



# STANDARD PRACTICE AUDIT MANUAL

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UTILITY AUDITS BRANCH

January 2021



**California Public  
Utilities Commission**

A digital copy of this report can be found at:  
<https://www.cpuc.ca.gov/utilityaudits/>

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# Introduction

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The California Public Utilities Commission (CPUC) serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy. The CPUC regulates various utility industries, including but not limited to:

- investor-owned electric and natural gas utilities
- telecommunications industry
- investor-owned water and sewer utilities
- rail and passenger transportation

The CPUC's Utility Audits Branch (UAB) (formerly known as Utility Audit, Finance and Compliance Branch (UAFCB)) carries out audit responsibilities on behalf of the CPUC to ensure utilities implement various programs in compliance with applicable laws, regulations, and CPUC's directives. UAB performs its audit services under the general authority of Public Utilities (PU) Code Sections 314, 314.5, and 314.6.

On October 2, 2019, Assembly Bill (AB) No. 1072, Chapter 448, amended PU Code Sections 314.5 and 314.6 relating to the audit services performed by the UAB. Specifically, AB 1072 amended PU Code Section 314.5 and added Section 314.6 (d) which states the following:

*Beginning January 15, 2020, and every year thereafter, the commission shall post on its internet website its standard practice audit manual, titled Utility Audit, Finance and Compliance Branch UAFCB Audit and Attestation Standards Practice, and updates to that manual, if any.*

The UAB established this Standard Practice Audit Manual to address the requirement enacted in PU Code Section 314.6 (d) and to accomplish the following main objectives:

- highlight types of audit engagements performed within the UAB;
- outline statutory requirements and auditing standards for each type of engagement;
- provide program overview for audit services provided; and
- ensure transparency of audit services to stakeholders and the public.

# Utility Audits Branch

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## Background

The UAB performs a variety of external audits and attestation engagements of energy, telecommunication, and water utility companies under the general authority outlined in the PU Code Sections 314, 314.5, and 314.6. The UAB performs most of its audit services for purposes of assisting the CPUC in safeguarding various ratepayer funded programs and protecting ratepayers' interests. The UAB performs most of its audits and attestation engagements in accordance with generally accepted government auditing standards (GAGAS) which requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions based on our audit objectives. The UAB staff have diverse backgrounds, professional certifications, and auditing and technological expertise, which allows us to deliver high-quality auditing services to the CPUC and various stakeholders. The UAB's auditing services bring transparency and accountability of all utility programs that the CPUC regulates.

Audit reports can be accessed via the following links:

<ftp://ftp.cpuc.ca.gov/utilityaudits/>

<https://www.cpuc.ca.gov/General.aspx?id=10554>

For audit reports that are not posted on the CPUC website due to confidentiality can be made available via a Public Records Act Request by accessing the link below:

<https://publicrecords.cpuc.ca.gov/>

## Mission

The UAB delivers professional auditing services and effective solutions that enhance the transparency, accountability, and performance of California's regulated utilities.

## Vision

Be a trusted and reliable resource to the Commission and California ratepayers.

## Values

**Accountability:** Take ownership and assume responsibility for our actions and work products.

**Excellence:** Take pride in our work and deliver high quality, well-supported, evidence-based work products in a timely manner. Strive for continuous improvement.

**Integrity:** Behave professionally; uphold ethical principles; treat everyone with courtesy and dignity; and build relationships based on trust. Foster environment of diversity, collaboration, and respect.

**Open Communication:** Exchange information in a timely and transparent manner. Communicate with others with an open mind, positive attitude, and respectful manner.

**Stewardship:** Commit to safeguarding ratepayers' funds, make responsible decisions, and be vigilant with our resources.

## Engagement Types Summary

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The following table summarizes the utility type, the statutory requirements for the engagement, and the type of engagement (including the applicable auditing standards) to which the UAB adheres when performing the engagement.

