

Date of Hearing: April 23, 2025

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 705 (Boerner) – As Amended March 17, 2025

SUBJECT: Public Utilities Commission: Independent Office of Audits and Investigations

SUMMARY: Transfers the internal audit unit of the California Public Utilities Commission (CPUC) to a newly established Independent Office of Audits and Investigations (“Audits Office”) within the CPUC. The Audits Office is designed to ensure transparency, accountability, and efficiency in the use of ratepayer funds and the effective execution of CPUC programs and statutory mandates. Specifically, this bill:

- 1) Recasts the chief internal auditor as the Inspector General, who:
 - a. Heads the new office
 - b. Is appointed by the Governor, subject to Senate confirmation.
 - c. Serves a six-year term and can only be removed for good cause.
 - d. Has authority to conduct independent audits and investigations.
- 2) Establishes the functions of the Audits Office as:
 - a. Monitor use of funds and compliance with laws and standards.
 - b. Conduct audits across financial, management, and operational areas of the CPUC.
 - c. Report findings directly to the Governor, Legislature, and CPUC on an ongoing basis.
 - d. Ensure an effective enterprise risk management program.
 - e. Provide annual public reports of significant findings and the status of recommendations.
- 3) Establishes the powers of the Audits Office as:
 - a. Full access to records and facilities of the CPUC and regulated entities.
 - b. Authority to enter public institutions and examine relevant documents during business hours.
- 4) Establishes reporting requirements for the Audits Office as:
 - a. Ongoing reports to the Governor and Legislature.
 - b. Annual summary reports posted online and available to the public.

EXISTING LAW:

- 1) Establishes the CPUC with jurisdiction over all public utilities and grants the CPUC certain general powers over all public utilities and common carriers, subject to control by the Legislature. (California Constitution, Article 12)
- 2) Establishes requirements for internal auditors in state government, including a framework to establish a level of independence for the internal auditors and a reporting structure that allows for disclosure to external parties, such as the Governor’s office or the State Auditor. (Government Code §§ 13885-13888)
- 3) Requires the CPUC to regulate utilities, establish just and reasonable rates for service, and establish a division of the CPUC responsible for consumer protection and safety. (Public Utilities Code § 451 and § 309.7)

- 4) Requires the CPUC to appoint a chief internal auditor, who holds office at the CPUC's pleasure. Grants the chief internal auditor responsibility over the internal audit unit, and mandates the chief perform audits of key functions within the CPUC, as specified. (Public Utilities Code § 307.6)
- 5) Mandates the CPUC adopt an updated Conflict of Interest Code and Statement of Incompatible Activities by February 28, 1998. (Public Utilities Code § 303)

FISCAL EFFECT: Unknown. This bill is keyed fiscal, and will be referred to the Assembly Committee on Appropriations for its review.

CONSUMER COST IMPACTS: Unknown, potentially negligible.

BACKGROUND:

Legislative Action on Internal Audits – Nearly 20 years ago, the Legislature passed a set of reforms to enable greater transparency and protections for audits of state governmental activity.¹ These reforms enable the protection and independence of auditors and enable the Legislature to be informed when State Auditor recommendations are being ignored or not implemented by state agencies. In addition, they enable audit findings to be reported to state agency counsel or higher executive branch management if these findings are suppressed by direct management. These reforms are outlined in Table 1 below.

Table 1: Internal Audits of State Agencies – Powers, Rules, and Protections.

GOV §	Topic	Key Points
13886	Audit Committees	<ul style="list-style-type: none"> - Agencies with internal audits must establish an audit committee. - Committee should follow national accounting guidelines.
13886.5	Audit Standards	<ul style="list-style-type: none"> - Audits must follow standards from the Institute of Internal Auditors, or the U.S. Comptroller's Government Auditing Standards (Yellow Book). - Other laws and regulations may still apply.
13887(a)	Independence (No Governing Body)	<ul style="list-style-type: none"> - Internal auditor reports go to agency head or deputy. - Auditors must operate outside of the unit being audited. - Reports must also go to the general counsel, if applicable.
13887(b)	Independence (With Governing Body)	<ul style="list-style-type: none"> - Auditor reports go to audit committee and general counsel. - Must be independent from line management of audited areas.
13887.5	Escalation of Serious Issues	<p>If management ignores risks or findings:</p> <ol style="list-style-type: none"> 1. Auditor must discuss with leadership/legal. 2. If unresolved, escalate to higher authority (e.g., agency head,

¹ Government Code §§ 13885-13888, established under SB 1452 (Speier, Chapter 452, Statutes of 2006)

		Governor). 3. For major issues, report to Joint Legislative Audit Committee & State Auditor. - Whistleblower protections apply.
13888	Reporting Interference	If auditors face pressure or interference: - They can report to the State Auditor. - State Auditor may investigate. - Whistleblower protections apply.

Internal Audits at the CPUC – The CPUC has an Office of Internal Audit Services (IAS), separate and distinct from the audit functions the CPUC exercises over the regulated utilities. The IAS Office seeks to add value and efficiency to improve the CPUC’s *internal* operations; whereas, the Utility Audits Division performs a variety of *external* audits to enhance the transparency, accountability, and performance of California’s regulated utilities. As detailed below in Figure 1,² the IAS Office reports directly to the Commissioners and is a separate unit within the CPUC organizational structure.

Figure 1: Organizational Structure of CPUC's audit activities

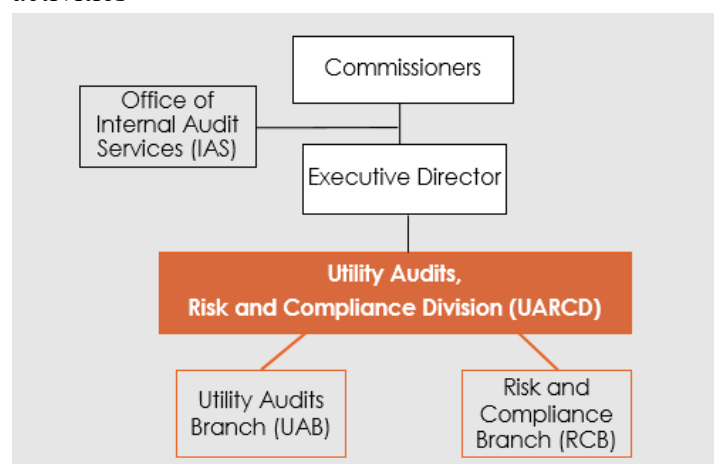
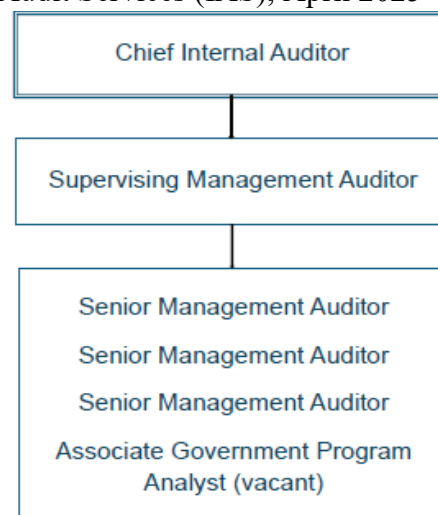


Figure 1: Organizational Structure of the CPUC’s Office of Internal Audit Services (IAS), April 2025



The IAS Office is small; just six employees out of the CPUC’s 1,739.³ As shown in Figure 2, the IAS is headed by a Chief Internal Auditor, a position statutorily mandated in 2017.⁴ Per statute, the IAS Office reports to an audit committee of the CPUC, currently comprised of Commissioner Houck and Commissioner Baker. According to the CPUC, over the last five years the IAS Office completed 29 audits of CPUC operations, including reviews of various CPUC third-party

² CPUC slide deck; “Internal Audit Services and Risk and Compliance Branch’s Accomplishments in 2024 and Goals for 2025;” February 20, 2025.

