

**FINANCIAL AUDIT OF THE
CLEAN ENERGY JOB CREATION FUND
RECORDED IN THE STATE GENERAL
FUND**

Audit Report

Years Ended June 30, 2014, 2015, and 2016



BETTY T. YEE
California State Controller

May 2017



BETTY T. YEE
California State Controller

May 31, 2017

Kate Gordon, Chair
Citizens Oversight Board
California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

Dear Ms. Gordon:

The State Controller's Office has completed a financial audit of the Clean Energy Job Creation Fund (Fund) recorded in the State of California's General Fund for the years ended June 30, 2014, 2015, and 2016.

We found that the Fund's financial statements conform to accounting principles generally accepted in the United States of America.

If you have any questions, please call Jim L. Spano, CPA, Chief, Financial Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

cc: Tom Torlakson, Superintendent of Public Instruction
California Department of Education
Michelle Zumot, Chief Deputy Superintendent
California Department of Education
Kimberly Tarvin, Director of Audits and Investigations
California Department of Education
Michael Cohen, Director
California Department of Finance
Irena Asmundson, Program Budget Manager, Forecasting
California Department of Finance

Jeff Bell, Program Budget Manager, Education Systems Unit
California Department of Finance

Eloy Ortiz Oakley, Chancellor
California Community Colleges Chancellor's Office

Mario Rodriguez, Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office

Van Ton-Quinlivan, Vice Chancellor, Workforce and Economic Development
California Community Colleges Chancellor's Office

Javier Romero, Dean, Workforce and Economic Development
California Community Colleges Chancellor's Office

Tim Rainey, Executive Director
California Workforce Development Board

Sarah L. White, Ph.D., Deputy Director
Equity, Climate and Jobs
California Workforce Development Board

Doug Sale, Chief of Operations
California Workforce Development Board

Patrick W. Henning, Jr., Director
Employment Development Department

Greg Riggs, Deputy Director
Policy, Accountability and Compliance Branch
Employment Development Department

Greg Williams, Deputy Director
Administration Branch
Employment Development Department

Bruce Saito, Director
California Conservation Corps

Dawne Bortolazzo, Deputy Director
Administrative Services
California Conservation Corps

Erika Rodea, Accounting Branch Chief
California Conservation Corps

Robert B. Weisenmiller, Ph.D., Chair
California Energy Commission

Andrew McAllister, Commissioner
California Energy Commission

Rob Oglesby, Executive Director
California Energy Commission

Dave Ashuckian, Director
Efficiency Division
California Energy Commission

Contents

FINANCIAL SECTION

Independent Auditor’s Report..... 2

Balance Sheet..... 4

Statement of Appropriations, Expenditures, and Changes in Fund Balances 5

Notes to the Financial Statements 6

OTHER INDEPENDENT AUDITOR’S REPORT SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* 11

FINANCIAL SECTION



BETTY T. YEE
California State Controller

INDEPENDENT AUDITOR'S REPORT

Kate Gordon, Chair
Citizens Oversight Board
California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

Report on the Financial Statements

We audited the accompanying balance sheet and the related statement of appropriations, expenditures, and changes in fund balance of the Clean Energy Job Creation Fund (Fund) recorded in the State General Fund, as of and for the years ended June 30, 2014, 2015, and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, 2015, and 2016, and the respective changes in fund balances for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017, on our consideration of the internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control over financial reporting and compliance.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Sacramento, CA

May 31, 2017

Balance Sheet

June 30, 2014, 2015, and 2016

	(Amounts in Thousands)		
	2016	2015	2014
Assets			
Cash	\$ 420,996	\$ 411,389	\$ 238,304
Accounts receivable	919	52	85
Due from other funds	-	2	2
Due from other governments	210	116	-
Total assets	\$ 422,125	\$ 411,559	\$ 238,391
Liabilities			
Accounts payable	\$ 241	\$ 680	\$ 25
Due to other funds	804	497	778
Due to other governments	277	363	129
Total liabilities	1,322	1,540	932
Fund balances			
Restricted for efficient and clean energy projects	420,803	410,019	237,459
Total liabilities and fund balances	\$ 422,125	\$ 411,559	\$ 238,391

The notes to the financial statements are an integral part of this statement.

Statement of Appropriations, Expenditures, and Changes in Fund Balances Years Ended June 30, 2014, 2015, and 2016

	(Amounts in Thousands)		
	2016	2015	2014
Appropriations			
California Department of Education	\$ 313,421	\$ 279,000	\$ 381,000
California Community Colleges Chancellor's Office	38,737	37,500	47,000
California Workforce Development Board	3,000	3,000	3,000
California Conservation Corps	5,342	5,000	5,000
California Energy Commission	-	28,000	28,000
Total appropriations	<u>360,500</u>	<u>352,500</u>	<u>464,000</u>
Expenditures			
Local assistance - California Department of Education	307,262	110,795	154,905
Local assistance - California Community Colleges Chancellor's Office	34,063	34,760	40,080
State operations - California Workforce Development Board	2,488	1,790	156
State operations - California Conservation Corps	5,901	4,593	3,396
Operating Transfer - California Energy Commission	-	28,000	28,000
Fund assessments	2	2	4
Total expenditures	<u>349,716</u>	<u>179,940</u>	<u>226,541</u>
Changes in fund balances	10,784	172,560	237,459
Fund balance - beginning	410,019	237,459	-
Fund balance - ending	<u>\$ 420,803</u>	<u>\$ 410,019</u>	<u>\$ 237,459</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements Years Ended June 30, 2014, 2015, and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clean Energy Job Creation Fund (Fund) are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the Fund are described below.

A. Description of Reporting Entity

The Fund was created upon the approval of Proposition 39 in the November 6, 2012 statewide general election. Proposition 39 changed the corporate income tax code for taxes from out-of-state businesses based on a percentage of sales in California and allocates projected revenue to the State's General Fund and the Clean Energy Job Creation Fund for five fiscal years, beginning with fiscal year (FY) 2013-14. The California State Legislature may appropriate up to \$550 million annually to the Fund. Monies available in the Fund are for the purpose of funding projects that create jobs in California that improve energy efficiency and expand clean energy generation. The Fund is shared by five state agencies that provide the monies for clean energy projects. The five state agencies sharing the Fund and providing the monetary resources for the clean energy projects are the California Department of Education (CDE), the California Community Colleges Chancellor's Office (CCCCO), the California Workforce Development Board (CWDB), the California Conservation Corps (CCC), and the California Energy Commission (CEC). The five state agencies are provided these funds through appropriations in the State's annual budget. The money in the Fund will no longer be available for encumbrance after June 30, 2018.

The Fund is overseen by the Citizens Oversight Board (COB) which was established upon the California voter's approval of Proposition 39. Members of the COB are appointed by the California Treasurer, Attorney General, and Controller with two ex officio members from the CEC and the California Public Utilities Commission.

B. Basis of Presentation – Fund Financial Statements

The accounts of the Fund are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. The Fund is established for the purpose of accounting for the specific activities designated in the establishment of the Fund. A governmental fund is used to account for these activities.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, and the basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Fund however, does not record revenues. The revenues are recorded by the State in its General Fund through the collection of taxes. The Fund records appropriations as designated by the California State Legislature and upon approval of the State's annual budget. Expenditures generally are recorded when a liability is incurred, as under accrual basis accounting.

Non-exchange transactions, in which the Fund gives or receives value without directly receiving or giving equal value in exchange, include its providing grants and awards to recipient school and community college districts. The Fund may also provide resources for energy projects through cost-reimbursement grants.

D. Cash

The cash and investment balances of the Fund are held in the State's cash and investment pool in the State Treasury. The State maintains a cash and investment pool in order to facilitate the management of cash. Interest is allocated to its various funds based on average cash balances. Investments held in the State's cash management pool are available on demand to the state agencies sharing the Fund and are stated at fair value. Information regarding categorization of investments can be found in the State's comprehensive annual financial report.

All cash and investments in the state cash and investment pool are highly liquid and considered cash equivalents. Cash equivalents are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Additional disclosure details required by GASB 3, GASB Technical Bulletin 94-1, and GASB 40, regarding cash deposits, investments, and derivatives, can be found in the State of California Comprehensive Annual Financial Report for fiscal year ended June 30, 2016.

E. Accounts receivable and Due from other governments

The receivables represent monies owed to the CDE by charter schools and school districts but not collected by the end of the year. Similarly, the due from other governments is the amount owed by county offices of education to the CDE not yet collected at year end. All amounts owed to the CDE consist of the request for the return of unused funds for energy projects. The CDE has determined the receivables to be fully collectible. Accordingly, no allowance for doubtful accounts has been made.

F. Due from other funds

The balance for due from other funds represents the amount owed to the CWDB by the Federal Trust Fund for payroll expenditures that were not fully adjusted and paid at year end.

G. Accounts payable

The accounts payable are owed by the CWDB and the CCCCCO for contract and claim amounts incurred for clean energy and energy efficiency projects accrued and owed at year end but not yet paid.

H. Due to other funds

Due to other funds consists of the amounts owed by the CCC and the CWDB for energy survey activities and grants for workforce training for clean energy retrofit projects.

I. Due to other governments

Due to other governments is the amount owed by the CCCCCO for apportionment payments to various community college districts and by the CWDB for workforce development projects.

J. Fund Balances

Restricted fund balances are fund balances with constraints placed on their use by those external parties, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.

The fund balances of the Fund are restricted for the purpose of financing energy efficiency and clean energy projects; other uses of the funds are not permitted.

K. Appropriations

Each of the state agencies sharing the Fund receive appropriations of monies through the State's annual budget. The source of the monies from a multi-state business tax increase are originally recorded as revenue in the State's General Fund but as appropriations to the Fund to avoid double-counting of revenues. The appropriations are the amounts determined by the Legislature in adopting the annual budget as the amount available to each state agency for promoting projects for clean energy and job growth.

L. Expenditures

The expenditures are incurred by each of the state agencies for varied functions related to promoting clean energy projects and job growth. The CDE and the CCCCCO provide funding to districts within their jurisdiction classified as local assistance. The CDE provides awards for energy retrofit improvements of school districts, charter schools, and county offices of education. The CCCCCO funds awards and grants to community college districts and pays a consultant to review and approve projects for energy savings. The CWDB and the CCC provide project funding statewide, not limited to local districts, as state operations. The CWDB provides competitive grants for eligible workforce training organizations, which prepare disadvantaged youth, veterans, or others for employment. The CCC conducts energy surveys and energy conservation-related activities for public schools. The CEC reviews and approves energy expenditure plans submitted by local educational agencies to obtain approval for funding provided by the CDE.

All expenditures are for materials and equipment related to the costs of clean energy efficient projects and job growth, or related personnel costs (salaries, wages, and benefits). Of the total expenditures incurred, \$2.2 million in FY 2013-14, \$3.7 million in FY 2014-15, and \$4.6 million in FY 2015-16 were personnel-related, or no more than two percent of total expenditures in any year.

M. Operating Transfers

Appropriations received by the CEC in 2014 and 2015 are passed through to a separate account, the State Energy Conservation Assistance Account (ECAA). The monies in this account are not part of the Fund and are accounted for separately. The CEC is the administrator for the ECAA. The money in this separate account is used to provide loans to schools, hospitals, public care institutions and local government entities for financing energy conservation related projects. The CEC did not receive any appropriations for the Fund in 2016.

N. Use of Estimates

The financial statements have been prepared in conformity with GAAP and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

O. Fund Assessments

The fund assessments consist of Fiscal Systems and Consulting Unit (FSCU) charges and GAAP charges that are levied on funds statewide by the California Department of Finance (DOF) and the SCO, respectively. The FSCU assessment is used to support the statewide functions for the DOF's statewide fiscal and accounting policies and procedures. The GAAP assessment supports the SCO's reporting for the State's Comprehensive Annual Financial Report.

P. Allocations

The CDE annually allocates available funds to school districts, charter schools, and county offices of education and provides funding payments to these entities on a quarterly basis. The CCCCO annually allocates available funds to the community college districts and provides funding payments on a monthly basis.

**OTHER INDEPENDENT AUDITOR'S
REPORT SECTION**



BETTY T. YEE

California State Controller

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kate Gordon, Chair
Citizens Oversight Board
California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

We audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the balance sheet and the related statement of appropriations, expenditures, and changes in fund balance of the Clean Energy Job Creation Fund (Fund) recorded in the State General Fund, as of and for the years ended June 30, 2014, 2015, and 2016, and the related notes to the financial statements, and have issued our report thereon dated May 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund, we considered the internal control over financial reporting of the Fund to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion of the effectiveness of the internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that was reported to management of the California Workforce Development Board in a separate letter dated May 31, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Sacramento, CA

May 31, 2017

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>