

California State Auditor

B U R E A U O F S T A T E A U D I T S

California Public Utilities Commission:

**Its Fees May Not Cover Its Costs of
Regulating Transportation Companies**



November 1997
96020

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CALIFORNIA STATE AUDITOR

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November 4, 1997

96020

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

Dear Governor and Legislative Leaders:

Summary

The fees the Public Utilities Commission (commission) collects from privately owned railroad and passenger transportation companies (transportation companies) may not sufficiently cover the costs of regulating these companies. As a result, the commission's other fee-payers, such as trucking and utility companies, may be subsidizing railroad and passenger transportation regulation.

More specifically, because its accounting system does not separately identify expenditures for the commission's various funds, the commission does not know the true cost of services related to transportation regulation and its other fee-payers may have funded up to \$1.4 million of these costs. In addition, fees received from railroad corporations do not cover all of the commission's corresponding expenses because the Public Utilities Code (code) limits the types of expenditures for which the commission can use such fees. Further, even though the commission's expenditures associated with the fees collected from railroad corporations did not exceed the \$3 million limit imposed by the code, the commission may have used up to \$180,000 in railroad fees for unauthorized purposes. Finally, the commission plans to install a new accounting system by July 1998 that, if properly designed, will allow the commission to collect its costs by fund.

Scope and Methodology

The Public Utilities Code, Section 421, requires the Bureau of State Audits (bureau) to perform an annual audit of the expenditures of fees paid by freight and passenger transportation companies to the Public Utilities Commission Transportation Reimbursement Account (transportation fund) beginning in fiscal year 1996-97. To perform our audit, we reviewed pertinent state laws and regulations related to the transportation fund. We also interviewed the commission's budget and accounting staff to determine how it sets the transportation fund's annual budget and how it records transportation fund revenues and expenditures. In addition, we interviewed supervisors of the units that regulate transportation companies to gain an understanding of their programs.

Because the commission's automated accounting system does not accumulate expenditures by fund, we could not obtain a detailed list of expenses paid from the transportation fund to review. However, the commission's Standard Time Reporting (STR) system accumulates direct personnel charges by fund as recorded by employees on monthly time sheets. We tested the validity of direct personnel charges to the transportation fund by reviewing STR system data for compatibility with work codes and employee listings. We then reviewed the validity of the commission's method for allocating operating and overhead costs to its funds monthly and at year-end. Finally, we reviewed and tested the fees received in the commission's transportation fund.

Even though the accounting system does not accumulate expenditures by fund, we identified the railroad fee expenditures using other means. Specifically, we compared railroad inspection activities for fiscal year 1996-97 to those in fiscal years 1994-95 and 1995-96. We determined that the commission maintained a consistent level of inspections during the comparison period. We also reviewed employee time charges to the transportation fund for railroad safety to determine whether these charges were appropriate. Further, we estimated building rental and maintenance costs for the railroad safety program based on the number and location of its employees, and we calculated travel and state vehicle expenses related to the railroad safety program based on invoices and travel expense claims. We compared total railroad safety expenditures, as calculated above, to the statutory limits on these expenditures.

Background

The commission regulates the rates and standards of safety and service of all privately owned utilities and transportation companies, such as railroads, limousines, and chartered buses. These regulatory responsibilities require the commission to enforce rates, rules, regulations, statutory requirements, and safety.

Until fiscal year 1983-84, general taxes funded most of the commission's activities. However, in 1983 the code was amended to allow the commission to set fees equal to its budget, minus certain adjustments, that the public utility and transportation companies must pay to cover the costs of regulating their industries.

The commission uses a number of funds for its operations. One of these, the Public Utilities Commission Utilities Reimbursement Account (utilities fund), is the depository for fees collected from utility companies. This fund is the principal operating fund from which all monthly payroll and operating-expense payments are made. Once a month, the commission estimates the amount spent from the utilities fund on behalf of each of its other funds and transfers the necessary reimbursements from each of the other funds.