³ Department of Finance; 2025-2026 Governor’s Budget; January 10, 2025; General Government summary; <https://ebudget.ca.gov/budget/2025-26/#!/Agency/8000>

⁴ PUC § 307.6, added by SB 19 (Hill, Chapter 421, Statutes of 2017)

contracts, compliance with staff travel and reimbursement policies, and responsiveness to utility customer complaints. The Internal Auditor also receives notice of whistleblower complaints submitted to the CPUC's internal compliance unit and is informed of the investigation results and management's handling of corrective actions. This enables visibility into complaint trends and internal follow-up. Internal audit reports are intended for the internal use of the CPUC, and therefore are not posted publicly; however, they are public records and not exempt from disclosure.

External Audits Find Deficiencies in the CPUC's Operations – Since 1997, the State Auditor's Office has published independent audits of the CPUC approximately 27 times. Often, the conclusions highlight deficiencies in the CPUC's management and administration of state programs. In 2014, the State Auditor noted the CPUC needed to improve monitoring of utility balancing accounts.⁵ A 2023 audit noted similar shortcomings in utility balancing account oversight.⁶ Other audits have cited issues with electrical system safety,⁷ water rate processes,⁸ contracting practices,⁹ and consumer complaint data.¹⁰

COMMENTS:

- 1) *Author's Statement.* According to the author, "Although the California Public Utilities Commission is an independent agency of state government, its internal operations should be transparent to the public and subject to regular independent review by an outside entity to ensure efficient operations, economic administration of ratepayer funds, and compliance with state law. As utility costs continue to rise, regulatory decisions are continuously delayed, grant funds are held back for years, and Commissioners decline to participate in legislative oversight hearings it is clear that more accountability is needed on the agency operations. By establishing an independent Inspector General at the CPUC, the public and the Legislature will be better informed about the agency's internal operations."

⁵ State Auditor, Audit 2013-109; *California Public Utilities Commission: Improved Monitoring of Balancing Accounts Would Better Ensure That Utility Rates Are Fair and Reasonable*, March 4, 2014; <https://information.auditor.ca.gov/pdfs/reports/2013-109.pdf>

⁶ State Auditor, Audit 2022-115; *Electricity and Natural Gas Rates: The California Public Utilities Commission and Cal Advocates Can Better Ensure That Rate Increases Are Necessary*, August 29, 2023; <https://information.auditor.ca.gov/pdfs/reports/2022-115.pdf>

⁷ State Auditor, Audit 2021-117; *Electrical System Safety: California's Oversight of the Efforts by Investor-Owned Utilities to Mitigate the Risk of Wildfires Needs Improvement*, March 24, 2022; <https://information.auditor.ca.gov/pdfs/reports/2021-117.pdf>

⁸ State Auditor, Audit 2018-118; *California Public Utilities Commission: It Could Improve the Transparency of Water Rate Increases by Disclosing Its Review Process and Ensuring That Utilities Notify Customers as Required*, December 18, 2018; <https://information.auditor.ca.gov/pdfs/reports/2018-118.pdf>

⁹ State Auditor, Audit 2016-104; *California Public Utilities Commission: It Should Reform Its Rules to Increase Transparency and Accountability, and Its Contracting Practices Do Not Align With Requirements or Best Practices*, September 22, 2016; <https://information.auditor.ca.gov/pdfs/reports/2016-104.pdf>

¹⁰ State Auditor, Audit 2014-120; *California Public Utilities Commission: It Needs to Improve the Quality of Its Consumer Complaint Data and the Controls Over Its Information Systems*, April 9, 2015; <https://information.auditor.ca.gov/pdfs/reports/2014-120.pdf>

- 2) *Purpose of Bill.* The CPUC is an independent, Constitutionally-established state agency with 1,739 employees and an annual budget nearing \$2 billion dollars, as of 2025.¹¹ Yet its internal audit office contains six employees, whose activities are rarely examined publicly. This leaves the public unaware of how serious the Office's recommendations are taken, or how thoroughly they are implemented. As noted above, external audits from the State Auditor routinely find issues with the CPUC's operations. These factors motivate the author to seek greater independence for the CPUC's internal audit office, and to make their recommendations public. The author raises the need to reform and recast the internal auditing function of the CPUC due to growing public frustration with the agency's operations, noting more oversight and accountability is needed.
- 3) *Name that Auditor.* This bill renames the CPUC's chief internal auditor the "Inspector General" with duties that remain largely the same. The key difference is to ensure the role is more public-facing, including making the role:
- A Governor-level appointment, with Senate confirmation.
 - Directly report to the Governor and Legislature on an ongoing and current basis.
 - Annually reporting audit summaries to the Governor, Legislature, and posting publicly online.
 - Have full access to records and facilities of the CPUC and regulated entities.
 - Authorized to enter public institutions and examine relevant documents during business hours.