Utility Type	Statutory Requirement	Type of Engagement
Telecommunication Programs (PPP)	PU Code Sections 274 and 314	GAGAS – Performance Audit
Energy Procurement	PU Code Sections 314.6, 451, 454, D.03-12-062, and D.04-02-040	GAGAS – Attestation Engagement; Agreed-Upon Procedures (AUP)
Balancing Accounts	PU Code Sections 581, 582, 584 and 792.5.	GAGAS – Performance Audit
Energy Efficiency PPP	PU Code Sections 314.5; 314.6, 581, 582, 584, and D.13-09-023, OP 17	GAGAS – Performance Audit
Small Water Companies (Class B, C, and D)	PU Code Sections 314.5, 314.6, 581, 582, and 584	GAGAS –Review of Financial Statements
Class A Water Companies	PU Code Sections 314.5, 314.6, 581, 582, and 584	UAB will utilize the Class A Water Companies’ Audited Financial Statements by CPAs to determine whether CPUC’s regulatory needs are met. UAB will determine if additional audit procedures are necessary to ensure compliance.
GO 156 (Energy, Water, and Telecommunication)	PU Code Section 314; GO 156, Section 9.1.10; D.11-05-019, OP 3	GAGAS – Performance Audit
Special Engagement	Various Decisions or PU Code sections	Will be determined as needed and identified in each engagement’s report.

# Program Overview

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## **Telecommunication Public Purpose Program (PPP)**

The CPUC mandated and administered the following PPP for the purpose of making basic communication services affordable to California customers. These programs provide subsidized telephone and broadband services and special equipment to qualified carriers and individuals.

1. Universal Lifeline Telephone Service (ULTS): provides discounted home phone and cell phone services to qualified households.
2. Deaf and Disabled Telecommunications Program (DDTP): provides telecommunications devices to deaf or hearing-impaired consumers.
3. California High Cost Fund-A (CHCF-A): provides subsidies to 13 small local exchange carriers (LECs) for providing telephone service to residential customers in rural high-cost areas.
4. California High Cost Fund-B (CHCF-B): provides subsidies to carriers of last resort (COLRs) for providing telephone service to residential customers in rural high-cost areas.
5. California Teleconnect Fund (CTF): provides a discount on select communication services to schools, libraries, hospitals, and other non-profit organizations.
6. California Advanced Services Fund (CASF): supports the deployment of broadband facilities and adoption of broadband services in unserved and underserved areas through project specific grant funding.

To provide the affordable services to Californians, the CPUC uses the PPP surcharges assessed, collected and remitted by telecommunication carriers to fund these PPPs and ensure that they are sufficiently funded and closely monitored. To achieve these purposes, the CPUC mandated periodic audits of program related costs and revenues with regard to the PPP. Moreover, to ensure that sufficient user fees are collected and remitted to the CPUC by telecommunication carriers to fund the agency's operation budget, the CPUC is authorized to examine telecommunication carriers' financial records with regard to collection and remittance of user fees. The following are the statutory requirements that mandate such audits:

1. Pursuant to PU Code Section 274, the CPUC shall conduct a financial and compliance audit (also known as a performance audit) of PPP-related costs and activities at least once every three years. The CPUC may on its own order, whenever it determines it to be necessary, conduct audits of the revenues required to be collected and submitted to the CPUC for each of the California Universal Telecommunications Services PPP funds. The CPUC may on its own order, whenever it determines it to be necessary, conduct compliance audits on the compliance with CPUC orders with regard to each PPP.
2. PU Code Section 314 authorizes the CPUC to inspect telecommunication carriers' accounts, books, papers, and documents, at any time.

The UAB conducts performance audits of the PPP on telecommunication carriers in accordance with GAGAS.