The commission's transportation fund is the depository for the fees paid by transportation companies subject to the commission's jurisdiction. By law, the commission cannot reimburse the utilities fund more than the amount budgeted for regulating transportation companies. For fiscal year 1996-97, the commission's budgeted transportation fund expenditures were approximately \$8.5 million.

To estimate the amount it charges to the transportation fund for regulating transportation companies, the commission uses the STR system. Each month, the commission enters information from its employees' time sheets into the STR system. On these time sheets, employees charge their work hours to a variety of codes, including fund codes, which the STR system uses to attribute personnel costs to specific funds. Staff who cannot directly charge their work to a specific fund use a special code on their time sheets, which allows the computer to prorate these hours to each fund based on the fund's proportionate share of direct personnel charges. The STR system also automatically calculates an additional 25 percent of salaries and wages for benefits and provides total estimated personnel costs attributable to the transportation and other funds within the commission.

Using the personnel costs the STR system generates, the commission develops percentages to estimate total costs for each of its funds. Specifically, the commission computes the percentage of each fund's personnel costs to the total personnel costs for the commission. The commission then applies these percentages to its total costs, net of reimbursements, to estimate each fund's total expenditures. Finally, it charges to each fund the lesser of the fund's estimated or budgeted expenditures.

***The Commission Cannot Ensure
Its Transportation Fees Cover Its Costs***

The commission plans to install a new automated accounting system by July 1, 1998. However, its current automated accounting system is unable to separately identify expenditures related to the transportation fund. Thus, the commission does not know the true costs of regulating the transportation companies. Nonetheless, if the commission's estimate of the fund's costs for fiscal year 1996-97 is accurate, its other fee-payers, such as utilities companies, may have funded up to \$1.4 million in railroad and passenger transportation regulation costs.

The current accounting system identifies costs by branches or divisions within the commission. However, the accounting system was not designed to identify costs by fund for the branches or divisions that perform activities involving more than one fund. For example, the rail safety branch's costs are charged to a separate code in the accounting system. Staff within this branch perform tasks financed by several funds, including the transportation fund, the State Highway Account, and the Transportation Planning and Development Account. Because of the deficiencies in the current accounting system, the accounting system cannot break out the costs among the three funds.

Nonetheless, every month, the commission estimates the costs to be charged to each of its funds using information from the STR system. However, regardless of the estimate, the commission cannot transfer to the utilities fund more than the amount budgeted for the cost of regulating transportation. Table 1 compares the results of the commission's fiscal year 1996-97 calculation for the transportation fund with its budget.

Table 1

***Comparison of Estimated and Budgeted
Expenditures for the Transportation Fund
Fiscal Year 1996-97
(In Thousands)***

Transportation Companies	Estimated Expenditures	Budgeted Expenditures	Difference
Passenger Railroad	\$6,600 3,302*	\$5,478 3,000	\$1,122 302
Total	\$9,902	\$8,478	\$1,424

*Estimated expenditures are net of \$335,000 paid by the Transportation Planning and Development Account.

As Table 1 shows, the commission's estimate of the transportation fund's expenditures suggests that the costs of regulating transportation companies were approximately \$1.4 million greater than the amount budgeted for fiscal year 1996-97. Nonetheless, the commission's director of the management and information services division stated that the budget more accurately reflects the transportation fund's expenditures because the estimate overstates the fund's overhead costs. However, he could not provide us with any evidence to support his claim.

Not only is the commission unsure of the true costs of regulating transportation companies, the code limits the types of expenditures for which the commission can use its railroad corporation fees. The code limits spending of railroad fees to the safety personnel that inspects railroads and enforces rail safety regulations, the clerical and support staff for safety inspections, the legal personnel pursuing safety violations, and an audit by the bureau.

