California State Auditor

BUREAU OF STATE AUDITS

California Public Utilities Commission:

It Cannot Ensure That It Spends Railroad Safety Program Fees in Accordance With State Law

May 2004

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CALIFORNIA STATE AUDITOR

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May 12, 2004 2003-121

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the California Public Utilities Commission's (commission) use of fees paid by railroad corporations. The California Public Utilities Code (code) dictates how the commission must spend Railroad Safety Program fees, which it collects from railroad corporations to cover the cost of regulating their industry. According to the code, the commission can only spend the fees on the salaries and per diem and travel expenses of (1) railroad safety employees directly involved in inspecting railroads and enforcing rail safety regulations, (2) employees who perform clerical and support functions directly associated with railroad safety inspections, and (3) legal personnel who actually pursue violations of rail safety regulations beyond the formal complaint level. In 1999, the code was amended to allow the commission to also recover a portion of its overhead costs while state personnel actually occupy the above positions and perform the duties related to these three activities.

This report concludes that the commission cannot ensure that the fees collected from railroad corporations are spent only on the direct labor charges of Railroad Safety Program employees because it does not have an effective method to track the time they spend working on railroad safety activities. The commission also lacks policies and procedures to ensure that employees charge only allowable travel-related expenses to the Railroad Safety Program. Further, the commission has no formal process to update its cost allocation plan (plan) nor does it maintain its accounting system's cost allocation table, which contains the basis of the allocation of costs that cannot practically be charged directly to the programs that benefit from these costs. By failing to update its plan and table, the commission cannot ensure that it appropriately charges indirect costs to all its various programs, including the Railroad Safety Program. Without an effective system to track direct and indirect costs, the commission cannot establish reliable budgets and set appropriate fees for the Railroad Safety Program.

Respectfully submitted,

Elaine M. Howle

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SUMMARY

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Our review of the California Public Utilities Commission (commission) revealed that:

- ☑ ***The commission does not have an effective method to track the time its employees spend on railroad safety activities.***
- ☑ ***The commission cannot ensure that it charges only allowable travel-related expenses to the Railroad Safety Program.***
- ☑ ***Inaccuracies in its cost allocation plan and table have caused the commission to incorrectly charge indirect costs to the Railroad Safety Program.***
- ☑ ***Without a system to track direct and indirect costs, the commission cannot establish reliable budgets and set appropriate fees.***

RESULTS IN BRIEF

The California Public Utilities Code (code) dictates how the California Public Utilities Commission (commission) must spend Railroad Safety Program fees, which it collects from railroad corporations to cover the cost of regulating their industry. According to the code, the commission can only spend the fees on the salaries and per diem and travel expenses of (1) railroad safety employees directly involved in inspecting railroads and enforcing rail safety regulations, (2) employees who perform clerical and support functions directly associated with railroad safety inspections, and (3) legal personnel who actually pursue violations of rail safety regulations beyond the formal complaint level. In 1999, the code was amended to allow the commission to recover a portion of its overhead costs while state personnel actually occupy the above positions and perform the duties related to these three activities.

However, the commission uses a timekeeping system that does not track the actual time its employees spend working on railroad safety activities. As a result, some inspectors inconsistently report their hours, and the commission uses estimates to determine the direct labor expenditures of clerical, supervisory, and legal staff who work on activities related to the Railroad Safety Program. In fiscal years 2002–03 and 2003–04, errors in those estimates resulted in overcharges to the Railroad Safety Program.

The commission has been trying to upgrade its timekeeping system since as early as the spring of 2002 to allow its employees to record the actual time they spend on projects or activities and to integrate its timekeeping system with its accounting system. However, the commission has experienced delays and does not expect to complete the upgraded system until September 2004. Thus, it cannot ensure that the fees it collects are spent only on the direct labor charges of Railroad Safety Program employees.

The commission also lacks adequate policies to ensure that its employees charge only allowable travel-related expenses to the Railroad Safety Program. Specifically, the commission does not always require inspectors to report the proper program cost account codes or the percentage of time they spend traveling for Railroad Safety Program inspections on their travel expense claims. Further, when inspectors do report percentages of their travel time, the commission's accounting staff disregard them when processing inspectors' claims. Consequently, the commission cannot ensure that all travel-related expenses charged to the Railroad Safety Program are allowed.

Weaknesses in its compliance with State procedures prevent the commission from ensuring that it equitably distributes indirect costs to programs and funding sources. The commission has no formal process to update its cost allocation plan (plan) as required by the State Administrative Manual, nor does it maintain its accounting system's cost allocation table (table), which contains the basis of the allocation of expenditures that cannot practically be charged directly to its programs that benefit from the expenditures. Since fiscal year 1999–2000, the commission has been using an informal process to update the plan that does not include obtaining management approval of proposed changes. For example, in July 2002, the commission merged two divisions affecting the Railroad Safety Program when creating its current Consumer Protection and Safety Division. However, the commission did not update its plan to incorporate changes resulting from this reorganization. As a result, errors occurred in the allocation of indirect costs to the Railroad Safety Program.

Because the commission does not adequately track the direct and indirect costs of the Railroad Safety Program, it cannot establish reliable budgets and set appropriate fees. Lacking data on actual expenditures, the commission does not know if the fees its sets and collects adequately cover Railroad Safety Program expenses or if the fees are excessive. Further, when the commission establishes its budget and sets fees for the Railroad Safety Program in subsequent years, it cannot effectively determine how much to credit or charge railroad corporations.

RECOMMENDATIONS

To properly determine the costs of administering the Railroad Safety Program and set appropriate fees, the commission should do the following:

- Move quickly to fully implement upgrades to its timekeeping system to allow employees to record the actual time they spend on railroad safety activities and to enable the commission to reconcile expenditures to funding sources.

- Establish procedures requiring inspectors to identify the program cost account codes to be charged for their travel expenses on their travel expense claims. Additionally, the commission should require its accounting staff to enter all valid codes shown on the travel expense claim into the accounting system.

- Develop policies and procedures to ensure that it maintains its plan and table for indirect charges in accordance with the State Administrative Manual. Specifically, it should periodically review and update the plan and table to ensure that the allocation bases are appropriate. Further, it should ensure that management reviews and approves any changes to the plan.

AGENCY COMMENT

The commission stated that it has initiated a plan of action to implement the recommendations. ■

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INTRODUCTION

BACKGROUND

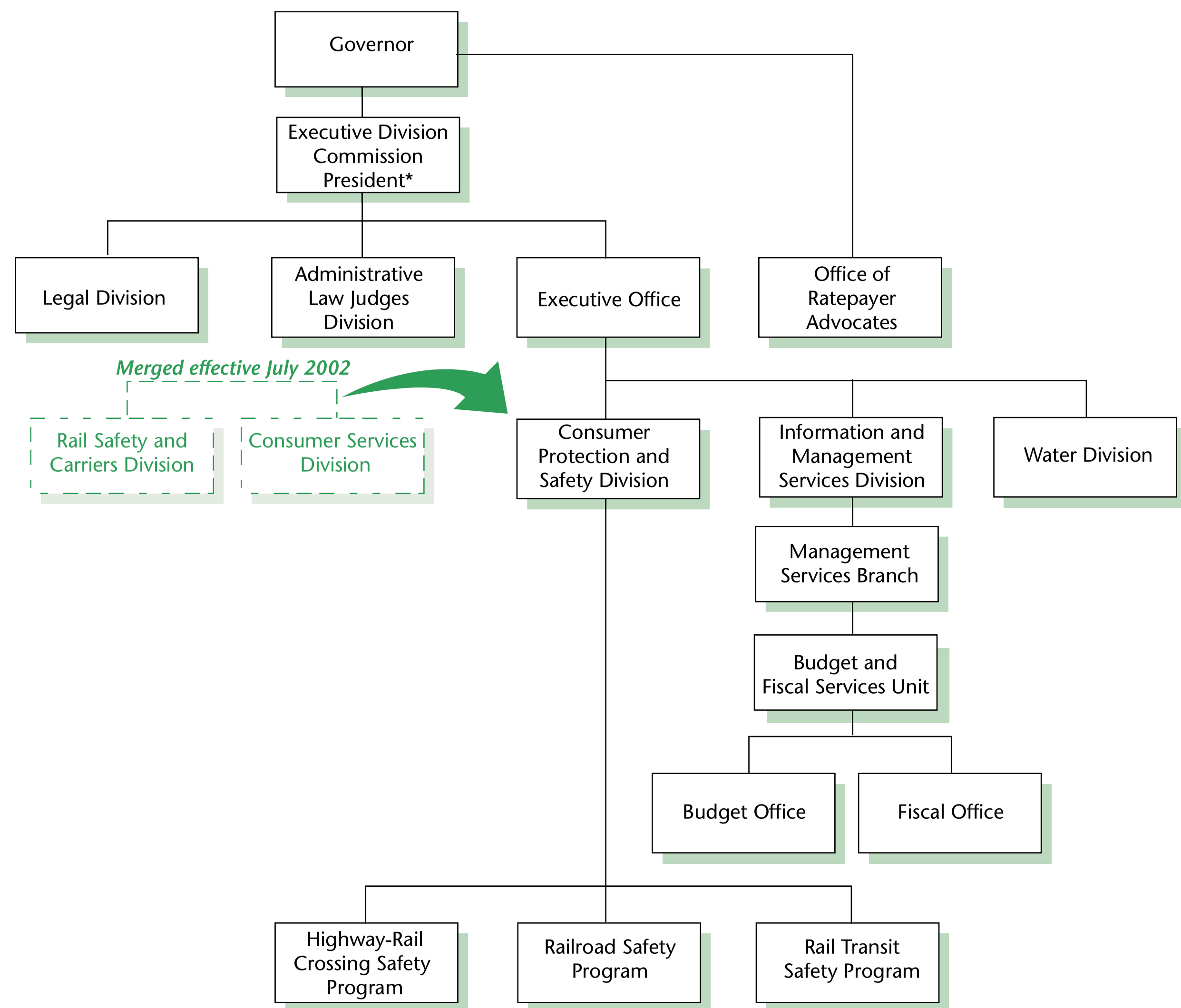
In addition to regulating all privately owned utilities, the California Public Utilities Commission (commission) enforces safety and service standards for freight and passenger transportation companies, such as railroads, limousines, and chartered buses. In July 2002, the commission merged its Rail Safety and Carriers Division with its Consumer Services Division when creating its current Consumer Protection and Safety Division. The new division has three programs that address the commission's rail safety responsibilities: Railroad Safety, Highway-Rail Crossing Safety, and Rail Transit Safety. Staff with the Railroad Safety Program inspect train tracks, equipment, and repair facilities, among other things. Staff with the Highway-Rail Crossing Safety Program oversee the safety of all public and private intersections of highways and railroads in the State. Finally, staff with the Rail Transit Safety Program oversee the safety of light rail, rapid rail, and cable cars. The commission believes the reorganization consolidates common functions, activities, and leadership into a single unit without changing the commission's programs or management structure. The Figure on the following page illustrates the effect of the changes on the Railroad Safety Program.

Until fiscal year 1983–84, general taxes funded most of the commission's activities. However, in 1983, the California Public Utilities Code (code) was amended to allow the commission to set and collect fees from privately owned utility and transportation companies to cover the cost of regulating their industries. The code requires the commission to establish fees equal to the amount it establishes in its authorized budget for the same year. The commission must forward its budget proposal to the Department of Finance (Finance) for approval. Finance must notify the Joint Legislative Budget Committee of any budget change larger than $100,000 or 10 percent of the amount budgeted, whichever is less.

After establishing the budget, the commission drafts a fee resolution and submits it to Finance for approval. According to the commission, it bills the State's two largest railroad corporations roughly 96 percent of the authorized budget based on an allocation plan proposed by the railroad corporations in

FIGURE

An Abbreviated Organization Chart for the California Public Utilities Commission



* The California Public Utilities Commission consists of five members appointed by the governor and confirmed by the Senate.

Note: The abbreviated organization chart reflects only those reorganization changes that affect the Railroad Safety Program.

the early 1990s. The commission bills the remaining 4 percent of the budget to other railroad corporations, each of which pays the higher of a percentage of the gross revenue they earned in the State or a minimum amount of $500. The percentage the commission uses is based on the amount of gross revenue reported by corporations in the previous calendar year.

The code also dictates how the commission must spend Railroad Safety Program fees. Specifically, the commission can only spend the fees for the salaries and per diem and travel expenses of (1) railroad safety employees directly involved in inspecting railroads and enforcing rail safety regulations, (2) employees who perform clerical and support functions directly associated with railroad safety inspections, and (3) legal personnel who actually pursue violations of rail safety regulations beyond the formal complaint level. On October 10, 1999, the code was amended to allow the commission to recover a portion of its overhead costs while state personnel actually occupy the above positions and perform the duties associated with these three activities.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) requested the Bureau of State Audits to determine whether the commission uses Railroad Safety Program fees according to requirements specified in the code. Specifically, the audit committee asked us to examine the laws, rules, and regulations relevant to the Railroad Safety Program and to examine the policies and procedures the commission uses to set and collect fees, account for revenues and expenditures, and develop the annual budget. In addition, the audit committee asked us to determine whether a sample of expenditures included only allowable costs that were valid and properly recorded. Finally, the audit committee asked us to review the commission's cost allocation plan (plan) to determine whether it allocated indirect costs appropriately.

