection efforts payments and adjustments, should be retained for at least four years after the receivable has been paid.

Recommendation

We recommend that the CEC maintain proper documentation to support accounts receivables at both the CEC Accounting and Human Resource Personnel Departments, in accordance with SAM section 8776.

CEC's Response

The CEC concurs with the State Controller's findings.

**Attachment—
California Energy Commission's
Response to Draft Audit Report**



**CALIFORNIA
ENERGY COMMISSION**



March 16, 2020

Mr. Andrew Finlayson
Chief, State Agency Audits Bureau
California State Controller
P.O. Box 942850
Sacramento, CA 94250

Dear Mr. Finlayson;

This letter is in response to the State Controller's accounts receivable audit of the California Energy Commission (CEC). The CEC concurs with the State Controller's findings and offers the following corrective actions:

Finding 1 – CEC staff members failed to complete the workbook report correctly, resulting in a \$21,207,761 discrepancy.

The transaction(s) in question occurred in the first year of the CEC's Fi\$Cal implementation and resulted from a double-posting of an accrual. Correcting the accrual required special assistance from Fi\$Cal and has been completed. CEC staff are now much more experienced with the Fi\$Cal system.

Finding 2 – CEC staff members failed to write off an unknown amount of uncollectible accounts receivable.

The CEC has initiated a process to write off uncollectible receivables per State Administrative Manual section 8776.6. This process includes a review of documentation to determine if appropriate notice was provided to employees for payroll accounts receivables. This process includes improving collaboration between Human Resources and Accounting to ensure reconciliation and collection.

Finding 3 – The CEC had insufficient documentation to support accounts receivable.

The CEC is establishing an internal process to notify staff in writing within two weeks of determining funds are owed.

Mr. Andrew Finlayson
March 16, 2020
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The CEC is confident that these corrective measures will resolve the findings.
Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Rob Cook', with a stylized flourish at the end.

Rob Cook
Deputy Director
Administrative and Financial Management Services

Enclosure

cc: Lisa Negri, Chief Auditor, California Energy Commission
Rachael Rectenwald, Accounting Administrator II, California Energy
Commission
Melanie Vail, Chief Financial Officer, California Energy Commission

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>