# Energy Procurement Quarterly Compliance Report (QCR) Agreed-Upon Procedures Engagement

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As required by the CPUC's Decision (D).02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, Pacific Gas & Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (SCE) must each submit a Quarterly Procurement Plan Compliance Report (QCR) filed in a tier-2 advice letter for all energy (electricity and fuel gas) procurement transactions of less than five years duration executed in a calendar quarter. The CPUC requires reviews of these QCR advice letter filings to determine whether the aforementioned Investment Owned Utilities' (IOU) energy procurement transactions included in their respective QCRs are in compliance with the CPUC-approved Bundled Procurement Plan (BPP) and relevant laws and the CPUC directives. The QCR compliance reviews eliminate the need for after-the-fact reasonableness reviews of the IOUs' energy procurement transactions (see PU Code Section 454.5(d)(2)).

At the Energy Division's (ED) request, the UAB conducts quarterly agreed-upon procedures (AUP) engagements on QCR advice letter filings based on the scope specified by ED, using the AUP between ED and the UAB. ED specified which aspects of the utilities' CPUC-approved procurement plans, Assembly Bill (AB) 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The decisions and rulings that ED chose from to test for compliance include, but are not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, D.12-01-033, D.15-10-031 and D.16-01-015.

According to the AUP, the UAB does not test all of the transactions that the IOUs include in their respective QCRs and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the CPUC. In addition, the IOUs' transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement.

The UAB conducts the AUP engagements of the three large IOUs (PG&E, SCE, and SDG&E) on a quarterly basis in accordance with GAGAS. PU Code Sections 314.6, 451, 454, D.03-12-062, and D.04-02-040 authorize the CPUC to conduct the reviews of the IOUs' QCR.



# Balancing Accounts

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Balancing accounts are approved by the CPUC and established by the utilities to serve various ratemaking purposes. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function. A balancing account tracks the difference between actual expenditures associated with the account, revenue authorized for recovery by the CPUC (authorized revenue requirement), and the actual revenues collected within customer rates to cover those specific expenditures. The difference, whether positive or negative, will be taken into account by the CPUC for appropriate adjustment or other action at the time of any subsequent rate adjustment.

Every balancing account has a Preliminary Statement found in the tariff book of its respective utility detailing the purpose of the balancing account, the types of costs and/or revenues that are to be tracked in the account, and the specific accounting procedures that the utility must follow to record transactions in the balancing account.

There are two types of balancing accounts: one-way and two-way. A one-way balancing account matches actual expenditures against authorized revenue requirement and limits recovery to the lower of actual expenditures or the amount of authorized revenue requirement. A two-way balancing account compares revenue and expenses or actual revenue to authorized revenue and allows over-collections to be refunded to ratepayers and under-collections to be recoverable through rates.

Pursuant to PU Code Section 792.5, the UAB reviews or audits all balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation.

As of December 31, 2018, there were over 270 energy (electric and gas) balancing accounts and approximately 165 water balancing accounts authorized by the CPUC and administered by utilities.

The UAB conducts performance audits of the balancing accounts in accordance with GAGAS.

# Energy Efficiency Programs

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Energy Efficiency (EE) programs are established to help California be more energy efficient and significantly reduce California's greenhouse gas emissions. The primary purpose of the EE programs is to develop programs and measures to meet energy savings goals and transform technology markets within California. The programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation, and air conditioning (HVAC), industrial manufacturers, and agriculture. The four major IOU in California (PG&E, SCE, SDG&E, and SCG) implement the EE programs.

To meet California's aggressive electricity and natural gas energy efficiency goals, the CPUC authorizes set budgets to the EE programs annually, which are funded by a small portion of electricity and gas rates included in ratepayer bills. EE programs utilize a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, marketing and others. The CPUC also administers the Efficiency Savings Performance Incentive (ESPI) mechanism with the intent to motivate the utilities to prioritize EE goals, while protecting ratepayers through necessary cost containment mechanisms.

The CPUC's responsibility is to ensure that the EE funding is properly spent. In D.13-09-023 OP 17, the CPUC directed the UAB to verify the Codes of Standards (C&S) and Non-Resource (NR) program expenditures for the purposes of awarding incentives to the four major IOUs. The UAB conducts performance audits of the IOUs' annual EE program expenditures to determine whether the IOUs are in compliance with applicable EE program rules and regulations and whether the EE expenditures are incurred for allowable purposes and supported by appropriate documentation. The UAB conducts these performance audits in accordance with GAGAS. PU Code Sections 314.5, 314.6, 581, 582, 584, and D.13-09-023 OP 17 authorize the CPUC to conduct the audits of the EE programs.

# Water and Sewer Utilities

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The CPUC regulates investor-owned water and sewer utilities in California that are classified as follows:

Class A Utilities – Having more than 10,000 service connections.

Class B Utilities – Having between 2,001 and 10,000 service connections.

Class C Utilities – Having between 501 and 2,000 service connections.

Class D Utilities – Having less than 500 service connections.

Each water or sewer utility is required to submit its annual report (financial statements) to the CPUC depicting its operation results (income statement) and financial positions (balance sheet). Effective January 1, 2018, all water and sewer utilities are required to comply with the accounting requirements specified in the Uniform System of Accounts (USOA) adopted by the CPUC in D.16-11-006.

The UAB performs reviews of financial statements for Class B, C, D water and sewer utilities in accordance with GAGAS to either 1) provide an independent assessment of whether an entity's reported financial information are presented fairly in accordance with recognized criteria; 2) or to express a conclusion about whether any material modification should be made to these companies' annual reports (financial statements) or other types of financial information. PU Code Sections 314.5, 314.6, 581, 582, and 584 authorize the CPUC to conduct audits or reviews of the water and sewer utilities.

For Class A water utilities, the UAB reviews and evaluates their CPA audited financial statements to ensure those filed reports meet the needs of the CPUC's regulatory oversight; or the UAB will take further actions if they do not.

# General Order 156 Supplier Diversity Program

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The California Legislature enacted PU Code Section 8281-8286 to establish the Utilities Supplier Diversity Program. The program encourages a fair proportion of total utility contracts and subcontracts for products and services be procured and awarded to Woman, Minority or Disabled Veteran-Owned Business Enterprise (WMDVBE) and lesbian, gay, bisexual, or transgender business enterprises (LGBTBE). The Legislature indicated that promoting utility procurement with WMDVBE and LGBTBE encourages the number of potential suppliers, competition, growth and economic efficiencies that result in benefits to the state, WMDVBE, LGBTBE, the utilities, and the ratepayers.

The Legislature mandated that the CPUC require each electrical, gas, water, wireless telecommunication service provider and telephone corporation with gross annual revenues exceeding \$25 million and their CPUC regulated affiliates and subsidiaries (utilities) to submit annual plans for increasing WMDVBE and LGBTBE participation in their procurement and to submit annual reports on the implementation of their plans in an effort to enhance transparency.

The CPUC developed and adopted General Order (GO) 156 to establish criteria for determining the eligibility of WMDVBE and extended the provisions of the Utilities Supplier Diversity Program to LGBTBE. GO 156 directs utilities to file an annual report on their diverse procurement for the previous year by March 1 of the following year. GO 156 prescribes the minimum elements that must be included each year in the utilities' annual reports.

The UAB conducts performance audits of utilities' annual reports, encompassing energy, telecommunication, and water industries, with respect to their supplier diversity procurement in accordance with GAGAS. PU Code Sections 314, 581, 582, 584; D.11-05-019, OP 3; and GO 156, Section 9.1.10 authorize the CPUC to conduct these audits.

# Special Engagements

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On occasion, the UAB performs special engagements for the CPUC. For these types of engagements, the UAB will specify engagement types (i.e. performance audits, reviews, attestation engagements, etc.) and the auditing standards that are followed in the engagement's report.