To understand the use of fees paid by railroad corporations, we reviewed the code. We also reviewed relevant laws and procedures relating to the State's budget and accounting process. Finally, we interviewed key staff with the Railroad Safety Program.

To determine if the commission sets and collects fees in accordance with the code, we reviewed the commission's relevant processes. We also verified that the commission submitted its fee resolution to Finance for approval. Further, to verify that the commission collects the appropriate fees, we reviewed the billing statements it sent to railroad corporations to ensure that they agreed to the Finance-approved fee resolution for fiscal year 2002–03. Finally, for a sample of the railroad corporations, we verified that the gross revenue they reported to the commission was accurate.

To determine if the commission accounts for revenues properly, we selected a sample of deposits and traced them through the commission's accounting system. To evaluate whether the commission spent the fees it collected in accordance with the code, we reviewed its process for tracking direct labor and travel-related expenses for railroad safety personnel. For example, we interviewed staff in the commission's Legal and Administrative Law Judges divisions to determine how they charged time related to pursuing violations of railroad safety regulations. We also tested a sample of travel expense claims to determine if the expenses were allowable and properly recorded. Finally, we reviewed the commission's implementation plan for upgrading its timekeeping system. In the Appendix, we summarize the progress the commission has made in increasing the usefulness of its timekeeping system.

To determine if the commission's process for developing its annual budget for the Railroad Safety Program is reasonable, we interviewed the commission's staff. We examined supporting documentation for key amounts in the commission's budget. We also analyzed expenditure data to determine if there were significant variances between the commission's budget and the expenditures recorded in its accounting system.

Finally, to determine if the commission allocates indirect costs appropriately, we reviewed the reasonableness of its plan. We selected a sample of indirect charges and verified that the commission made allocations to the appropriate accounts and funds and used the appropriate bases of allocation. ■

AUDIT RESULTS

THE CALIFORNIA PUBLIC UTILITIES COMMISSION DOES NOT HAVE AN EFFECTIVE METHOD TO TRACK THE TIME ITS EMPLOYEES SPEND ON RAILROAD SAFETY ACTIVITIES

California's Public Utilities Code (code) dictates how the California Public Utilities Commission (commission) spends the fees it collects from railroad corporations to support specific activities of the Railroad Safety Program. However, the commission's timekeeping system does not track the actual time its employees spend working on railroad safety activities. Thus, the commission cannot ensure that the fees it collects are only spent on the salaries of the railroad safety employees performing the inspection and enforcement activities specified in the code.

The code explicitly requires the commission to limit the expenditure of Railroad Safety Program fees to specific activities that program employees actually perform. According to our legal counsel, the Legislature's reference to "expenditures for employees occupying and actually performing services" in specific activities evidences its intent that the commission spend the fees collected from railroad corporations only on the actual costs related to the specified Railroad Safety Program activities. In *Sinclair Paint Company v. State Board of Equalization*, a company challenged fees levied by the State against paint companies to prevent childhood lead poisoning, claiming the fees represented an unconstitutional tax.[1] The California Supreme Court found that the fees were reasonably characterized as regulatory fees because they were charged in connection with regulatory activities, did not exceed the reasonable cost of providing services, and were not levied for unrelated revenue purposes. In view of the court's finding and the Legislature's intent, the commission's accounting records should be sufficient to demonstrate that the fees are charged in connection with the specified railroad safety regulatory activities, do not exceed the reasonable costs of providing the services, and are spent for the purposes for which they were levied.

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[1] *Sinclair Paint Company v. State Board of Equalization* (1997) 15 Cal. 4th 866.

According to the code, the commission must spend Railroad Safety Program fees it collects on the salaries of employees who are directly involved in inspecting railroads and enforcing rail safety regulations; however, the commission cannot demonstrate that it spends fees only for these purposes. Although inspectors prepare weekly time sheets, which a program technician enters in the commission's timekeeping system, this information is not recorded in the commission's accounting system, the California State Accounting and Reporting System (CALSTARS). Instead, inspectors also prepare monthly CALSTARS time sheets, which the commission uses to update its accounting records. However, in reviewing the monthly CALSTARS time sheets for six inspectors, we found that the hours charged to the Railroad Safety Program by five inspectors did not agree with those input into the commission's timekeeping system. Thus, we are unable to determine if the commission accurately charged hours to the Railroad Safety Program.

The code also requires the commission to spend Railroad Safety Program fees on expenditures for clerical and support employees directly associated with railroad safety inspections. However, the commission does not know the actual time spent by the employees performing these functions. The former manager of the Railroad Safety Program told us he estimated the time clerical support staff spend on railroad safety inspections. For example, in the Los Angeles office, one staff person provides clerical support to its Railroad Safety and Highway-Rail Crossing Safety programs. According to the former program manager, because roughly the same number of staff is in each program, he charged 50 percent of this employee's time to each program. Using a similar method, for one clerical support employee and two supervising inspectors, the commission charged 85 percent of their time to the Railroad Safety Program and the remaining 15 percent to the Highway-Rail Crossing Safety Program. Because it did not require these employees to track the time they spent on railroad safety inspections, the commission could not ensure that it charged the correct amount of time to the Railroad Safety Program for these employees.

The commission's timekeeping system does not separately track the time employees in its legal divisions spend working on each of the three railroad safety programs.

Another code requirement calls for the commission to spend Railroad Safety Program fees on legal staff who actually pursue violations of railroad safety regulations beyond the informal complaint level. However, the commission's timekeeping system does not separately track the time employees in its Legal and Administrative Law Judges divisions (legal divisions) spend working on each of the commission's three rail safety programs. The system is designed to capture only the proceeding or project, industry category, and task or work category of the work-hours these employees enter. This information is not sufficient to allow the commission to identify the specific programs to charge.

Lacking data on actual work-hours for staff in the legal divisions, the commission charges hours to the various programs based on its estimates of the time that employees in the legal divisions spend working on program activities. The commission bases its estimates on the number of formal matters filed in the prior year, which is not a clear indicator of the amount of time employees spend pursuing specific activities. During fiscal year 2002–03, the commission identified errors in the estimates for staff in the legal divisions. Specifically, the commission charged the Railroad Safety Program for 0.03 percent of the Legal Division's staff time instead of 0.003 percent, which resulted in an overcharge of roughly $219,000. Additionally, the commission charged the Railroad Safety Program for 2 percent of the Administrative Law Judges Division's staff time when none of their time should have been charged; consequently, an overcharge of roughly $156,000 occurred.

Between July 2003 and February 2004, the commission incorrectly charged the Railroad Safety Program $281,000 for staff in its legal divisions.

Further, the commission cannot ensure that it does not charge hours to the Railroad Safety Program for employees who are not involved in inspecting railroads and enforcing rail safety regulations. The commission recently discovered that in fiscal year 2002–03, it charged the Railroad Safety Program for salary expenses totaling almost $495,000 for 11 employees in the Consumer Protection and Safety Division who did not have positions in the Railroad Safety Program. Although the commission identified and corrected these errors for fiscal year 2002–03, it did not take sufficient steps to ensure that errors of this type would not reoccur. In fact, we found that between July 2003 and February 2004, the commission incorrectly charged the Railroad Safety Program $281,000 for staff in its legal divisions. On April 6, 2004, the commission told us that it plans to adjust its accounting records for this error. The commission also plans to adjust its accounting records for the effect this error has on its allocation of indirect costs.

The commission acknowledges that its timekeeping system and accounting records do not demonstrate sufficiently that the fees it collects for the Railroad Safety Program are spent only for the purposes specified in the code. Since the spring of 2002, the commission has been trying to upgrade its timekeeping system to enable employees to record the actual time they spend on specific projects or activities. Additionally, the commission plans to integrate its timekeeping system with CALSTARS to reconcile expenditures to funding sources. However, because of project delays, the commission does not expect to complete the system upgrade until September 2004. For example, the commission has not completely developed a convention for naming and numbering projects or tasks because it did not anticipate the complexity involved in establishing the convention. By providing details such as the date, the name of the railroad corporation, and the program cost account code for a particular task, the proposed convention would allow railroad safety employees to track the actual time they spend inspecting train tracks, equipment, or repair facilities and enforcing railroad safety regulations.

THE COMMISSION CANNOT ENSURE THAT IT CHARGES ONLY ALLOWABLE TRAVEL-RELATED EXPENSES TO THE RAILROAD SAFETY PROGRAM

Because of weaknesses in its method of processing travel expense claims submitted by railroad safety inspectors, the commission cannot ensure that all travel-related expenses charged to the Railroad Safety Program are allowable.