The code does not allow railroad fees to be used to pay the railroad safety's pro rata share of the commission's overhead costs, which include costs associated with personnel, accounting, and executive management staff. Therefore, for fiscal year 1996-97, the commission obtained \$335,000 from the Transportation Planning and Development Account to cover this portion of railroad safety costs. However, based on the commission's estimate and information from the STR system, the railroad safety's pro rata share may have been significantly higher. For example, for salaries and benefits alone, the STR system allocated to railroad safety overhead costs totaling \$388,000, or \$53,000 more than the amount

funded. Because the commission cannot use the railroad fees to pay overhead costs, any shortfall in funding may be passed on to its other fee-payers.

***The Commission Cannot Be Assured
That It Spent Railroad Corporation Fees
Only for Authorized Purposes***

The commission may have used up to \$180,000 in railroad fees for unauthorized purposes. Although the commission's method of allocating costs to the transportation fund ensures that the expenditures do not exceed the amount budgeted, it does not ensure that the commission uses the fees to pay only allowable costs.

Based on the results of its allocation, the commission transferred to the utilities fund the entire \$3 million budgeted for regulating railroad safety during fiscal year 1996-97, although actual expenditures were nearly \$180,000 less. Table 2 presents the results of our comparison of the commission's budget for railroad safety operations and its allowable costs for fiscal year 1996-97.

***Table 2
Comparison of Allowable Costs and
Budgeted Expenditures for Railroad Safety
Fiscal Year 1996-97
(In Thousands)***

Expenditure Category	Allowable Costs	Budgeted Expenditures	Difference
Salaries and wages	\$1,715	\$2,006	\$(291)
Benefits	452	466	(14)
Operating expenses and equipment	578	453	125
Audit costs for Bureau of State Audits	75	75	0
Total	\$2,820	\$3,000	\$(180)

Our review of the commission's expenditures revealed that its budget did not always reflect its actual expenditures. For instance, the commission spent approximately \$305,000 less than budgeted for salaries and benefits. This occurred for two reasons. First, the budget for railroad safety included three full-time positions that remained vacant during fiscal year 1996-97. Second, the budget included an additional four full-time staff, yet the staff charged less than half their time

to railroad safety during the year. In another instance, the commission budgeted only \$59,000 for facilities costs. However, based on the number and location of its employees, we estimated these costs to be approximately \$227,000, or \$168,000 more than the amount budgeted. Thus, the commission's costs were significantly less than the budget for salaries and benefits and greater than the budget for facilities.

The director of the management and information services division said that, as in past years, the commission plans to adjust future railroad fees for any money collected but not spent on railroad safety in fiscal year 1996-97.

The Commission Plans To Install a New Accounting System

The commission is planning to install a new automated accounting system by July 1, 1998. If properly designed, the new automated accounting system will apportion costs by fund. However, to ensure the system accurately captures costs for each fund, the commission must correct certain deficiencies in its current system. For example, the commission currently charges almost all of its rent, maintenance, security, gas, water, and electric costs for its headquarters building only to one division even though other divisions also use the space. To identify the costs that should be charged to the transportation fund, the commission will need to determine a reasonable method for allocating these costs to its various funds.

One common method to allocate rent involves determining the amount of space used by the staff assigned to programs or funds and allocating the rent accordingly. Also, the commission will need to develop and document its basis for allocating other overhead costs, such as the costs of the accounting staff, to its various funds. This documentation may require the commission to prepare time studies of the types of activities staff performed. Finally, once the new accounting system is installed and provides the commission with the transportation fund's actual expenditures, the commission should compare its expenditures to the budget to determine whether its budget and related fees are established at an appropriate level.

Conclusion

Because of deficiencies in its accounting system and statutory limitations imposed on its spending of railroad fees, the commission's other fee-payers, such as trucking and utility companies, may be subsidizing railroad and passenger transportation regulation. Additionally, the commission may have spent fees collected from railroad corporations for unauthorized purposes. Finally, before it installs its new accounting system, the commission must correct current system deficiencies.

