

December 29, 2017

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

Dear Mr. John 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 internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Courtney Smith, Chief Deputy Director, at (916) 654-4906, [courtney.smith@energy.ca.gov](mailto:courtney.smith@energy.ca.gov).

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## 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.

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## ONGOING MONITORING

As the head of Energy Resources Conservation and Development Commission, Drew Bohan, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

### EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Energy Resources Conservation and Development Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Drew Bohan, Executive Director, and Courtney Smith, Chief Deputy Director.

### **MONITORING ACTIVITIES**

Each division has implemented policies and procedures which include review of staff work by first-line supervisors. Policies and procedures are updated as necessary to address recurring issues or to implement new work requirements.

Staff work that may have a larger impact or affect key stakeholders will have multiple layers of review. Workshops will be scheduled to present any major changes in policies to key stakeholders. During the workshops, input will be solicited and may be incorporated after review by management and staff. In addition, any major policy revisions will be presented to Executive Management for their review and approval and may be presented at a business meeting for a vote by the Commissioners.

### **ADDRESSING VULNERABILITIES**

Each division within the Energy Commission holds regular meetings between first-line supervisors and division management. Issues are tracked and discussed during these meetings. Those issues that are determined to be higher risk along with suggested solutions are communicated to Executive Management through regularly scheduled weekly meetings. Depending on the complexity or potentially large negative impact of the issue, separate meetings with staff members may be held. Division management and Executive management will determine which solution should be implemented to address the identified risk.

### **COMMUNICATION**

Initial monitoring is done by first-line supervisors and is part of each supervisor's job duties. Results are communicated either directly to the employee or in team meetings depending on the cause and impact of the result. Results that may have an impact beyond the employee or team are communicated through meetings between supervisors and division management and may be elevated to Executive Management as necessary.

Executive Management communicates changes in policies through email and newsletters that are distributed to all employees. The newsletters also include information regarding significant division activities or achievements. In addition, Commission or state-wide policies are posted on the intranet for employee access.

### **ONGOING MONITORING COMPLIANCE**

The Energy Resources Conservation and Development Commission is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Energy Resources Conservation and Development Commission systems of controls and monitoring.

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### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Energy Resources Conservation and Development Commission risk assessment process: Executive Management, Middle Management, and Front Line Management.

### **RISK IDENTIFICATION**

A brainstorming session, attended by Executive Management, Division Deputy Directors, and key management staff was held. The group had a free-flowing discussion of all potential risks to the

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successful implementation and completion of the Energy Commission's core responsibilities. Once the top risks were identified, two additional meetings were held to discuss cause and impact of the risks. The group also addressed current controls in place to mitigate the risks as well as potential controls that could be implemented.

### **RISK RANKING**

The risks identified in the initial brainstorming session were documented, categorized, and distributed to all invitees. The attendees reviewed the list for accuracy and completeness and selected their top risks. The results of the selections were tabulated and presented to the same group in a second meeting. The attendees debated the results, including likelihood and impact of each risk, and came to a consensus on the top risks facing the Energy Commission.

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## **RISKS AND CONTROLS**

### **RISK: OPERATIONS -EXTERNAL-FUNDING—SOURCES, LEVELS**

The primary source of funding for the Energy Commission is currently in a structural deficit which may mean reduced funding in the future for Energy Commission programs.

The Energy Commission's primary source of funds is the Energy Resources Programs Account (ERPA). This account is funded by a surcharge on electricity consumption. More efficient use of electricity and increased small scale solar led to decreasing or flat revenue in the ERPA fund. At the same time, the expenditure authority has increased and the fund has been over-allocated.

The result is Budget Change Proposals may be approved or legislation may be passed, but the Energy Commission would not be able to spend the funds. Reduced funds to operate may mean an inability to meet legislative mandates.

#### **CONTROL A**

The Energy Commission includes a fiscal analysis for all legislation that may impact the Energy Commission. Small Offices and the Administrative Services Division review and identify fiscal resources to determine their potential as a funding source for specific activities.

#### **CONTROL B**

The Energy Commission is currently working with the Department of Finance to develop and provide options to the Legislature and Legislative Analyst's Office to address the structural deficit in the ERPA fund. The report is due in January 2018.

### **RISK: OPERATIONS -EXTERNAL-STAFF—RECRUITMENT, RETENTION, STAFFING LEVELS**

A well-educated, skilled work force of engineers, scientists, and energy experts is required to meet the Energy Commission's goals. An inability to recruit qualified staff could impact the achievement of the Energy Commission's goals and objectives.

Not all potential candidates know what the Energy Commission does, how important the work is, or what disciplines the Energy Commission supports. In addition, the state's hiring process may be difficult to navigate for those unfamiliar with the process. An additional obstacle has been the historical use of specialized classifications which in some cases resulted in staff in different classifications performing similar work. Finally, potential candidates may note the disparities between public and private salaries.

A high vacancy rate may mean statutory mandates and other public commitments are not met. Staff may be overworked to compensate for the vacancies which can lead to lower morale, work done poorly or not completed timely, and a motivation to find opportunities outside the Energy Commission. Turnover can lead to a loss of institutional knowledge.

**CONTROL A**

The Energy Commission is currently in the process of improving our recruitment efforts. A robust recruitment effort will result in a larger pool of qualified applicants.

**CONTROL B**

The Energy Commission is participating with Go-Biz and other departments in a project to modernize the recruitment process and to improve recruitment of mid-career employees. The recruitment process will emphasize mission-driven work to make the Energy Commission stand out as an employer. It will also highlight retirement and other public employee benefits as well as job security to sell the benefits of working in the public sector.

**CONTROL C**

The use of some specialized classifications has been discontinued and on-line versions of some exams has been implemented. The Energy Commission will continue working with CalHR to make classifications deeper and convert more exams to on-line.

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**CONCLUSION**

The Energy Resources Conservation and Development Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Drew Bohan, Executive Director**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency