

Energy Resources Conservation and Development Commission

2015 SLAA REPORT

February 29, 2016

John Laird, Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Energy Resources Conservation and Development Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Drew Bohan, Chief Deputy Director, at (916) 654-4996, drew.bohan@energy.ca.gov.

BACKGROUND

The Energy Resources Conservation and Development Commission (Energy Commission) is the state's primary energy policy and planning agency. Seven core responsibilities guide the Energy Commission as it sets California energy policy:

- Forecasting future energy needs;
- Promoting energy efficiency and conservation by setting the state's appliance and building energy efficiency standards;
- Supporting energy research that advances energy science and technology through research, development and demonstration projects;
- Developing renewable energy resources;
- Advancing alternative and renewable transportation fuels and technologies;
- Certifying thermal power plants 50 megawatts and larger;
- Planning for and directing state response to energy emergencies.

RISK ASSESSMENT PROCESS

The risk assessment process was a collaborative effort of the Energy Commission's management team. All brainstorming sessions were attended by the Executive Director, Chief Deputy Director, Division Deputy Directors, Small Office Managers, and key management staff of the various divisions. The discussions were facilitated by the Chief Auditor and Budget Officer. The first meeting produced a list of all potential risks faced by the Energy Commission. The risks were documented, categorized, and distributed to all the attendees to review for accuracy. The attendees then selected their top five to six risks from the list. The selections were tallied and presented to the group in the second brainstorming session. The group debated and came to a consensus on which risks represented the biggest challenges to achievement of the Energy Commission's goals and objectives. Impact and likelihood of each risk was considered in the ranking.

A third meeting was held to identify the controls which mitigate the identified risks. Some of the identified controls are fully implemented, while others are still in the design or planning phase. In other cases, the risks are outside the Energy Commission's control. For those risks, management has identified actions that can be taken to manage the consequences if necessary.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Staff—Recruitment, Retention, Staffing Levels

An inability to recruit qualified staff could impact the achievement of the Energy Commission's goals and objectives. The Energy Commission is responsible for developing and promoting a comprehensive energy policy that covers multiple facets of energy production including research and development of alternatives to fossil fuels, promotion of renewable energy, development of energy efficiency standards, and independent evaluations of complex and controversial energy facility projects among other duties. To meet these goals, the Energy Commission requires a well-educated, skilled work force of engineers, scientists, and energy experts.

The Energy Commission has implemented a recruitment plan that includes visits to selected universities, attendance at job fairs, advertisements in student newspapers, and outreach to associations and other groups. Universities and associations were selected based on the diversity of their student body or members, likelihood of students or members relocating to Sacramento for positions, and excellence of their scientific and engineering programs. This program has successfully introduced the Energy Commission to graduating students and other qualified potential applicants.

A review of the exams currently in use at the Energy Commission could result in an exam that's easier to access and understand, especially by applicants unfamiliar with the state's exam process. An increase in the number of exams, implementation of an on-line version of the exam, and a review of exams for other classifications will be part of the review. Implementation of these changes should increase the qualified applicant pool.

The Energy Commission utilizes its contract with University Enterprises, Inc. and UCD to bring in student interns. This allows students the opportunity to see and experience what it's like to work at the Energy Commission and allows supervisors and managers the opportunity to evaluate potential staff and encourage successful student interns to apply for open positions.

One of the factors that affects both recruitment and retention is the lack of competitive salaries. The Energy Commission received approval to use the same salary ranges as the Air Resources Board for about twenty similar positions. However, salaries are still not competitive with other state government agencies such as CPUC or other local public entities such as SMUD. Because salary ranges are generally outside the control of a state department, the Energy Commission accepts this risk.

Operations- External- Staff—Recruitment, Retention, Staffing Levels

A major risk that can impact achievement of the Energy Commission's goals and objectives is a potential inability to retain a skilled, trained workforce. High turnover can result in reliance upon key personnel, loss of institutional knowledge, and a negative impact to the succession plan. While the Energy Commission's vacancy rates are within a normal range, this is due to the implementation of the following controls. Without these controls, it is possible that vacancy rates would increase resulting in the inability of the Energy Commission to meet its commitments to the public, Administration, and other stakeholders.

The Energy Commission has a robust training program overseen by our in-house training unit. Training includes enhanced management training, targeted training offered to aspiring managers, as well as other training classes routinely offered to all personnel.

Employees are offered opportunities for professional development including mentoring,

T&D assignments, cross-training, special assignments, attendance at select professional events, and a distinguished speaker series that allows staff to listen to and interact with outside experts in multiple fields.

To ensure institutional knowledge is not lost, retired annuitants are utilized to help train transitioning staff to new duties in higher level positions. In addition, a succession plan has been developed.

Energy Commission management reviews, on a consistent basis, job classifications at the division or unit level to ensure positions are appropriately classified based on job duties and ability to recruit and fill vacant positions.

One of the factors that may drive turnover is impediments to staff's ability to move between divisions at the Energy Commission due to the use of multiple specialized classifications. In an effort to remedy this problem, the Energy Commission worked with CalHR to develop a classification consolidation plan to reduce the number of classifications. If approved by CalHR, the consolidation would allow staff to move between divisions, facilitate upward mobility, reduce resources to administer exams, and increase the applicant pool for many positions. In addition to the lack of flexibility allowable within the Energy Commission's current classification structure, employees and management have noted staff are performing similar work, but may be classified differently due to the use of these specialized classifications. The Energy Commission is also working with various bargaining units to ensure staff classifications accurately reflect job duties.

Operations- Internal- FI\$Cal Conversion

The FI\$Cal conversion represents a future risk to the Energy Commission. Converting to a new financial information system will involve significant staff resources to ensure the conversion goes smoothly and accurately transfers data from the areas of budgeting, accounting, procurement, and contracts/grants/loans.

The Energy Commission will participate in a multi-department contract to identify business requirements for new processes. This will be a supplement to Department of Finance training.

The Energy Commission's Administrative Services Division has identified key personnel for each targeted area to actively engage in FI\$Cal forums.

Operations- External- Funding—Sources, Levels

There is a risk that the Energy Resources Programs Account (ERPA), which represents a major source of funding for the Energy Commission, will not be able to provide the support for expenditures that it has in the past. Currently, the appropriations from this fund are higher than the annual revenues being received. Because ERPA has a reserve balance and actual expenditures have been less than appropriated funds, this hasn't been a problem. However, the reserve balance is decreasing as it is utilized by the Energy Commission and other departments for expenditures. At some point in the future, the reserve balance will be depleted. When that happens, the annual revenues will be insufficient to fund appropriated expenditures.

ERPA revenues are insufficient to fund the current level of expenditures; Energy Commission

management will work with the Administration, the Department of Finance, and the Legislature to develop solutions.

Operations- Internal- Technology—Data Security

Confidential data is delivered both electronically and in hard copy to the Energy Commission from various external sources. The Energy Commission also retains historical data which is utilized for certain decisions, but only maintained in hard copy. Finally, the Energy Commission faces a future of significant growth in data. The Energy Commission needs to be able to anticipate the types and amount of data that will be received in the future, assess what data is needed and what data isn't necessary, allocate resources to collect, store, and analyze the data, and ensure the Energy Commission maintains the expertise to securely receive and utilize the data.

Many of the policies and procedures for data security are established by the state's Department of Technology and Information Security Office (ISO). The CA Natural Resources Agency's (CNRA) Data Center provides many of the protections. The Energy Commission works closely with CNRA, including loaning staff, to ensure ISO's and CNRA's policies and procedures are implemented.

The Energy Commission obtained two separate risk assessments of its security and operations from external IT firms. Substantial progress is being made implementing the recommendations. The Energy Commission has also employed the services of an application software code security firm to identify and advise about hacking vulnerabilities in a further effort to help protect data.

The Energy Commission is working on policies and instructions for staff regarding staff's responsibility for how data is received and handled. The policies will include mandatory training, a Nondisclosure Agreement to be signed by staff, and policies regarding encryption of data.

Historical data is in the process of being scanned, indexed, and archived in a data warehouse.

ONGOING MONITORING

Through our ongoing monitoring processes, the Energy Resources Conservation and Development Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Energy Resources Conservation and Development Commission, Robert P. Oglesby, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Drew Bohan, Chief Deputy Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Energy Commission has weekly deputy director meetings which include discussion of current and future risks as part of the agenda. Weekly Executive Policy Group meetings are attended by deputy directors, Commissioner staff, and other key staff such as the Chief Counsel. These meetings are used to share information about current major activities and scheduled external meetings. This allows

management to coordinate participation among different divisions as appropriate and discuss potential risks inherent in the activities.

In addition, the Executive Director and Chief Deputy Director regularly meet one on one with deputy directors, small office managers, and others such as the Chief Auditor. In all of these meetings, staff is encouraged and expected to communicate information regarding current and potential risks and activities taken or planned to address the risk. In cases where a new risk with a potentially large negative impact has been identified, executive management will hold daily meetings with staff until the risk has been fully mitigated.

Reporting and Documenting Monitoring Activities

Weekly reports are submitted by each division to executive management documenting red flags, significant achievements and activities, and workload data. This allows executive management to monitor current activities and issues. Gantt charts are maintained to track timelines, activities, and issues related to significant regulations.

Programs, which award substantial amounts through grants and contracts, produce monthly spreadsheets to track data. The spreadsheets include information such as target dates of solicitations, appropriation amounts and reversion dates, and current awards. In addition, the spreadsheets contain information on awards considered high risk. The spreadsheets are used by division management and executive management to ensure appropriated funds are awarded timely, workload is managed, and appropriate actions are taken in regards to high risk awards.

Executive management, working with the audit committee, can request the internal audit unit to perform audits of internal controls to ensure controls are appropriately designed and implemented effectively.

Procedure for Addressing Identified Internal Control Deficiencies

For controls identified as partially or not implemented, workgroups will be established and tasked to identify necessary actions needed to fully implement the controls. These groups will report on their progress no less frequently than quarterly.

CONCLUSION

The Energy Resources Conservation and Development Commission strives to reduce the risks inherent in our work through ongoing monitoring. The Energy Resources Conservation and Development Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Robert P. Oglesby, Executive Director
Energy Resources Conservation and Development Commission

cc: Department of Finance
Legislature
State Auditor
State Library

State Controller
Secretary of Government Operations