The code allows the commission to spend Railroad Safety Program fees on travel-related expenses for railroad safety inspectors. The commission requires its employees, including inspectors, to indicate the unit and the program cost account code to be charged for any travel expenses they incur. The commission's fiscal office enters the travel expense claims into the accounting system and charges the appropriate programs. However, according to the budget control officer for the Consumer Protection and Safety Division, inspectors are instructed to report only one unit and program cost account code on their travel expense claims unless the dollar amount of the claim is large. For large claims, the inspectors must note the percentage split to be charged to the various programs.

For five travel expense claims, the commission overcharged the Railroad Safety Program more than $800.

In our review, however, we found two travel expense claims exceeding $1,000 for which all travel expenses were charged to the Railroad Safety Program, although the inspectors' time sheets indicated time spent on other programs. One inspector had indicated that 80 percent be charged to the Railroad Safety Program and 20 percent to another program. Together, the claims resulted in an overcharge of more than $500 to the Railroad Safety Program. We also found three travel expense claims for less than $1,000 that resulted in an overcharge to the Railroad Safety Program totaling more than $300 because the travel expense claims did not indicate the percentage splits shown on the inspectors' time sheets. A member of the commission's accounting staff told us that it is too time consuming to allocate costs among several programs and that the inspectors frequently do not report splits on their claims.

By failing to require inspectors to report the proper program cost account codes on their travel expense claims and not directing its accounting staff to charge programs according to the indicated percentages, the commission cannot ensure that only allowable travel-related expenses are charged to the Railroad Safety Program.

INACCURACIES IN ITS COST ALLOCATION PLAN AND TABLE HAVE CAUSED THE COMMISSION TO INCORRECTLY CHARGE INDIRECT COSTS TO THE RAILROAD SAFETY PROGRAM

Although the commission has developed a cost allocation plan (plan) as required by State accounting procedures, it has not established a formal process for periodically reviewing and updating it and its CALSTARS cost allocation table (table). Consequently, both the plan and table contain inaccuracies that have caused the commission to improperly charge the Railroad Safety Program for indirect costs.

Required Elements of a Cost Allocation Plan

The State Administrative Manual requires that plans contain the following information:

- The frequency of allocating various costs to programs.
- The rationale for selecting an allocation base.
- The frequency of evaluating the allocation base to determine its continued accuracy.
- Anticipated changes in allocation bases.

Source: State Administrative Manual, Section 9202.

A plan describes the method of distributing operating expenses or equipment costs that cannot practically be charged directly to the programs that benefit from the accumulated costs. The State Administrative Manual requires state agencies to document certain information in their plans, as outlined in the text box. To evaluate the continued accuracy of the allocation bases, the commission needs to update the plan periodically. Without a formal process for performing updates regularly, the commission cannot ensure that it correctly charges costs to all its programs, including the Railroad Safety Program.

According to the manager of the Budget and Fiscal Services Unit, within its Management Services Branch, the commission has been using an informal process to make changes to its plan since fiscal year 1999–2000 without obtaining management approval. He also stated that the commission last reviewed and updated its plan in fiscal year 2000–01. Moreover, in July 2002, the commission merged divisions to create its current Consumer Protection and Safety Division but did not update its plan to incorporate changes resulting from the reorganization.

The commission's failure to consider the effects of its reorganization and update the plan resulted in errors in its allocation of indirect costs to the Railroad Safety Program. Specifically, the commission did not change its CALSTARS table to reflect all the unit codes it established during its reorganization. The Department of Finance requires agencies that use CALSTARS to input their approved plans into the table, which contains data that are the basis of the allocation of expenditures and encumbrances in CALSTARS. Therefore, if the commission does not maintain its plan and table, it cannot ensure the equitable distribution of indirect costs to programs and/or funding sources, including the Railroad Safety Program fees. For example, as part of the reorganization, the commission added five payroll codes to identify units in the Railroad Safety Program. The commission was not aware of its omission of these codes from the table until we raised the concern, nor did it initiate changes to the table until April 2004. The commission plans to adjust its accounting records for this error. Meanwhile, it has no way of knowing the effect this error has on the Railroad Safety Program.

