



# Secretary of State Oregon Audits Division



Public Utility Commission

## Recommendation Follow-up Report: The PUC Has Taken Appropriate Steps to Strengthen Oversight of Energy Trust Administrative Costs

September 2019  
Report 2019-35

Secretary of State Bev Clarno  
Audits Division Director Kip Memmott

# Executive Summary

Follow-up to Audit Report 2018-20  
Public Utility Commission

## Recommendation Follow-up Report: The PUC Has Taken Appropriate Steps to Strengthen Oversight of Energy Trust Administrative Costs

September 2019

### Follow-up Summary

The Public Utility Commission (PUC) made progress on all three recommendations from the original audit, fully implementing two. However, PUC can still improve its oversight of Energy Trust of Oregon's administrative costs by clarifying in its grant agreement what constitutes reasonable administrative costs.

### Findings from the Original Audit

- » PUC's controls over administrative costs were generally reasonable.
- » Energy Trust spends below the administrative costs cap, though these costs increase every year.
- » Energy Trust's administrative costs were generally reasonable with few exceptions; PUC could provide guidance for acceptable administrative costs.
- » Increased clarity and detail in Energy Trust's financial reporting would improve transparency and stakeholder oversight.

### Improvements Noted

- » PUC reviewed Energy Trust policies, comparing them to the Department of Administrative Service's Oregon Accounting Manual, and found Energy Trust's policies to be similar and comparable to nonprofits and utilities. ([pg. 2](#))
- » PUC revised a performance metric that provides transparency for Energy Trust's spending on administrative costs. ([pg. 2](#))
- » Energy Trust has improved its financial reporting by specifying what comprises administrative costs. ([pg. 2](#))

### Remaining Areas of Concern

- » PUC has opted not to define what constitutes reasonable administrative costs, believing Energy Trust's internal practices are sufficient to constitute what is to be considered reasonable. By not defining this language, PUC is missing the opportunity to improve transparency regarding how Energy Trust spends ratepayer dollars. ([pg. 2](#))

The Oregon Secretary of State Audits Division is an independent, nonpartisan organization that conducts audits based on objective, reliable information to help state government operate more efficiently and effectively. The summary above should be considered in connection with a careful review of the full report.

## Introduction

The purpose of this report is to follow up on the recommendations we made to the Public Utility Commission (PUC) as included in audit report 2018-20, “Energy Trust Administrative Costs are Generally Reasonable, but the Public Utility Commission Can Improve Oversight of These Costs.”

The Oregon Audits Division conducts follow-up procedures for each of our performance audits. This process helps assess the impact of our audit work, promotes accountability and transparency within state government, and ensures audit recommendations are implemented and related risks mitigated to the greatest extent possible.

We use a standard set of procedures for these engagements that includes gathering evidence and assessing the efforts of the auditee to implement our recommendations; concluding and reporting on those efforts; and employing a rigorous quality assurance process to ensure our conclusions are accurate. We determine implementation status based on an assessment of evidence rather than self-reported information. This follow-up is not an audit, but a status check on the agency’s actions.

To ensure the timeliness of this effort, the division asks all auditees to provide a timeframe for implementing the recommendations in our audit reports. We use this timeframe to schedule and execute our follow-up procedures.

Our follow-up procedures evaluate the status of each recommendation and assign it one of the following categories:

- **Implemented/Resolved:** The auditee has fully implemented the recommendation or otherwise taken the appropriate action to resolve the issue identified by the audit.
- **Partially implemented:** The auditee has begun taking action on the recommendation, but has not fully implemented it. In some cases, this simply means the auditee needs more time to fully implement the recommendation. However, it may also mean the auditee believes it has taken sufficient action to address the issue and does not plan to pursue further action on that recommendation.
- **Not implemented:** The auditee has taken no action on the recommendation. This could mean the auditee still plans to implement the recommendation and simply has not yet taken action; it could also mean the auditee has declined to take the action identified by the recommendation and may pursue other action, or the auditee disagreed with the initial recommendation.

The status of each recommendation and full results of our follow-up work are detailed in the following pages.

We sincerely appreciate the courtesies and cooperation extended by officials and employees of PUC during the course of this follow-up work.

# Recommendation Implementation Status

## Recommendation #1

Define what constitutes reasonable administrative costs.

- a. Consider adopting Department of Administrative Services (DAS) rules governing expenditures for employee recognition and special events such as holiday parties and retirement celebrations.

**Partially  
implemented**

Our audit found PUC's controls over Energy Trust administrative costs were generally reasonable, but the grant agreement between PUC and Energy Trust did not provide clear guidance defining what constitutes "reasonable administrative costs." PUC and Energy Trust agreed with this recommendation.

In 2018, PUC reviewed Energy Trust financial principles for employee recognition and compared them to Department of Administrative Services (DAS) rules, concluding those policies ensure expenditures are reasonable and in general alignment with DAS policies. PUC also reviewed and determined Energy Trust's current internal policies regarding meals and refreshments were similar to DAS policies.

While PUC's efforts to review and compare current Energy Trust policies to those of DAS contributes to its oversight of Energy Trust, PUC has opted not to define what constitutes reasonable administrative costs. PUC staff believe Energy Trust's internal practices are sufficient to constitute what is to be considered reasonable. PUC also believes this approach affords it flexibility to adjust its oversight strategies of Energy Trust. However, by not defining the language of its grant agreement with Energy Trust, PUC is missing the opportunity to improve transparency concerning how Energy Trust spends ratepayer dollars.

## Recommendation #2

Revise the administrative costs metric to provide the actual amounts Energy Trust spends on administrative costs.

**Implemented**

In the audit, we found Energy Trust had consistently spent below the administrative cost limit set by PUC. However, this metric did not disclose the actual amounts Energy Trust spent on administrative costs. In August 2019, PUC updated its administrative costs metric to include the actual amounts Energy Trust spends on administrative costs, thereby implementing this recommendation.

## Recommendation #3

Clarify financial reporting methods so that readers are easily able to determine which costs are administrative. In all public financial statements that include administrative costs, highlight which costs are included in the administrative cost performance metric percentage.

- a. Consider breaking administrative costs into smaller, well-defined categories with associated guidance such as cost caps or targets.

**Implemented**

Our audit found Energy Trust includes its administrative costs in budget documents and third-party financial audit reports, but these documents did not clearly define the sources of the administrative costs. In its 2019 Budget and Action plan, Energy Trust defined administrative costs and amounts and provided administrative cost totals dating back to 2015. While Energy Trust did break administrative costs into smaller, well-defined categories, they opted not to include cost caps or targets for these categories.

## Conclusion

PUC has made steady progress in addressing our findings and recommendations. The agency has worked with Energy Trust to:

- ensure policies that influence administrative cost spending are generally in alignment with state policies;
- revise the public metric to display Energy Trust's actual spending on administrative costs; and
- revise Energy Trust's financial reports to define the categories of its administrative costs.

PUC declined to clarify the language of the grant agreement, believing existing controls are sufficient to ensure administrative costs are reasonable. Though we are pleased with efforts undertaken by PUC to review Energy Trust policies, PUC is missing the opportunity to be more transparent about how Energy Trust spends ratepayer dollars.



## Follow-up Report Team

Will Garber, CGFM, MPA, Deputy Director

Andrew Love, CFE, Audit Manager

Kyle Rossi, Senior Auditor

## About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources.  
Copies may be obtained from:

**Oregon Audits Division**  
255 Capitol St NE, Suite 500 | Salem | OR | 97310  
(503) 986-2255  
[sos.oregon.gov/audits](https://sos.oregon.gov/audits)