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**SENATE COMMITTEE ON ENERGY, UTILITIES AND  
COMMUNICATIONS**

**Senator Josh Becker, Chair  
2025 - 2026 Regular**

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<b>Bill No:</b>	AB 705	<b>Hearing Date:</b>	7/15/2025
<b>Author:</b>	Boerner		
<b>Version:</b>	3/17/2025 Amended		
<b>Urgency:</b>	No	<b>Fiscal:</b>	Yes
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**SUBJECT:** Public Utilities Commission: Independent Office of Audits and Investigations

**DIGEST:** This bill transfers existing audit functions at the California Public Utilities Commission (CPUC) to the Independent Office of Audits and Investigations, as created by this bill, and names the head of the office, the Inspector General, who would be appointed by the Governor for a six-year term.

**ANALYSIS:**

Existing law:

- 1) Establishes and vests the CPUC regulatory authority over public utilities. (Article XII of the California Constitution)
- 2) Requires the CPUC to regulate utilities and to establish just and reasonable rates for service, and establishes a division of the CPUC responsible for consumer protection and safety. (Public Utilities Code §451 and §309.7)
- 3) Requires the CPUC to appoint a chief internal auditor to hold office at the pleasure of the CPUC. (Public Utilities Code §307.6 (a))
- 4) Requires the chief internal auditor to be responsible for the oversight of the internal audit unit and to plan, initiate, and perform audits of key financial, management, operational, and information technology functions within the CPUC to improve accountability and transparency to executive and state management. (Public Utilities Code §307.6 (b))
- 5) Establishes the State Auditor's Office under the direction of the Milton Marks "Little Hoover" Commission on California State Government Organization and Economy independent of the executive branch and legislative control. Provides the State Auditor's Office with duties to examine and report annually upon the financial statements prepared by the executive branch of the state and to

perform other related assignments, including performance audits mandated by statute. (Government Code §8543 *et seq.*)

- 6) Establishes requirements for internal auditors in state government, including a framework to establish a level of independence for the internal auditors and a reporting structure that allows for disclosure to external parties, such as the Governor's office or the State Auditor. (Government Code §§ 13885-13888)

This bill:

- 1) Deletes the provision providing for the CPUC commissioners to appoint the chief internal auditor.
- 2) Requires, effective January 1, 2026, the internal audit unit of the CPUC and its staff are transferred to the Independent Office of Audits and Investigations (IOAI), which this bill establishes within the CPUC, to ensure:
  - a) The CPUC is administering ratepayer funds efficiently and in compliance with applicable state and federal requirements.
  - b) The CPUC's programs are functioning consistent with applicable accounting standards and practices and are administered effectively.
  - c) The CPUC is accomplishing mandated requirements, developing an annual audit plan, administering an effective enterprise risk management program, and is making effective decisions.
  - d) The President of the CPUC, the Legislature, and the Governor are fully informed concerning fraud, improper activities, and other serious abuses related to the expenditure of ratepayer funds.
- 3) Provides for the appointment of the director of the IOAI by the Governor, subject to confirmation by the Senate, who would have the title of Inspector General, and serve a six-year term.
- 4) Requires that the IOAI have access and authority to examine all records, files, documents, accounts, reports, correspondence, or other property of the CPUC, public utilities, and other entities regulated by the CPUC, as specified.
- 5) Requires the Inspector General to report to the Governor and the Legislature on all audits and confidential investigation findings and recommendations made under the Inspector General's jurisdiction.
- 6) Requires the Inspector General to report at least annually to the Governor and the Legislature with a summary of the Inspector General's investigation and

audit findings and recommendations. Requires the summary to be posted on the IOAI's website and made publicly available.

## Background

*Office of Internal Audit Services (IAS) at the CPUC.* The IAS is intended to provide independent, objective and advisory services designed to add value and improve the CPUC's internal operations. The Chief Internal Auditor reports the CPUC Commissioners, through the CPUC's Audit Committee, and under the general direction of the President. The Chief Internal Auditor position was codified by statute via SB 19 (Hill, Chapter 421, Statutes of 2017) required the Chief Internal Auditor to be responsible for oversight of the internal audit unit and to plan, initiate, and perform audits of key financial, management, operational, and information technology functions within the CPUC to improve accountability to executive and state management. According to the CPUC website, the IAS provides the following services: assurance (financial, operational, compliance, and IT risk-based audits), advisory (advise management on change initiatives, control effectiveness, enhancements to risk management, including special management reviews and investigations of alleged noncompliance); and anticipating and assessing risks (assist business owners in understanding risks and in crafting preventive mitigating controls); as well as, developing the internal audit plan for the CPUC. The Office is composed of six employees (out of nearly 2,000). According to the CPUC, over the last five years the IAS Office completed nearly 30 audits of CPUC operations. The Internal Auditor also receives notice of whistleblower complaints submitted to the CPUC's internal compliance unit and is informed of the investigation results and management's handling of corrective actions. Internal audit reports are intended for the internal use of the CPUC, and therefore are not posted publicly; however, they are public records and not exempt from disclosure.

*About Inspector Generals.* California state government has a few Inspector Generals (for the High-speed Rail Authority, the California Highway Patrol, and a handful of others). However, Inspector Generals are a more common position and function in the federal government. Under the Inspector General Act of 1978, the role of federal Inspector Generals is "to prevent and detect waste, fraud, and abuse relating to their agency's programs and operations, and to promote economy, efficiency, and effectiveness in the agency's operations and programs." Federal Inspector Generals are located within their agencies but conduct their audits and investigations independently from their agencies. Roughly half of the federal Inspector Generals are appointed by the President of the United States, subject to U.S. Senate confirmation, and approximately half are appointed by the agency head.

## Comments

*Need for this bill.* According to the author:

The CPUC is an independent state agency operated by 5 Commissioners and thousands of employees with an annual nearing \$2 billion dollars. This bill aims to establish a more transparent oversight process to the internal operations of the CPUC to better inform the public and the Legislature about areas of improvement. While the CPUC is statutorily required to have an internal auditor that exercises some independence, their office reports to the Commissioners themselves and those internal reports are not regularly made public. As frustration has grown in recent years with the agency's operations, it's clear more oversight and accountability is needed, however the Legislature has limited remedies given the nature of this agency's existence.

*What's in a name?* In addition to transferring the operations of the internal audit unit of the CPUC to the IOAI, this bill replaces the head of the unit with an Inspector General appointed by the Governor, confirmed by the Senate, to serve a six-year term. The Inspector General's role as envisioned in this bill is akin to those in federal government, including the appointment, independence, and powers to investigate and audit the agency.

*Revisiting the internal audit functions at the CPUC.* SB 19 (Hill, 2017) required the CPUC to appoint a chief internal auditor who holds the office at the pleasure of the CPUC and be responsible for the oversight of the internal audit unit and plan. At the time, the administration argued that such appointment authority will help ensure that the CPUC commissioners can better manage the workload and operations of the CPUC. While those benefits were noted, there was also concern that the appointment by the commissioners could result in less independence of the Chief Internal Auditor. Given that the current Internal Audit Unit's audits are not public, it's difficult to know whether there is a need to revamp the unit and replace the head with the Inspector General envisioned by this bill. The author argues that given the myriad of State Auditor's audits related to the CPUC, roughly 25 in roughly the same amount of years, there is a need to ensure there is greater ongoing independent audit functions at the CPUC.

## Prior/Related Legislation

SB 19 (Hill, Chapter 421, Statutes of 2017) among its provisions, established a chief internal auditor at the CPUC responsible for the oversight of the internal audit unit.

AB 825 (Rendon) of 2015, would have proposed a package of reforms of the CPUC largely directed at increased transparency of the activities of the agency, including requiring the California State Auditor's Office to appoint an Inspector General within its office for the CPUC. The bill was vetoed.

SB 1452 (Speier, Chapter 452, Statutes of 2006) established a process for the Legislature to be informed when auditor recommendations are being ignored or not implemented by state agencies.

AB 2903 (Gatto) of 2016, would have provided a suite of reforms of the operations of the CPUC, including clarifying the responsibilities and oversight of various positions; improvements to ethics practices; reports related to telecommunications services and CPUC staffing; stating the intent of the Legislature to transfer most non-rail, for-hire transportation services to the State Transportation Agency; and others. The bill was never heard in its amended form.

ACA 11 (Gatto) of 2016, would have proposed a measure on the ballot to authorize the Legislature to reallocate or reassign all or a portion of the functions of the CPUC to other state agencies, departments, boards, or other entities, consistent with specified purposes and proposed to repeal the provisions of the California Constitution pertaining to the CPUC effective January 1, 2019. The bill sat in this committee, but was never heard.

AB 825 (Rendon) of 2015, would have proposed a suite of reforms of the CPUC largely directed at increased transparency of the activities of the agency, including requiring the California State Auditor's Office to appoint an Inspector General within its office for the CPUC, expanding the roles and responsibilities of the CPUC public advisor, specifying additional requirements of commissioners, and increased transparency of electric utilities' procurement, among others. The bill was vetoed.

SB 48 (Hill) of 2015, would have proposed a suite of reforms of the governance and operations of the CPUC, including, among others, requiring sessions in Sacramento, applying the Code of Ethics from the Administrative Procedures Act to administrative law judge, clarifying and augmenting the information the CPUC must provide the Legislature in its annual report, and others. The bill was vetoed.

SB 215 (Leno-Hueso, Chapter 807, Statutes of 2016) proposed a suite of reforms of the rules, operations and procedures of the CPUC pertaining to the laws and rules related to ex parte communications and criteria and process for disqualification of commissioners to a proceeding.

SB 512 (Hill, Chapter 808, Statutes of 2016) proposed a suite of reforms of the operations and governance of the CPUC, including allowing intervenor compensation for certain local governments, requiring specified information is available to the public, requiring specified reporting of the CPUC regarding the timeliness of proceedings, applying the Code of Ethics from the Administrative Procedures Act to administrative law judges, and others.

SB 660 (Leno-Hueso) of 2015, would have proposed a suite of reforms of the governance, rules, operations and procedures of the CPUC, including: reform of laws and rules related to ex parte communications, criteria and process for disqualification of CPUCs to a proceeding, and authorizes the CPUC to appoint the chief administrative law judge. The bill was vetoed.

SB 1017 (Hill) of 2016, would have modified statutes that limit public access to utility supplied documents at the CPUC, including specifying an action arising from the CPRA may be brought before the Superior Court instead of the Supreme Court. The bill died on the Assembly Floor.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: Yes

**SUPPORT:**

None received

**OPPOSITION:**

None received

**ARGUMENTS IN SUPPORT:** According to the author:

Although the California Public Utilities Commission is an independent agency of state government, its internal operations should be transparent to the public and subject to regular independent review by an outside entity to ensure efficient operations, economic administration of ratepayer funds, and compliance with state law. As utility costs continue to rise, regulatory decisions are continuously delayed, grant funds are held back for years, and Commissioners decline to participate in legislative oversight hearings it is clear that more accountability is needed on the agency operations. By establishing an independent Inspector General at the CPUC, the public and the Legislature will be better informed about the agency's internal operations.

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