We also found that the commission does not always allocate rent for its Los Angeles office in accordance with the plan. Specifically, the plan requires this expense to be charged to its Executive, Consumer Protection and Safety, and Water divisions. However, during fiscal years 2002–03 and 2003–04, the commission charged the rent directly to the Executive Division, using a program cost account code that allocates the rent to most of its units. We estimate that the commission understated costs to the Railroad Safety Program in fiscal year 2003–04 by almost $71,000 because of this error. The commission told us that its accounting staff erroneously used the incorrect program cost account code and that it plans to adjust its accounting records before the end of the fiscal year.

The commission understated office rent expense to the Railroad Safety Program by almost $71,000.

Finally, the commission's plan and table contain outdated information. Specifically, the plan and table indicate that the rent for a building located in Sacramento and not owned by the State should be allocated to the Legal Division, Executive Division, Office of Ratepayer Advocates, and Consumer Protection and Safety Division. However, since only the Consumer Protection and Safety Division's employees occupy the space, that division charges the rent expense directly to its units.

Until the commission establishes procedures to periodically evaluate the accuracy of its plan and table, it cannot ensure that it appropriately charges indirect costs to its various programs, including the Railroad Safety Program.

WITHOUT A SYSTEM TO TRACK DIRECT AND INDIRECT COSTS, THE COMMISSION CANNOT ESTABLISH RELIABLE BUDGETS AND SET APPROPRIATE FEES

The code requires the commission to set fees that will adequately cover the costs of the Railroad Safety Program. However, because the commission's budget is not based on actual expenditures, it does not know whether the fees it sets and collects from railroad corporations adequately cover costs or are excessive.

In creating its budget for the Railroad Safety Program, the commission's program manager provides the commission's budget officer with a list of staff members and the percentage of time each member spends on Railroad Safety Program activities. The budget officer uses this information to determine the estimated salary and benefit costs for these staff. Additionally, the budget officer includes the amount set in the prior fiscal year for operating overhead expenditures, unless the number of staff has since changed. To arrive at the final budget, the budget officer adjusts the proposed budget for the current year by any excess or deficiency of fees resulting from his comparison of the final expenditure amounts reported in CALSTARS. However, we found that the commission sometimes makes unsupported adjustments to the expenditure amounts shown in CALSTARS.

Specifically, the commission adjusted its budget for fiscal year 2003–04 by $44,000 based on estimated expenditures of $3.3 million for fiscal year 2001–02 instead of the $4.2 million shown in CALSTARS. Also, in developing the fiscal year 2003–04 budget, the budget officer eliminated the total allocated overhead costs of $900,000 because they appeared too high, and he believed they were likely overstated due to higher costs incurred by the Executive Division. Specifically, the Executive Division entered into a specialized contract to obtain expertise in corporate restructuring, an issue that was not related to the Railroad Safety Program. However, the commission inappropriately passed on the contract costs of roughly $1.5 million to various programs, including the Railroad Safety Program.

In trying to adjust for an error it made, the commission inappropriately eliminated at least $300,000 of overhead costs for the Railroad Safety Program expenditures.

The commission's budget officer told us that he typically charges overhead costs of $300,000 annually to the Railroad Safety Program. Consequently, in trying to adjust for the contract costs, the budget officer inappropriately eliminated at least $300,000 of overhead costs. This adjustment, coupled with the commission's inability to demonstrate sufficiently that it charges only allowable activities to the Railroad Safety Program, calls into question the amount of fees it charges railroad corporations. Without accurate expenditure data, the commission cannot effectively determine how much to credit or charge railroad corporations when it establishes the budget and sets fees for the Railroad Safety Program.

RECOMMENDATIONS

To properly determine the costs of administering the Railroad Safety Program and set appropriate fees, the commission should do the following:

- Move quickly to fully implement upgrades to its timekeeping system to allow employees to record the actual time they spend on railroad safety activities and to enable the commission to reconcile expenditures to funding sources.

- Ensure that it determines the effect that incorrectly charging hours for staff in its legal divisions and omitting payroll codes has on the allocation of indirect costs to the Railroad Safety Program, and adjust its accounting records for fiscal year 2003–04.

- Establish procedures requiring inspectors to identify the program cost account codes to be charged for their travel expenses on their travel expense claims. Additionally, the commission should require its accounting staff to enter all valid codes shown on the travel expense claim into the accounting system.

- Develop policies and procedures to ensure that it maintains its plan and table for indirect charges in accordance with the State Administrative Manual. Specifically, it should periodically review and update the plan and table to ensure that the allocation bases are appropriate. Further, it should ensure that management reviews and approves any changes to the plan.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

Elaine M. Howle

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APPENDIX

The Status of the California Public Utilities Commission on Implementing the Department of Finance's Recommendations for Improving the Commission's Timekeeping System

The Department of Finance (Finance) has been reviewing the timekeeping system of the California Public Utilities Commission (commission) and issued a management letter dated February 2003 that contains several recommendations to improve the usefulness of the system. Table A.1 on the following page presents Finance's recommendations and the commission's anticipated completion dates.

TABLE A.1

The Status of the California Public Utilities Commission on Implementing the Department of Finance's Recommendations for Improving the Commission's Timekeeping System

Finance's Recommendations	Commission's Plan to Implement Recommendations	Implementation Status as of February 2004
Create a workgroup with representatives from the commission's directors, managers, supervisors, information technology unit, and Finance to work with in developing a universally accepted and useful workload tracking system.	The commission indicates that early in the development process it established workgroups to agree on a single timekeeping system.	The commission indicates that this recommendation is fully implemented.
Develop and implement a system that will be supported by commission management before, during, and subsequent to implementation.	The commission indicates that management's support of the new system is built into the project by including full participation by all division management in the process of developing the application as well as oversight compliance by the executive director. Additionally, the commission plans to schedule periodic reviews of the system once it is fully implemented to ensure that it captures new types of work and projects.	The commission indicates that this recommendation is partially implemented.
Ensure 100 percent participation in the use of the system, both organizationally and individually.	The executive director will be responsible for ensuring that all employees comply with the requirement of the system. The commission also plans to issue a policy requiring 100 percent participation in the use of the system and will provide training to its staff.	Partially implemented.*
Implement a collaborative commission-wide standard naming and numbering system convention for tasks/projects.	The commission states that its commission-wide dictionary of tasks is almost complete so that the system can begin.	Partially implemented.*
Standardize formats for recording staff time on either a daily, weekly, or monthly basis.	The commission plans to coordinate standardizing formats for recording staff time with having supervisors and managers verify and certify the accuracy of employees' time sheets.	Partially implemented.*
Require actual time worked be recorded rather than the estimated hours that are currently being input by some staff.	The commission states that there will be only one data entry module, and agreement has already been reached with all divisions.	Partially implemented.*
Have supervisors and managers verify and certify the accuracy of employees' time sheets.	The commission states that the system design includes a gatekeeper function that will either post or reject staff entries after supervisor review.	The commission indicates that this recommendation is fully implemented.
Track overtime earned to accurately represent the overtime hours worked and/or the total hours spent on a specific project.	The commission states that the system will conform its existing overtime policy and will allow staff to capture overtime hours for specific projects and tasks.	Partially implemented.*
Track the activities of employees reassigned permanently or temporarily to another division.	The commission states that the new system will have a module to track activities.	Partially implemented.*
Restrict access to the previous month's time sheets to prevent changing recorded hours.	The commission states that the new system will have one data entry module that will restrict access to the previous month's time sheets consistently across divisions.	Partially implemented.*
To enable reconciliation of expenditures to funding sources, the commission should integrate the timekeeping system with the California State Accounting and Reporting System (CALSTARS).	The commission states that the automated data upload/integration with CALSTARS is still under review because of security restrictions and system capabilities. However, the commission plans to tie all work records to the CALSTARS program cost account codes and funding sources for budget reconciliation purposes.	Partially implemented.*

* According to the commission, this recommendation will be fully implemented once the system is in use. The commission projects the first time-reporting period will be September 2004 for the Consumer Protection and Safety Division.

Agency's comments provided as text only.

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April 29, 2004

Elaine M. Howle
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to comment on your report (May 2004, 2003-121) on the audit of the Railroad Safety Program User Fees. We have reviewed the four recommendations contained in the report and have initiated a plan of action to implement each recommendation. The following is the current status of our efforts:

- Development of a work tracking system linked to our CalStars accounting system to improve timekeeping accuracy is an ongoing effort and initial implementation is anticipated by September 2004.

- Procedures are currently being developed to ensure accurate identification of program cost accounts by inspectors and internal controls are being developed to ascertain proper accounting for these costs.

- Procedures will be developed to regularly review our cost allocation plan and a process will be implemented to consider changes for presentation to management for review and approval.

- Accounting adjustments to address audit findings related to legal staff costs allocations and omitted payroll codes impacting direct costs will be addressed and reconciled in the current fiscal year.

We will continue to direct our efforts to satisfy the recommendations contained in your report and provide your office periodic progress reports.

Sincerely,

(Signed by: William Ahern)

William Ahern
Executive Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press