Inspectors General are common roles and offices in the federal government, with 74 statutory Inspectors General across the federal government.¹² While California has several independent Inspectors General offices – including for the Department of Corrections and Rehabilitation, California Highway Patrol, and Department of Transportation – California has traditionally relied upon internal auditors, who work within and report directly to agency leadership.

As noted above, existing law¹³ establishes protocols to protect the integrity of internal auditors in state government. However, the author raises concern that those auditors are principally accountable to their agency leadership and their work is not often shared publicly. For instance, the CPUC's chief internal auditor holds "office at the pleasure of the Commission" pursuant to statute.¹⁴ The author contrasts this structure with that of an Inspector General, who traditionally are independent auditors that exist outside of an agency and act independently.

- 4) *Public Disclosures.* While the CPUC regularly conducts internal audits consistent with state law, the results of those audits are not regularly published for public review. However, this was not always the case. Internal audits of state agencies were once posted

¹¹ Department of Finance; 2025-2026 Governor's Budget; January 10, 2025; General Government summary; <https://ebudget.ca.gov/budget/2025-26/#!/Agency/8000>

¹² Statutory Inspectors General in the Federal Government: A Primer. [https://www.congress.gov/crs-product/R45450#:~:text=As%20of%20February%202023%2C%2074,operate%20in%20the%20federal%20government.&text=The%20IG%20Act%20governs%2064,special%20IGs%20\(Figure%201\)](https://www.congress.gov/crs-product/R45450#:~:text=As%20of%20February%202023%2C%2074,operate%20in%20the%20federal%20government.&text=The%20IG%20Act%20governs%2064,special%20IGs%20(Figure%201)).

¹³ Government Code §§ 13885-13888, established under SB 1452 (Speier, Chapter 452, Statutes of 2006)

¹⁴ PUC § 307.6 (a)

online due to Governor Schwarzenegger's Executive Order (EO S-08-09)¹⁵ requiring by June 2009, all state departments to post audit data to the Reporting Transparency in Government website. However, Governor Brown rescinded the requirement on October 09, 2011, by Executive Order (EO B-12-11)¹⁶ which mandated agencies and departments must provide as much information as possible on their various contracts through the eProcurement website. It is unclear to this committee how much CPUC audit activity is posted to that website. This measure seeks to ensure a return to public posting, at least for CPUC audits.

5) *Prior Legislation.*

AB 884 (Patterson, 2021) required all state agencies with aggregate spending of \$50,000,000 or more annually to establish an ongoing audit function, and directed state agencies to post any audit findings and recommendations to their internet website within five days of a report release pursuant to existing law. Status: Died – Assembly Committee on Appropriations.

SB 19 (Hill), among its many requirements and changes, established a chief internal auditor at the CPUC responsible for the oversight of the internal audit unit. Status: Chapter 421, Statutes of 2017.

AB 825 (Rendon, 2015) would have proposed a package of reforms of the CPUC largely directed at increased transparency of the activities of the agency, including requiring the California State Auditor's Office to appoint an Inspector General within its office for the CPUC. Status: Vetoed.

SB 1452 (Speier) Establishes a process for the Legislature to be informed when auditor recommendations are being ignored or not implemented by state agencies. If audit findings are suppressed by management they will be reported to state agency counsel. Finally, it creates a framework to protect internal auditors from intimidation. Status: Chapter 452, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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¹⁵ <https://www.library.ca.gov/wp-content/uploads/GovernmentPublications/executive-order-proclamation/38-S-08-09.pdf>

¹⁶ <https://www.library.ca.gov/wp-content/uploads/GovernmentPublications/executive-order-proclamation/39-B-12-11.pdf>