



CALIFORNIA STATE AUDITOR

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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the California Public Utilities Commission's (commission) use of fees paid by railroad corporations. The California Public Utilities Code (code) dictates how the commission must spend Railroad Safety Program fees, which it collects from railroad corporations to cover the cost of regulating their industry. According to the code, the commission can only spend the fees on the salaries and per diem and travel expenses of (1) railroad safety employees directly involved in inspecting railroads and enforcing rail safety regulations, (2) employees who perform clerical and support functions directly associated with railroad safety inspections, and (3) legal personnel who actually pursue violations of rail safety regulations beyond the formal complaint level. In 1999, the code was amended to allow the commission to also recover a portion of its overhead costs while state personnel actually occupy the above positions and perform the duties related to these three activities.

This report concludes that the commission cannot ensure that the fees collected from railroad corporations are spent only on the direct labor charges of Railroad Safety Program employees because it does not have an effective method to track the time they spend working on railroad safety activities. The commission also lacks policies and procedures to ensure that employees charge only allowable travel-related expenses to the Railroad Safety Program. Further, the commission has no formal process to update its cost allocation plan (plan) nor does it maintain its accounting system's cost allocation table, which contains the basis of the allocation of costs that cannot practically be charged directly to the programs that benefit from these costs. By failing to update its plan and table, the commission cannot ensure that it appropriately charges indirect costs to all its various programs, including the Railroad Safety Program. Without an effective system to track direct and indirect costs, the commission cannot establish reliable budgets and set appropriate fees for the Railroad Safety Program.

Respectfully submitted,

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State Auditor

BUREAU OF STATE AUDITS

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