Recommendations

To verify that the fees it charges transportation companies cover the costs of regulating these companies, the commission should do the following:

- Make certain that its new automated accounting system separately identifies expenditures by fund.
- Ensure that it develops and documents methods to allocate costs, such as facilities and overhead, to the funds included in its new accounting system.

To ensure that the other fee-payers, are not subsidizing railroad regulation, the commission should seek legislation to include overhead costs in the commission's budget for spending railroad fees.

To ensure that it spends its railroad fees only for authorized purposes, the commission should perform a detailed review of its railroad safety expenditures and reimburse the utilities fund only for allowable costs.

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 governmental auditing standards. We limited our review to those areas specified in this report. The information in this report was shared with the department, and we considered its comments.

Respectfully submitted,

A handwritten signature in black ink, reading "Kurt R. Sjoberg". The signature is written in a cursive style with a large, stylized initial "K".

KURT R. SJOBERG
State Auditor

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Response to the report provided as text only

STATE OF CALIFORNIA
PUBLIC UTILITIES COMMISSION
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PETE WILSON, Governor

October 27, 1997

Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to respond to your report on the audit performed by your office of the Commission's 1996-97 expenditures from the Public Utilities Commission Transportation Reimbursement Account (PUCTRA). The Commission concurs with the conclusions and recommendations expressed in your report, with the following explanation and clarification.

Your report concludes that the "...commission's other fee payers, such as trucking and utility companies, may be subsidizing railroad and passenger regulation. Additionally, the commission may have spent fees collected from railroad corporations for unauthorized purposes." This conclusion is based on the fact that, for the 1996-97 fiscal year, (1) the commission incurred PUCTRA expenses in excess of its PUCTRA appropriation, and (2) of the \$3 million collected from railroad corporations, only \$2,820,000 was expended on railroad safety.

Your audit found that the 1996-97 estimated expenditures for passenger carrier regulation may have exceeded budgeted expenditures by \$1.1 million, resulting in other fee payers subsidizing this regulation. The passage of Chapter 1042, Statutes of 1996 (AB 1683, Conroy) may have resulted in the redirection of certain CPUC staff from trucking activities funded from the Transportation Rate Fund to passenger carrier regulation supported by the PUCTRA. Chapter 1042 transferred enforcement of trucking regulation to the California Highway Patrol effective January 1, 1997. Because the issue of transferring CPUC enforcement staff to CHP had not been resolved, portions of this staff may have been reassigned to passenger carrier regulation. This would account for a significant amount of the excess in the cost of passenger carrier regulation.

Your audit is also accurate in its finding that 1996-97 fees collected from railroad corporations exceeded 1996-97 CPUC expenditures for railroad corporation safety. However, the Commission will adjust 1998-99 railroad corporation fees to collect \$180,000 less than the Commission's 1998-99 budget for regulating railroad corporations. This is consistent with past practice, as indicated by the Director of the Information and Management Services Division and included in your report. In fixing railroad corporation fees for the 1996-97 fiscal year, \$251,000 in railroad corporation fees collected from the 1993-94 and 1994-95 fiscal years and not spent on railroad safety (based on CPUC's internal audit) were applied against 1996-97 fees. No such adjustment was made to 1997-98 railroad fees, as the internal audit did not find expenditures to be less than budget for this program. These adjustments in fees are made to insure that railroad corporations are not subsidizing other activities. For this reason, the 1996-97 railroad fees collected in excess of budget in effect remained in the PUCTRA reserves and the source of the \$180,000 was existing PUCTRA reserves previously paid by passenger carriers.

Finally, the Commission concurs with your recommendation that the current statutory limit of \$3 million in annual railroad corporation fees should be changed to reflect all costs, including overhead, of regulating railroad safety.

Sincerely,

WESLEY M. FRANKLIN
Executive Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps