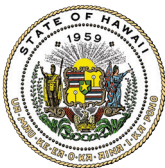


Audit of the Public Utilities Commission

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 18-05
February 2018



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

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Foreword

Our audit of the Hawai‘i Public Utilities Commission was conducted pursuant to Senate Bill No. 382, Senate Draft No. 2, House Draft No. 1, Committee Draft No. 2, which was passed by the 2017 Legislature and signed by the Governor as Act 198.

We express our sincere appreciation to the commissioners, officers, and staff of the Hawai‘i Public Utilities Commission and other individuals whom we contacted during the course of our audit, for their cooperation and assistance.

Leslie H. Kondo
State Auditor

Table of Contents

Auditor’s Summary	1
Introduction.....	3
Public Utilities Commission Overview	4
The PUC Reorganization: After 10-plus years, 19 new positions.....	5
The Public Utilities Commission's Organization Chart	8
Audit Objectives	9
Audit Scope and Methodology	9
Summary of Findings	10
The PUC's Statement of Goals fulfills its statutory requirement, but little else	10
PUC's Statement of Goals is not strategic.....	11
PUC's Statement of Goals is incomplete	12
Staff retention, a persistent challenge, is not addressed by the PUC's Statement of Goals	14
Challenges associated with short staff tenure are exacerbated by the PUC's lack of documented policies and procedures and other guidance for docket processing	19
Docket process lacks established deadlines and agency-wide coordination	19
Motor carrier dockets stall when staffer is on leave	21
Succession planning not addressed in Statement of Goals	22

Despite spending \$2.8 million on a computerized document management system, PUC's docket efficiency needs remain unmet	23
--	-----------

DMS fails to meet many of its intended purposes, and in many cases, is a hindrance.....	25
---	----

Despite the DMS' shortcomings, the PUC has no firm plans for its replacement	27
--	----

Conclusion	28
-------------------------	-----------

Recommendations	29
------------------------------	-----------

Office of the Auditor's Comments on the Public Utilities Commission Response	31
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Attachment 1 Response of the Public Utilities Commission.....	33
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List of Exhibits

Exhibit 1	Goals and Objectives of the Commission.....	13
Exhibit 2	GFOA Best Practices for Strategic Planning.....	15

Appendix

Appendix A	PUC's Functional Statement	38
Appendix B	Texas Workforce Plan (Excerpt).....	43

Auditor's Summary

Audit of the Public Utilities Commission

Report No. 18-05



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THE PUBLIC UTILITIES COMMISSION'S (PUC) workload is demanding. It regulates 1,759 entities, including all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telephone, telecommunications, private water and sewage, as well as motor and water carrier transportation providers in the State. When a person, company, or in some instances, the PUC itself initiates a matter for the commission's review and disposition, the commission opens a proceeding, commonly known as a docket. Dockets vary widely in complexity; some are worked on by a team of attorneys, engineers, and auditors; others are handled by a single staffer. Processing times range from a few months to several years. In FY2017, the PUC opened 426 new dockets, issued a total of 859 decisions and orders, and had 163 open dockets that were carried over to FY2018.

What we found

In Report No. 18-05, *Audit of the Public Utilities Commission*, we found that staff turnover is high, with 45 of the PUC's 56 employees (80 percent) working for the commission for 5 years or less. Nineteen employees (34 percent) are recent hires and have only been employed at the PUC for a year or less. However, we also found that the PUC does not have clearly documented administrative procedures for its docket processing, from the initial intake of filings and scanning of the application to staff recommendations to the drafting and approval of the decision and order. Having such documentation is important for any staff, but it is particularly critical for the PUC, with the vast majority of its employees being relatively new.

In addition, the PUC's \$2.8 million Document Management System (DMS) is almost universally considered by management and staff to be difficult to

use, unreliable, slow, and obsolete, with staff developing elaborate workarounds to accommodate for the system's shortcomings. Yet the PUC has no firm plans to fix or replace this problematic system, even though DMS' \$1.6 million maintenance contract will expire next year and will likely need to be extended. Without long-term, strategic planning, the PUC will continue to spend money maintaining a broken system.

Why did these problems occur?

The PUC has not devoted the time and resources toward long-term planning to address its critical issues. The PUC's annual report includes its "Goals and Objectives of the Commission" (Statement of Goals), which is missing action plans and performance measures that would link to the commission's actual work and activities. The Statement of Goals also does not address the current challenges facing the commission, such as staff retention, improving or replacing DMS, and inconsistent docket processing.

Why do these problems matter?

The PUC's work is as important as it is complicated. Yet institutional knowledge at the commission appears to be in short supply, with the overwhelming majority of its staff with a tenure at the commission of five years or less. Without agency-wide strategies and action plans to provide staff with the necessary tools, training, and support, maintaining institutional knowledge will continue to be a persistent challenge, one that the PUC appears to be losing.



Problems Persist: Audit of the Public Utilities Commission

Introduction

In Report No. 04-02, *Management Audit of the Public Utilities Commission and the Division of Consumer Advocacy*, published in 2004, we described the Public Utilities Commission (PUC) as “hard pressed to devote time and personnel required to strategically plan for desired results; consequently, program and activity plans are allowed to drift without direction. Long-standing problems impacting core personnel resources persist and information systems development efforts flounder without leadership, vision, and coordination.”

After 14 years and an extensive reorganization, many things haven’t changed.

In our 2018 audit, we found that the PUC continues to have difficulties devoting resources toward long-term planning. While the commission includes a one-and-a-half-page statement of “Goals and Objectives of the Commission” (Statement of Goals) in its annual report, that statement appears to fulfill a statutory requirement but achieves little else. Missing key components that link the commission’s goals and objectives to its actual work, the Statement of Goals appears to have little

relevance or applicability to the PUC's current and future challenges and opportunities. Meanwhile, the PUC's long-standing challenges persist: 45 of the PUC's 56 employees (80 percent) are relatively new, working for the commission for 5 years or less. Nineteen employees (34 percent) are recent hires and have only been employed at the PUC for a year or less.

However, the PUC has little written guidance to assist these newcomers with the wide variety of duties required for docket processing (about 85 percent of its work) and with the more senior staff not readily sharing their institutional knowledge. We found that the PUC does not have clearly documented administrative procedures for its docket processing, from the initial intake of filings and scanning of the application to staff recommendations to the drafting and approval of the decision and order.

In addition, we found that the PUC's Document Management System (DMS) is almost universally considered by management and staff to be difficult to use, unreliable, slow, and obsolete, with staff developing elaborate workarounds to accommodate for the system's shortcomings.

The PUC has no firm plans to fix or replace the problematic system, even though DMS' maintenance contract will expire next year. Without a permanent solution in sight, continued maintenance on a system that one commissioner described as "archaic" and worthless" will almost certainly be extended. The last maintenance contract, in 2017, added \$400,000 to DMS' total \$2.8 million price tag. Without long-term, strategic planning, the PUC will continue to spend money maintaining a broken system.

The PUC's daily challenges and workload are substantial. However, a commitment to long-range planning and better project management may be the best path to reducing the problems that existed in 2004 and still exist today.

Public Utilities Commission Overview

As set forth in their last several annual reports, the PUC's mission is "to provide effective, proactive, and informed oversight of all regulated entities to ensure that they operate at a high level of performance so as to serve the public fairly, efficiently, safely, and reliably, while addressing the goals and future needs of the State in the most economically, operationally, and environmentally sound manner, and affording the opportunity for regulated entities to achieve and maintain commercial viability."

In FY2017, the PUC regulated 1,759 entities, including all chartered, franchised, certificated, and registered public utility companies that

provide electricity, gas, telephone, telecommunications, private water and sewage, as well as motor and water carrier transportation providers in the State. The PUC, which is governed by three full-time commissioners who serve staggered six-year terms, exercises extensive powers by establishing and enforcing rules and regulations and by exercising quasi-judicial authority over contested case proceedings. Regulatory proceedings are conducted in a formal docket process. Docket filings, including applications, discovery requests, testimonies, briefs, and decisions and orders, are filed on the commission's DMS. During FY2017, the PUC, which consisted of 41 professional, 12 legal, and 9 administrative support staff, opened 426 new dockets, issued a total of 859 decisions and orders, and had 163 open dockets that were carried over to FY2018. A summary of the PUC entities regulated and dockets processed over the period FY2013–FY2017 follows.

Fiscal Year	Entities Regulated	Dockets Carried Over From Previous Fiscal Year	New Dockets Opened	Total Dockets Pending Before Commission	Dockets Closed	Dockets Carried Over to Next Fiscal Year
2013	1,586	214	391	605	422	183
2014	1,625	183	420	603	417	186
2015	1,657	186	404	590	358	232
2016	1,705	232	387	619	428	191
2017	1,759	191	426	617	454	163

Source: Hawai'i Public Utilities Commission annual reports, 2013–2017

The PUC Reorganization: After 10-plus years, 19 new positions

Act 143, Session Laws of Hawai'i (SLH) 2006, instructed the PUC to conduct an in-depth review of its organization to develop a comprehensive plan to restructure and supplement the commission. In December 2006, the PUC submitted a report to the Legislature that detailed the challenges and obstacles faced by the commission. The report cited an earlier Hawai'i Energy Policy Forum utility report that said: "The PUC has a substantial day-to-day workload processing applications, complaints and filings that are not policy matters. As with any person or organization facing restrictions in time and resources, it is the policy and big picture matters that get pushed aside in order to deal with immediate tasks and brush fires."

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Types of Dockets

The PUC handles dozens of different types of dockets. While reviewing the PUC's Docket Management System, we noted that dockets can be sorted into 42 separate "docket types" when performing a docket search. The following are some of the types of dockets most frequently filed with or by the PUC.



Rate Cases

The PUC's evaluation of rate increase requests from regulated utilities requires significant staff resources. To determine if a rate increase is "just and reasonable," members of the PUC's Audit, Engineering, Legal, and Research divisions work collaboratively to review applications, with each division responsible for making recommendations to the commissioners related to their area of expertise. The PUC is required by statute to hold a public hearing for each rate case and, for certain utilities, is required to hold public hearings on multiple islands. During the discovery period, the applicant, the consumer advocate, and any intervenors and/or participants issue information requests, and provide supporting and rebuttal testimony and exhibits. In some proceedings, the applicant and the consumer advocate may reach an agreement on certain or all issues, in which case they file a stipulation or partial stipulation for the commission to review. Evidentiary hearings on some or all issues are held for some rate cases. For proceedings that do not include evidentiary hearings, the PUC typically has a six- or nine-month statutory deadline for issuing decisions and orders.



Capital Improvement Projects/Capital Expenditures

Electric and gas utilities must obtain the PUC's approval to commit funds for capital expenditures in excess of \$2.5 million for electric utilities and more than \$500,000 for gas utilities. In these dockets, among other considerations, staff review whether the commitment of funds is "reasonable and in the public interest." The utility may request that the expenditures be included in its rate base, which is the total capital investment in utility assets upon which the company (or in most instances the company's shareholders) earn a return. As part of a rate case, the PUC approves a "rate of return," which, like the interest rate money in a savings account earns, is the return on shareholders' investments in the utility assets.



Financing

Public utilities are statutorily required to obtain the PUC's approval before engaging in certain types of financing transactions, such as issuing obligations, stocks, special purpose revenue bonds, and other evidences of indebtedness. In reviewing requests for approval, the docket team, which may include an economist, evaluates whether the request is reasonable and in the public interest, including the reasonableness of the requested amount and the appropriate upper interest rate parameter (maximum interest rate).



Investigative

The PUC has the authority to initiate investigatory proceedings and has done so in order to explore various complex matters in recent years. These have been primarily related to energy policy issues, such as distributed energy resources, demand response, and community-based renewable energy. In certain circumstances, the PUC may open an investigatory docket in response to a legislative mandate. Other times, the PUC may open an investigatory docket to explore a new type of utility regulation or ratemaking mechanism, or to explore new types of innovative technology or services. These dockets often require significant resources and technical expertise, and may be ongoing for a number of years, as the PUC considers a wide variety of positions and proposals. Often, the PUC engages community stakeholders and may retain experts as needed. The PUC may also hold technical conferences, workshops, and/or hearings to share information and to foster collaboration among parties and stakeholders. Some proceedings may result in the adoption of proposals from the parties, stakeholders, and/or the PUC staff.



Certificate of Authority/Certificate of Registration

Before providing certain intrastate and local telecommunications services, an applicant must request permission from the commission. In reviewing applications for certificates of authority or certificates of registration, the commission considers whether the applicant has the resources and ability to provide the service and to conform to conditions or rules of the commission; and whether the service is in the public interest. These dockets do not typically require lengthy discovery periods and are generally resolved within a few months from the application filing date.



Certificate of Public Convenience and Necessity

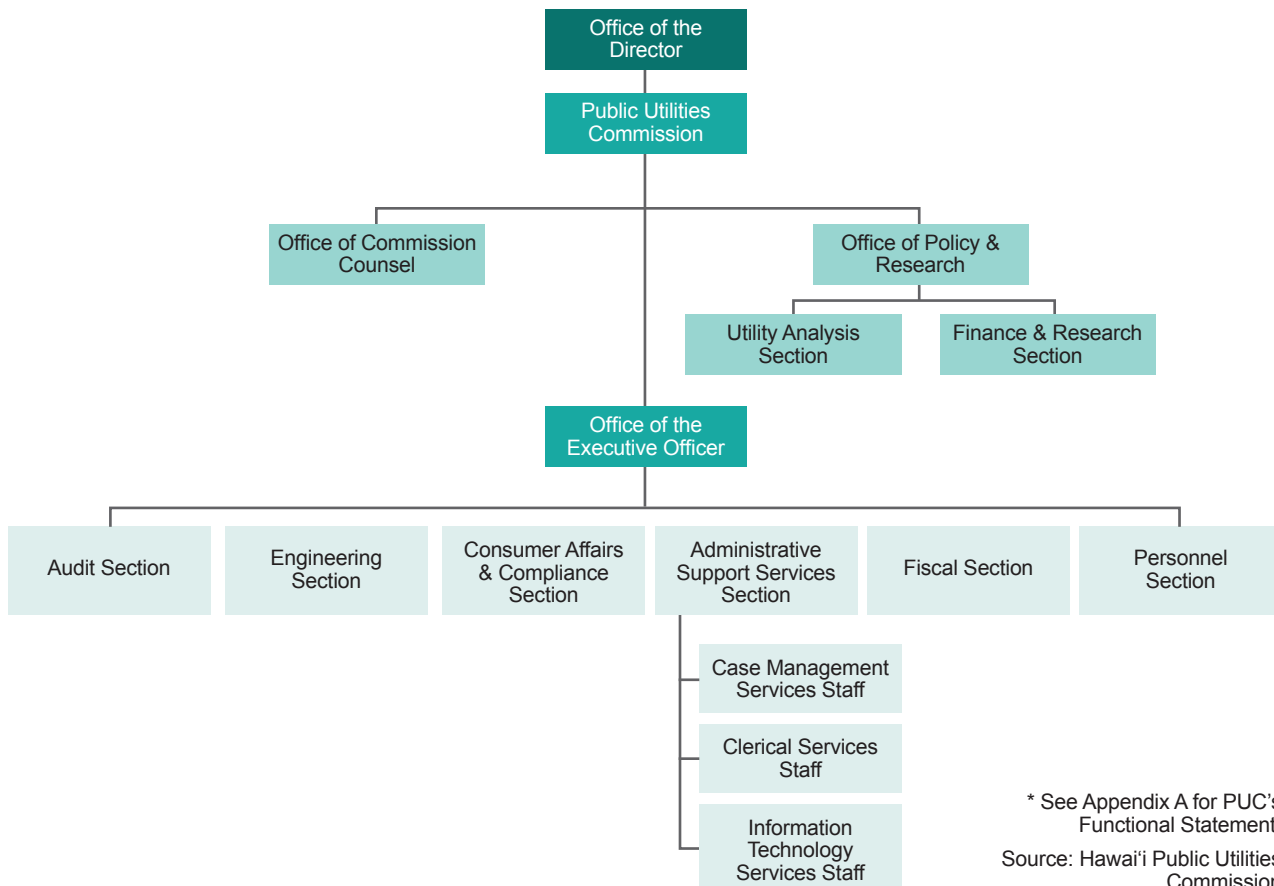
Before commencing business in the State, a (prospective) public utility must first obtain a certificate of public convenience and necessity, which essentially establishes the scope of the services the utility may provide to the public. The PUC considers the financial fitness of the utility, as well as whether the utility is willing and able to provide the services and to conform to the commission's terms, conditions and rules; and whether the proposed service is or will be required by the present or future public convenience and necessity. The complexity of these dockets varies by industry, market conditions, and the type of service proposed. Prior to altering its service area or type of service provided, a public utility needs approval from the PUC to amend its certificate of public convenience and necessity.

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Among other recommendations, the report proposed a restructuring plan to improve the operational effectiveness of the PUC; this plan specified the need for 14 new permanent positions over a two-biennium (4-year) period, the re-description of 12 positions, and the conversion of 7 temporary positions to permanent status. The following year, the Legislature passed Act 177, SLH 2007, which provided the initial approval for the reorganization plan.

Seven years later, the reorganization effort was resurrected with Act 108, SLH 2014, which transitioned the PUC from its administrative status within the Department of Budget and Finance to being administratively attached to the Department of Commerce and Consumer Affairs, effective July 1, 2014. Among other things, Act 108 gave the PUC more decision-making autonomy and enabled the chairperson to hire an executive officer, fiscal officer, and personnel officer to support the administrative activities of the commission. As a result, the Office of the Executive Officer, Fiscal Section, and Personnel Section were added to the organizational chart.

The Public Utilities Commission's Organization Chart*



Between June 30, 2015, and June 30, 2016, 10 new positions were added, resulting in a total of 65 authorized positions, a net gain of 19 positions since 2006, including the three commissioners. As of June 30, 2017, there were 6 vacant positions, reflecting an overall vacancy rate of 9.2 percent.

Audit Objectives

1. To assess the implementation of the Public Utilities Commission's strategic plan.
2. To evaluate the Public Utilities Commission's docket process as it relates to planning and project management.
3. Make recommendations as appropriate.

Audit Scope and Methodology

We conducted this audit pursuant to Senate Bill No. 382, Senate Draft No. 2, House Draft No. 1, Committee Draft No. 2, which was passed by the 2017 Legislature and signed by the Governor as Act 198. Act 198 requires the Auditor to conduct a management audit to evaluate the efficiency and effectiveness of the commission and aid in the commission's transition to a better functioning entity. We do not have the substantive knowledge of utility regulation required to conduct a meaningful review of some of the specific issues listed in the requested audit. To provide the Legislature with a meaningful report, we have developed the audit objectives stated above. This is our sixth audit of the commission.

Our audit was performed from June 2017 to January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provide a reasonable basis for the findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed statutes, administrative rules, commission reports, docket files, docket workflow processes, the docket management system, and other relevant documents and records. We also reviewed guidance from the Project Management Institute (PMI), the National Association of Regulatory Utility Commissioners (NARUC), the Government Finance Officers Association (GFOA), and the public utility commissions for the states of California, New Mexico, and Texas. We interviewed personnel within the PUC, the Department of Commerce and Consumer Affairs, NARUC, the Michigan State

University Institute of Public Utilities, and current and former personnel of other states' public utility commissions.

The focus of this audit was an evaluation of the PUC's planning and docket management. We judgmentally selected 25 dockets for testing during FY2017, as follows: 11 certificates of public convenience and necessity; 4 orders to show cause; 2 certificates of authority; 2 certificates of registration; 2 rate cases; 2 capital improvement projects; 1 financing; and 1 miscellaneous docket. We did not evaluate the effectiveness and efficiency of the recommendations made by the operational section chiefs to the commissioners or the decisions and orders made by the commission because of the technical subject matter expertise that would be required.

Summary of Findings

1. The PUC's "Goals and Objectives of the Commission" included in its annual report fulfills its statutory requirement, but little else. The Statement of Goals is missing action plans and performance measures which would link the goals and objectives to the commission's actual work and activities. It also does not address critical issues facing the commission such as staff retention, an archaic document management system, and inconsistent docket processing.
2. Despite spending \$2.8 million on a computerized document management system, PUC's docket efficiency needs remain unmet. The PUC has no firm plans to fix or replace the problematic system, even though DMS' \$1.6 million maintenance contract will expire next year and will likely need to be extended.

The PUC's Statement of Goals fulfills its statutory requirement, but little else.

The PUC is required by law to do long- and short-range planning and to set forth objectives. Section 269-5, Hawai'i Revised Statutes, states that the PUC shall:

prepare and present to the governor in the month of January in each year a report respecting its actions during the preceding fiscal year. This report shall include . . . long and short-range plans and objectives of the commission . . .

The PUC has attempted to fulfill this requirement by including in its annual report a statement of “Goals and Objectives of the Commission.” The PUC has also added a mission statement to the Statement of Goals. According to the PUC executive officer, the four items — Mission Statement, Strategic Goals, and Long- and Short-Term Objectives — constitute the PUC’s “strategic plan,” even though the list is neither referred to as such in the annual report nor has it been formally recognized as such by the PUC.

In any case, this Statement of Goals was initiated shortly after the executive officer joined the PUC in 2015. The executive officer, who is responsible for the planning and strategies that support the PUC’s goals and objectives, told us that he had been dissatisfied with the commission’s previous Statement of Goals and initiated regular meetings with section chiefs to discuss what the commission should be doing and what the section chiefs needed to do that job. The Statement of Goals is updated annually by the executive officer and the section chiefs. However, there is no formal approval process.

One commissioner told us that commissioners, collectively, have not formally discussed the Statement of Goals, and the commissioner had not been given the opportunity to comment on the Statement of Goals before it was finalized. According to the executive officer, the chairperson has the responsibility for achieving and implementing the PUC’s goals.

More importantly, we found that the PUC’s Statement of Goals is incomplete, missing key components which link the commission’s goals and objectives to its actual work. Absent such connections, the Statement of Goals appears to have little relevance or applicability to the PUC’s current and future challenges and opportunities. The Statement of Goals may fulfill a statutory requirement but it appears to do little else.

PUC’s Statement of Goals is not strategic.

The Government Finance Officers Association (GFOA), is a nonprofit organization representing public finance officials throughout the United States and Canada with members who are federal, state, and local finance officials involved in planning and implementing governmental operations in each of their jurisdictions. Their mission is to promote excellence in state and local government financial management. The GFOA describes strategic planning as a comprehensive and systematic management tool designed to help organizations assess the current environment, anticipate and respond appropriately to changes in the environment, envision the future, increase effectiveness, develop commitment to the organization’s mission, and achieve consensus

Strategic Planning

STRATEGIC PLANNING is a primary function of the PUC’s executive officer. According to the PUC’s position description, the responsibility of planning, formulating, implementing, and achieving the commission’s goals and objectives is entrusted with the executive officer. In addition, the PUC’s chief counsel and chief of policy and research are both responsible for establishing, evaluating, modifying, implementing, and communicating the commission’s goals and objectives. The PUC’s chairperson is responsible for ensuring the goals and objectives are met by these section chiefs.

on strategies and objectives for achieving that mission. Strategic planning is about influencing the future, and the focus is on aligning organizational resources to bridge the gap between current conditions and the envisioned future. According to the GFOA, “Strategic planning for public organizations is based on the premise that leaders must be effective strategists if their organizations are to fulfill their missions, meet their mandates, and satisfy their constituents.” The association recommends that the strategic planning process include, but not be limited to preparing a mission statement; assessing environmental factors; developing strategies to achieve goals; creating an action plan; developing measurable objectives; incorporating performance measures; implementing the plan; monitoring progress of the plan; and re-evaluating the plan.

The PUC’s one-and-a-half-page Statement of Goals is not the product of such a planning process. The Statement of Goals is not “strategic.” Not only is the Statement of Goals prepared annually and without the input of all commissioners, the PUC neither consults with nor shares its Statement of Goals with the consumer advocate or other stakeholders, including the utilities. The executive officer said that the consumer advocate has a different perspective on utility regulation, and in general, the executive officer believes that including stakeholders in the Statement of Goals process starts to dilute the PUC’s mission and goals. This is contrary to the best practices we reviewed, which hold that aligning projects with the needs of internal and external stakeholders is critical to the achievement of an organization’s objectives. It also does not appear to align with the inclusiveness of the PUC’s own strategic goals for FY2017, which aspire to “inspire confidence in the regulatory process” in stakeholders while requiring them to “continually achieve outstanding performance.”

PUC’s Statement of Goals is incomplete.

The PUC’s Statement of Goals provides no timeframes or timelines within which goals and objectives are prioritized or to be addressed. According to the PUC’s executive officer, all of the commission’s goals and objectives are considered to be equally important and they are not prioritized. But one commissioner told us that the commissioners, not solely the chairperson, are responsible for establishing the commission’s goals and that the State’s goal to achieve 100 percent renewable energy by 2045 is “very important” and should be included in the commission’s Statement of Goals.

According to the GFOA, objectives should be articulated as specific, measurable results to be achieved. They should be expressed as quantities or at least as a verifiable statement. Instead, the PUC’s objectives contain vague statements that lack expected results and which

Exhibit 1

Goals and Objectives of the Commission

Mission Statement

The Commission's mission is to provide effective, proactive, and informed oversight of all regulated entities to ensure that they operate at a high level of performance so as to serve the public fairly, efficiently, safely, and reliably, while addressing the goals and future needs of the State in the most economically, operationally, and environmentally sound manner; and affording the opportunity for regulated entities to achieve and maintain commercial viability.

Strategic Goals

The Commission's strategic goals are to:

- Increase the efficiency and effectiveness of the regulatory process;
 - Foster greater understanding of the regulatory process by the public;
 - Inspire confidence in the regulatory process;
 - Require regulated entities to continually achieve outstanding performance;
 - Create a regulatory environment that contributes to the economic and clean energy goals of the State;
 - Stimulate and encourage competition where appropriate and feasible; and
- Cultivate high morale and performance among Commission employees.

The Statement of Goals is not "strategic." Not only is the Statement of Goals prepared annually and without the input of all commissioners, the PUC neither consults with nor shares its Statement with the consumer advocate or other stakeholders, including the utilities.

There are no timeframes or timelines within which goals and objectives are prioritized or to be addressed. According to the executive officer, all of the PUC's goals and objectives are considered equally important.

Long-Term Objectives

The long-term objectives of the Commission are to:

- Review and propose updates to regulatory law and rules to address the future needs of the public, the utility industries, and the State;
- Develop processes for educating and informing the public about the regulatory process and Commission decisions;
- Provide meaningful guidance to regulated utilities with respect to expected levels of performance;
- Identify areas where competition may achieve results that are superior to regulation and foster competition in those areas;
- Provide regular and relevant training opportunities for staff to improve knowledge and skills;
- Take appropriate actions to insure adequate funding levels to perform all Commission functions;
- Actively monitor pending legislation at the State and Federal levels to determine potential impacts on Commission duties and responsibilities; and
- Develop a knowledge base of industry, economic, and policy trends to allow better anticipation of regulatory impacts.

Objectives should be articulated as specific, measurable results to be achieved. They should be expressed as quantities or at least as verifiable statements.

Short-Term Objectives

The short-term objectives of the Commission are to:

- Review and revise, where necessary, organization and position descriptions to ensure clarity of responsibilities and duties;
- Fill remaining vacancies with individuals having the requisite skills, knowledge, and attributes;
- Provide basic training in the regulatory field to all professional staff;
- Review and modify, as necessary, internal communication, information and document flow to ensure accuracy, efficiency, and appropriate dispersal among personnel;
- Review and modify, as necessary, work processes to improve efficiency, accuracy, and timeliness; and
- Review IT requirements to facilitate timely and accurate dissemination of information.

The Statement of Goals lacks action plans and performance measures, two important components that link a strategic plan to the actual work an organization does.

Source: Hawai'i Public Utilities Commission Annual Report for Fiscal Year 2017

cannot be quantified and verified. They begin with nonspecific phrasing, such as “Provide *meaningful* guidance . . .,” “Take *appropriate* actions to . . .,” and “Review and revise, *where necessary* . . .” [Italics added for emphasis.]

Perhaps more importantly, the Statement of Goals lacks action plans and performance measures, two important components that link a strategic plan to the actual work an organization does. According to the GFOA, action plans describe how strategies will be implemented and include activities and services to be performed, associated costs, designation of responsibilities, priority order, and time frame involved. Meanwhile, performance measures connect goals, strategies, actions, and objectives, providing information on whether goals and objectives are being met – in other words, verifiable, articulable results.

For example, the PUC’s mission statement’s purpose to “provide effective, proactive, and informed oversight of all regulated entities” corresponds to the Statement of Goals’ strategic goal to “increase the efficiency and effectiveness of the regulatory process,” which in turn links to both the long- and short-term objectives to “provide regular and relevant training opportunities for staff” and to “provide basic training in the regulatory field to all professional staff,” respectively. However, the objectives terminate there, with no indication of what actions the PUC intends to undertake, let alone results it expects. (See Exhibit 1.)

According to the executive officer, the PUC’s high number of staff vacancies prevented it from accomplishing its FY2017 objectives. (We note that filling remaining vacancies is one of the Statement of Goals’ short-term objectives.) Since progress towards achieving the commission’s goals and objectives are not formally tracked, measured, or documented, we are not sure how he arrived at this conclusion.

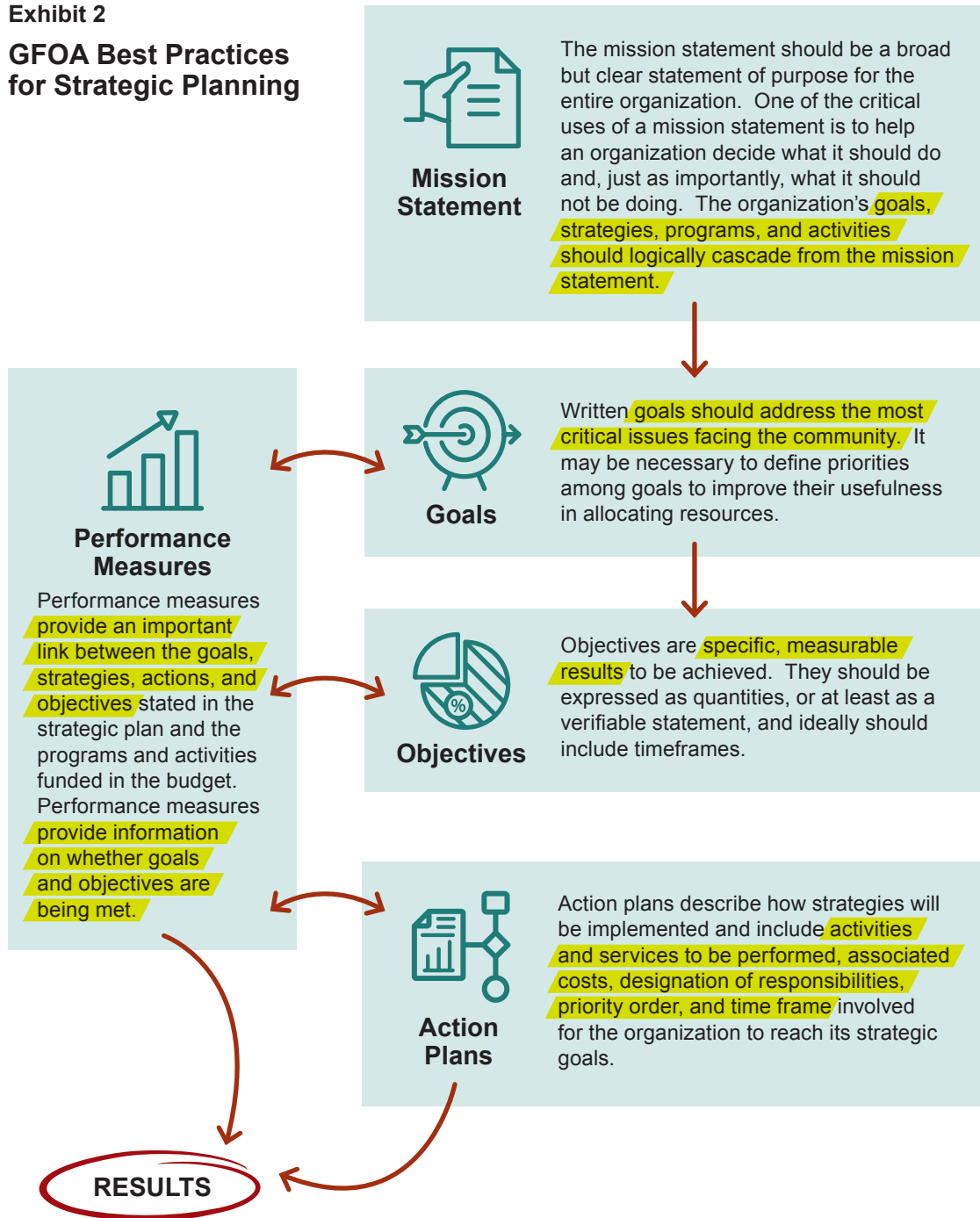
Staff retention, a persistent challenge, is not addressed by the PUC’s Statement of Goals.

PUC commissioners, management, and staff frequently identified staff retention as one of the organization’s biggest challenges, with low pay cited as the main reason for leaving and attorneys as the staff most likely to have a short tenure. According to the chairperson, there is no formal written plan that strategically addresses the PUC’s workforce, retention, and succession of personnel. The chairperson acknowledges that losing talent to the private sector and public utilities is an inherent problem, saying “That’s life here.”

One commissioner recalls that the entire legal staff, except for one, left the PUC over a 12-month period. The one remaining attorney, who has been with the PUC since 1995, expressed frustration at

Exhibit 2

GFOA Best Practices for Strategic Planning



having to train new attorneys, only to have them leave in two to three years. This attorney believes higher compensation would help prevent the PUC from being perceived as a “training ground” for attorneys who eventually move on to the private sector. However, another commissioner believes that staff retention may also be affected by low morale and varying levels of competence and productivity among the legal staff. That commissioner observed instances of attorneys being burnt out because they were given more work than other less-productive staff.

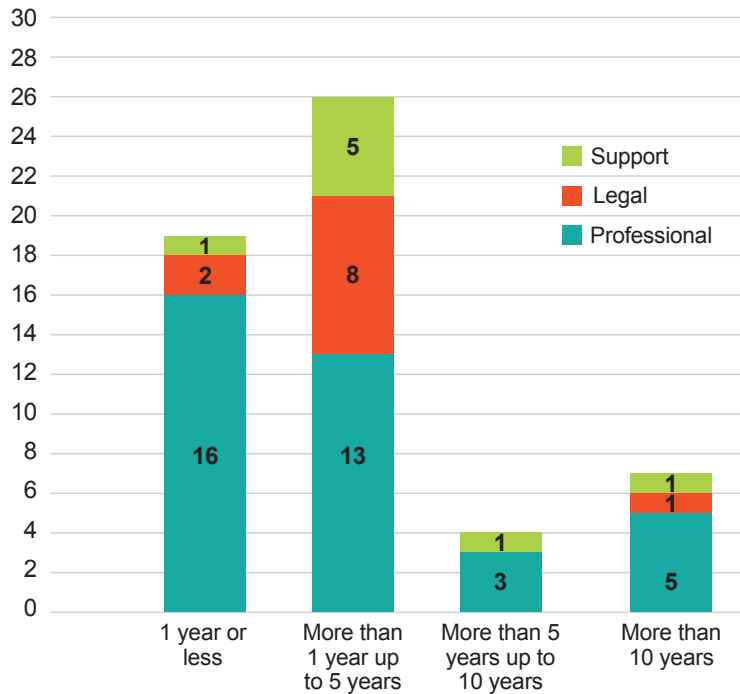
The PUC keeps limited workforce data, so evidence of staff retention problems are largely anecdotal and possible solutions are matters of conjecture. For instance, the PUC neither tracks the number of resignations or retirements each year nor does it conduct exit interviews with departing staff. The commission also does not conduct formal performance reviews for all its staff. PUC’s human resources specialist estimates that from the time she joined the PUC in December 2016 to October 2017, approximately 10 to 12 staff have left to pursue opportunities in the private sector and elsewhere.

The human resources specialist provided us with staff tenure numbers as of June 30, 2017. Forty-five of the PUC’s 56 employees (80 percent) are relatively new, working for the commission for 5 years or less. Thirty-four percent are recent hires, employed at the PUC for a year or less. As far as the “revolving door” for attorneys, only one has been with the commission for more than five years. Institutional knowledge at the PUC appears to be in short supply.

We also inquired about what agency-wide actions the commission has undertaken regarding staff training, and she told us that the commission does not have a formal in-house training program for staff. Each section chief determines what training is appropriate for the staff within their sections. So, if they have some type of training program for new hires, she is unaware of the training. According to the human resources specialist, there have been discussions within the PUC about the possibility of bringing trainers to Hawai‘i to provide staff training, but she is not sure about the status of the effort.

Without agency-wide strategies and action plans for staff training and retention and with its commissioners serving six-year, staggered terms, maintaining institutional knowledge is a persistent challenge for the PUC, one that the PUC appears to be losing.

PUC Employee Tenure (as of June 30, 2017)



Source: Hawai'i Public Utilities Commission

Retaining qualified, experienced employees is not a challenge unique to Hawai'i's PUC. According to the Texas Public Utilities Commission, in FY2015 it experienced a turnover rate of 16.6 percent, which exceeded the next highest rate in the last five years by 2.9 percentage points. Through the first 9 months of FY2016, 21 employees (10.7 percent) resigned or retired from the Texas PUC. About a third of employees had a tenure of two years or less. Texas faces a similar challenge of declining institutional knowledge; however, unlike Hawai'i's PUC, Texas' public utilities commission strategic plan for FY2017–FY2021 addresses workforce issues in its five-year workforce plan.

The Texas PUC's 78-page plan features detailed workforce demographics such as the age, gender, racial and ethnic diversity of commission employees as well as data on employee turnover, turnover by job, employees eligible for retirement, and projected attrition. In addition to data and analysis, this 11-page workforce plan features four strategic goals to address the potential deficit between current workforce and future demands. These goals have specific action steps. (See Appendix B.)

Docket Work, a brief summary

WHEN A PERSON, company, or, in some instances, the PUC itself initiates a matter for the commission's review and disposition, the commission clerical staff opens a proceeding, commonly known as a docket, by assigning a number to the filing in both a manual control log and PUC's Document Management System (DMS). Once a docket number is assigned, PUC staff enters pertinent docket information, including file date, status, and docket type, and scans and uploads the docket filing into DMS.

Dockets vary widely in complexity, with processing times ranging from a few months to several years. Certain types of dockets that involve recurring issues are usually assigned to predetermined docket team leaders and staff. For example, almost all motor carrier applications are processed by a single staff member. For more complex dockets, such as rate cases or capital improvement projects, the PUC's section chiefs assign staff with the expertise (if they have the expertise) to work on those dockets. For example, nine PUC staff from four different sections worked on the docket involving the proposed merger of NextEra with the Hawaiian Electric Companies. After approximately 18 months of work, the NextEra docket was closed on July 15, 2016.

An attorney from the PUC's Office of Commission Counsel is assigned to every docket, usually serving as team leader. The docket team reviews the docket filings and provides their analyses and recommendations to the team leader, who then prepares a draft decision and order. The draft decision and order is circulated to the commissioners for review and comment. Once approved by the commissioners, the decision and order goes to the clerical staff for formatting. The decision and order is signed by the commissioners, provided to the applicant, the consumer advocate, and other parties, and posted on the DMS website.

According to the PUC's chief counsel, docket processing comprises approximately 85 percent of the commission's work. In FY2017, the PUC issued a total of 859 decisions and orders and had 163 open dockets remaining that were carried over to FY2018.

Challenges associated with short staff tenure are exacerbated by the PUC's lack of documented policies and procedures and other guidance for docket processing.

With dockets comprising about 85 percent of its work, and a similar percentage of its staff with tenures from one to five years, we expected that the PUC would have well-documented guidance for the constant influx of new employees. We found this not to be the case. The PUC has not clearly documented the administrative procedures for its docket processing, everything from the intake of filings and scanning of applications to the drafting and execution of the decisions and orders.

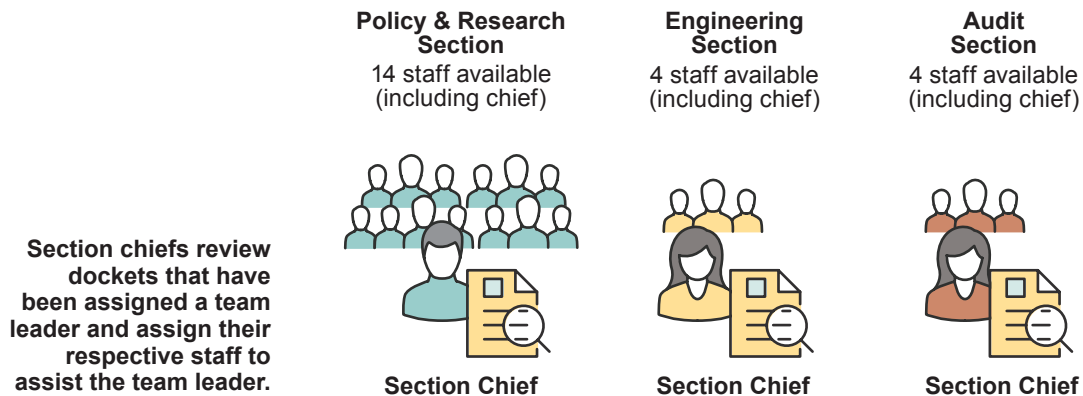
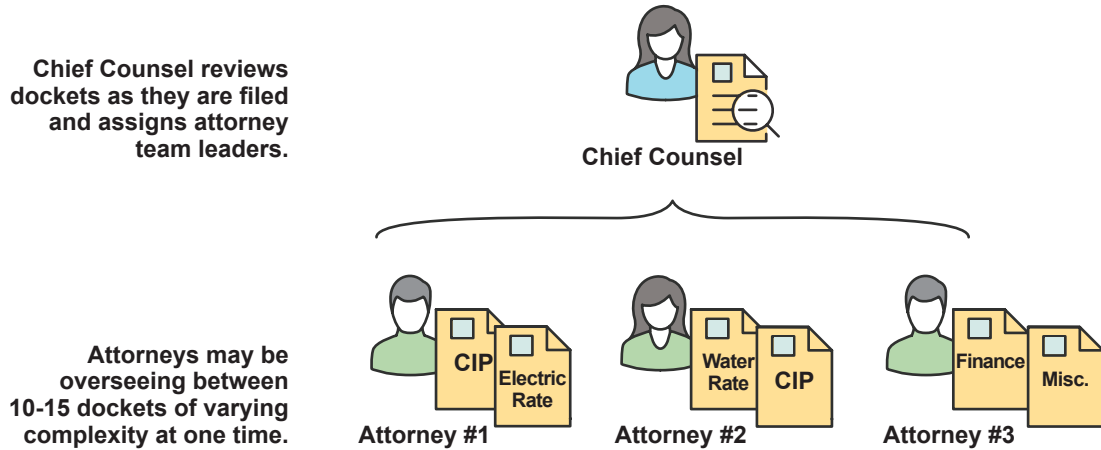
In addition, we found that the PUC has little written guidance regarding the roles and responsibilities of docket team leaders who are usually the attorneys from the Office of Commission Counsel. Instead, the PUC has documented and distributed the Docket Team Flow Chart Process, a flow chart that details the initial steps and responsibilities of the docket process and features only general timeframes. The PUC's only other documented guidance for team leaders is a three-page, eight-step flowchart that covers the legal section's order review process, which is only one step of the entire docket process. The chief counsel created the flowchart to assist new attorneys. She herself has been with the PUC for less than three years.

Docket process lacks established deadlines and agency-wide coordination.

Deadlines are left to the discretion of individual section chiefs and team leaders. According to the PUC's chief counsel, the complexity of each docket is different, so it is difficult to establish deadlines for each attorney at the various stages of a docket. Although we recognize that every docket may be different, certain types of dockets present similar recurring issues. In fact, many utilities, like the Hawaiian Electric Companies (Hawaiian Electric Company, Maui Electric Company, and Hawai'i Electric Light Company), file applications for rate increases (i.e., rate cases) at least once every few years. Those dockets involve assessing, among other things, the test year's costs and expenses, the utility's rate base, and the requested rate of return. While the numbers change, the analysis for each is substantively identical, which should allow the commission to reasonably establish deadlines and other goals for those types of recurring dockets.

We also observed a general lack of agency-wide coordination of docket work. For example, according to the commission chairperson and the executive officer, the prioritization of the commission's docket work is based on the chairperson's directives; however, the chairperson

Docket Team Assignment



does not conduct regular meetings with section chiefs to communicate these priorities. In the absence of such communication, section chiefs and team leaders set their own priorities for dockets with matters having statutory deadlines placed at the top of the list. Occasionally, work on a particular docket may be expedited after an inquiry from a commissioner or direction from the chairperson. According to one team leader, absent those two considerations, he prioritizes dockets based on the complexity and the contentiousness of the issues associated with each docket.

PUC's "American Flag" Process



THE COMMISSION chairperson instituted his "American Flag" process for the benefit of the attorneys who will be drafting any amendments to draft decision/orders. The commissioners do not collectively deliberate and decide matters before the proposed draft decision/order is circulated. The process, as described by the chairperson, is as follows:

- Stage 1:** The proposed draft decision/order is circulated.
- Stage 2:** After review of the proposed draft, the three commissioners may propose changes to the draft. Any such changes shall be in **RED**. If the amendment is to delete, use **RED** brackets to show what's being deleted. For language change, the changes are in **RED**.
- Stage 3:** The three commissioners review the proposed draft with **RED** amendments and determine what their position is on each of the amendments. For those amendments to which all three commissioners agree, those amendments are highlighted in **BLUE**.
- Stage 4:** The commission may now have a draft highlighted with Red (no agreement) and Blue (agreement on amendment). At this stage, the commissioners meet to discuss the possibility of a consensus on the **RED** amendments. If no consensus is reached, then the commissioners vote on each of the remaining **RED** areas. A 2-1 vote changes the **RED** to **BLUE**.
- Stage 5:** The commission reaches a final decision. If there's to be a dissent, time will be given to that commissioner to draft a dissent.

Motor carrier dockets stall when staffer is on leave.

In our review of dockets for Motor Carrier Certificates of Public Convenience and Necessity (Motor Carrier Certificates), we found that the PUC does not have written policies governing the process for surrendering these certificates. The PUC also does not have written policies and procedures for determining the financial fitness for motor carrier applicants. Pursuant to Section 6-61-79(9), Hawai'i Administrative Rules, applications for Motor Carrier Certificates must contain a financial statement and a statement of financial ability to render the proposed service. We also found that without criteria to

Heavy Traffic

IN FY2017, the PUC regulated 1,528 motor carriers, which is more than six times the number of all other regulated utility companies combined. The 341 motor carrier dockets that the PUC subsequently closed represents approximately 75 percent of the total dockets completed during the year.

determine what constitutes an applicant's financial fitness to render the proposed services, PUC audit staff reached inconsistent conclusions in three out of the four dockets that we tested.

Almost all motor carrier dockets are processed by a single PUC staff member who works independently and, over the course of his nearly 25 years at the PUC, has developed a process that only he fully understands. He has not documented all of these processes, and management has not required him to do so. "[My] co-workers have no clue what I'm doing," he said. But, according to the staff member, anyone could pick up what he does and understand what is going on. However, no one else appears to have done that. He also reports that no one processes motor carrier dockets during his absence and added that he limits his vacations to one week at a time.

Succession planning not addressed in Statement of Goals.

According to the executive officer, senior staff leaving the PUC and taking their institutional knowledge with them is a continual challenge. The executive officer has been tracking employees who are contemplating retirement but has yet to formulate a succession plan for the commission. In one instance last year, he hired a recently retired former section chief to return to the PUC as a consultant. The former section chief was tasked with mentoring his replacement, who he met with once a week. The consulting contract is for a one- to two-year term.

We note that succession planning is not addressed in the PUC's Statement of Goals, but it should be. By way of example, one of the Texas Public Utilities Commission's Workforce Plan goals is to develop a formal agency succession plan. It features four different action steps. We do not suggest that the PUC needs to plan, produce, and implement a strategic plan the size and scope of Texas'. However, the PUC does need to step back from daily operational work to outline priorities in terms of its strategic goals and desired outcomes. Without a clear vision and specific goals and action plans to achieve them, the PUC will continue to trudge through daily operational work, hypothesizing about the solutions to its challenges instead of making real progress toward them.

Despite spending \$2.8 million on a computerized document management system, PUC's docket efficiency needs remain unmet.

According to the PUC, DMS is a customized IBM Content Manager application whose primary functions are to manage dockets, handle applications, and make docket information and documents available to the commission, to the consumer advocate, and to the public. DMS functions include capturing paper documents and electronically filed documents, maintaining scanned documents, processing electronic payments, electronically processing and routing documents through internal workflows, posting and notifying the public of filings, and archiving of documents. The PUC has spent \$2.8 million since 2005 for this functionality.

DMS Expenditures from Inception to August 1, 2017

FY2005–2012	\$1,243,018
FY2013	284,245
FY2014	197,820*
FY2015	281,355
FY2016	408,367
FY2017	337,145
As of August 1, 2017	69,545
Total	\$2,821,495

*Start of Dayhuff maintenance contract.

Source: Office of the Auditor

However, DMS has proven to be anything but “user-friendly.” For example, we found that DMS is almost universally considered by management and staff to be difficult to use, unreliable, slow, and obsolete, with staff developing elaborate workarounds to accommodate for the system’s shortcomings. The executive officer called it “clumsy.” One commissioner even called DMS “worthless” and “archaic,” its functionality so inadequate that staff use it mainly as a repository for documents and little else. Another commissioner told us that on the first day on the job, he found DMS hard to navigate with a nearly inoperable search engine. To find a particular docket, the commissioner explained, users have to know specific docket numbers, which limited DMS’ use to primarily PUC and consumer advocate staff, and utility staff who were familiar with specific cases. The commissioner said that the search engine has since been improved, but its results are still considered unreliable by staff; he added that a better system would help improve staff efficiency.

Meeting the Minimum?

IN ITS 2005 RFP for a document management system, the PUC identified 12 minimum requirements. We determined that the current system can partially perform 1 of the 12 minimum requirements, and can perform 2 of the 12 minimum requirements. DMS cannot perform 3 of the 12 minimum requirements. We could not assess the remaining 6 requirements because we were unfamiliar with the PUC's document processing capabilities prior to acquiring DMS. The 2005 RFP minimum requirements (with our notations) are:

1. Provide for web-enabled electronic docketing	Yes
2. Electronic capture of documents through the use of imaging technology	Yes
3. Reduce the amount of paper processing (e.g., manual copying, distribution, and filing) and reduce paper storage requirements	Could Not Assess
4. Eliminate the need for the PUC and CA to enter the same data into separate systems	No
5. Allow the PUC and CA to share information	Partial
6. Improve the availability and accessibility of information to the public	Could Not Assess
7. Make it easier for people outside of the PUC and CA to submit and receive information and make it easier for the PUC and CA to process information	Could Not Assess
8. Increase the responsiveness of the PUC and CA to people both internally and externally	Could Not Assess
9. Improve information security and processing controls	Could Not Assess
10. Improve the planning and scheduling of people and resources	No
11. Consolidate the PUC and CA databases where appropriate	No
12. Allow secure remote access for authorized personnel or consultants	Could Not Assess

The PUC chairperson acknowledged that DMS is obsolete. He told us, “I’m frustrated as hell with it.” He would like to see the system scrapped. “We gotta move into the 21st century,” he told us.

To ascertain how the commission ended up with a system so ill-suited to its needs, we requested the contract to develop DMS that the commission executed in 2005. But we never received a copy of that contract. We were informed by the PUC that neither the commission nor the Department of Budget and Finance (B&F) (which the PUC was administratively attached to at the time) had a copy of the 2005 contract. Both the PUC and B&F said that they had destroyed their copies of the contract in accordance with a Department of Accounting and General Services’ retention policy that they asserted recommends agencies purge their files of documents six years after the final payment. However, B&F did provide us with the PUC’s Request for Proposal for a “Pre-Packaged Document Management System” issued on May 6, 2005 (RFP). The department also provided us with the Best and Final Offer (\$532,732) from the Dayhuff Group, the Ohio-based developer who was awarded the DMS contract.

Without the contract, we were unable to definitively determine the final, agreed-upon contract scope and other terms, including the requirements of the system to be developed. However, the RFP contained 12 minimum requirements for DMS, including such capabilities as “Electronic capture of documents through the use of imaging technology,” “Allow the PUC and CA to share information,” and “Improve the planning and scheduling of people and resources.” As we detail below, at least for the past several years, DMS has failed to live up to these requirements.

DMS fails to meet many of its intended purposes, and in many cases, is a hindrance.

Based on our observations of PUC staff demonstrating typical DMS tasks and interviews of commission personnel and the consumer advocate about their experiences and perceptions of DMS, we found that DMS does not perform many of the minimum requirements listed in the RFP. For instance, several of the 12 requirements involve the sharing, consolidation, and easy processing of information between the PUC and the consumer advocate. Currently, DMS offers no such sharing, consolidation, or integration between the commission and the consumer advocate. The consumer advocate’s access to information in DMS is the same as the public’s access, without access through DMS to documents filed under the commission’s protective order. Therefore, the consumer advocate maintains its own system, Docushare, for intaking, scanning, and organizing docket filings. The consumer advocate explained that his division is supposed to have access rights similar to the PUC’s staff

(including access to documents filed by the utilities under protective order) with limited exceptions for internal PUC documents, and workflow functions; and that the PUC and the consumer advocate were supposed to work together during the development of DMS to allow for similar access by both the PUC and the consumer advocate. It was anticipated that shared access would facilitate the efficient management of dockets by both the PUC and the consumer advocate staff. However, plans to integrate the data between the two agencies were abandoned after the contractor struggled to provide basic system functionality.

We also observed several demonstrations of DMS' search capabilities. During one demonstration, a PUC attorney searched for an order and entered the key words "Smart Grid" for "All" industry types into the system's search engine. DMS returned 1,740 results, far too many items for the attorney to manually sort through. The attorney told us that, instead of DMS, he uses Westlaw, an online subscriber-based legal research service, to search for PUC orders and then uses DMS to access the documents filed in the docket. Other PUC attorneys, including the PUC's chief counsel, also reported using Westlaw to search for dockets rather than searching on DMS.

The attorney also demonstrated how DMS' response times vary widely, depending on who is accessing the system, when they are on the system, and what web browser they are using. For example, the attorney attempted to open a PDF file through both internal and public access platforms while using various web browsers. The access times ranged from ten seconds to more than six minutes. The attorney explained that access times are unpredictable regardless of the platform or the web browser so when the attorney needs to open a PDF document on DMS, the attorney typically uses multiple combinations of internal and public platforms and web browsers simultaneously until the PDF document successfully opens.

When it issued its order denying the application for NextEra's merger with the Hawaiian Electric Companies in July 2016, the PUC created a webpage **outside of DMS** to post the document. PUC managers expected that heavy traffic for the much-anticipated decision would overwhelm the system.

Another minimum requirement detailed in the RFP was "Improve the planning and scheduling of people and resources." DMS does neither of these tasks. As a result, the PUC's chief counsel, who is responsible for tracking and scheduling all dockets, manually generates tracking and status reports by reviewing the most recent documents filed on DMS. However, she does not have the time to maintain her spreadsheet daily. She agrees that an automated system to track the status of all dockets and each attorney's workload would be helpful. Without an integrated

system, team leaders have resorted to using their own project-tracking methods that run the gamut from Microsoft calendars, spreadsheets, email folders, and even whiteboards.

Despite the DMS' shortcomings, the PUC has no firm plans for its replacement.

Although the initial contract to develop the DMS system was not provided, the PUC did provide us with a subsequent contract with DMS' Ohio-based developer, separate from the initial contract to create DMS, for maintenance of the system. This separate maintenance contract was executed in June 2013 and was originally set to expire in June 2015. However, the maintenance contract has been supplemented four times, including two extensions. In 2017, the maintenance contract was amended to add another \$400,000 of system enhancements and to extend the contract expiration date from June 2017 to June 2019. To date, the PUC has spent over \$2.8 million on its much-maligned document management system.

Despite near-universal disdain for DMS throughout the PUC and with a maintenance contract set to expire next year, the commission has no firm plans to fix or replace the problematic system. The PUC's executive officer told us that he had heard about the system's problems prior to his start at the commission in 2015, but executed the latest supplemental contract effective July 1, 2017, which in part extended the maintenance contract to June 2019. According to the executive officer, he started discussions to replace DMS in the fall of 2017 and has met with several vendors (via vendor-initiated sales calls). Those vendors' consistent proposals have been for a modular approach to development. In other words, they can "plug and play" in stages until a complete system change is concluded.

The executive officer considered making a supplemental budget request to the Legislature for a new document management system **but has yet to do so** since he does not have a cost estimate to present. The PUC's information technology specialist is compiling a list of DMS' deficiencies from staff and is in the process of drafting a Request for Information (RFI) for the development of a new system, a preliminary stage in procurement. According to the executive officer, the RFI will help determine a reasonable cost estimate, which he can then submit to the Legislature as support for a request for an appropriation. The executive officer initially wanted the RFI to be issued before the end of 2017, but now hopes to complete the RFI by the end of the first quarter of 2018. According to the executive officer, the RFI will be inquiring about replacing, not modifying or upgrading DMS; however, if the estimate for a replacement system is cost prohibitive then he may reconsider the matter.

The executive officer did not think the PUC's information technology specialist reached out to other commissions to inquire about their document management systems. Since each commission's work varies, he believes such outreach is unnecessary. The PUC has also not requested feedback about DMS from stakeholders, including the consumer advocate, the utilities, or other regular users. None of the PUC's three commissioners have been consulted during this initial planning stage for an RFI. However, as the RFI takes shape, the executive officer says that the PUC will commence discussions which may include involving stakeholders.

The executive officer admitted it is highly unlikely that the PUC will have a new document management system in place before the current DMS maintenance contract expires in 2019. He added that the PUC will likely need to negotiate a new contract to maintain DMS through the development of and then the transition to the new system; however, the PUC has budgeted for DMS only through FY2019.

Continuing to pay for the maintenance of a "worthless" DMS is problematic in and of itself; however, we are concerned that the PUC only recently (in the fall of 2017) began attempting to assess the limitations of DMS and evaluating PUC's current *and* future needs.

Conclusion

FY2017 was a busy year for the PUC. According to its annual report, the commission issued a total of 859 decisions and orders. Beginning the year with 191 open dockets that had been carried over from the previous fiscal years, the PUC opened an additional 426 dockets bringing the total dockets before the commission to 617 dockets. Of this total, the PUC closed 454 of these dockets and carried over 163 dockets into FY2018. To help with this workload the commission re-described 8 positions and recruited and filled 23 vacant positions. To accommodate the additional staff it completed the second phase of a three-phase office renovation project. According to the annual report, when complete, the renovation will provide space for all funded and authorized full-time Oahu staff to be situated in the same building, increasing the efficiency and effectiveness of the PUC's operations.

However, the more things change, the more they remain the same. In our 2004 audit of the PUC, we found that core deficiencies, including staffing difficulties and an inefficient and ineffective information system, were the result of poor strategic planning. Fourteen years later, we found that these challenges persist. Staff turnover is high, with 80 percent of the PUC's staff having a tenure at the commission of five years or less. The PUC's \$2.8 million (so far) document management

system is unreliable and obsolete, but the commission has no firm plans to replace it. The commission has articulated its Goals and Objectives of the Commission, but it is incomplete, missing action plans and performance measures, components that would link it to the PUC's activities and current challenges.

In our 2004 audit report, we urged the PUC to step back from its daily operational work to outline priorities in terms of its strategic goals and desired outcomes. Our 2004 report also noted that without a vision and corresponding plans to achieve it, the PUC would trudge through its daily operational work. That recommendation and observation remain as relevant and important today as they were 14 years ago.

Recommendations

The Public Utilities Commission should:

1. With respect to strategic planning:

- a. Develop and implement a formal written strategic planning process that includes involving internal and external stakeholders.
- b. Develop and implement a multi-year strategic plan, separate from the annual report, and ensure the PUC's routine self-evaluation of the plan including the assessment of achieved objectives and goals.
- c. Ensure that the strategic plan specifically includes a well-defined mission statement and vision statement which clearly articulates short- and long-term objectives, detailed action plans to achieve specific objectives, prioritized goals, performance measurements identifying target milestones, and the ability to monitor and track progress towards achieving the strategic plan.
- d. Ensure that the strategic plan is communicated to internal and external stakeholders.
- e. Ensure that the strategic plan specifically addresses PUC's role in facilitating larger State goals, including the State's goal of 100 percent renewable energy by 2045.
- f. Develop and implement multi-year strategic workforce, retention, and succession plans that align with the PUC's strategic plan.
- g. Perform annual formal performance evaluations of all employees.
- h. Conduct and document exit interviews.

2. With respect to docket processing:

- a. Develop, establish, and implement official policies and procedures over the docket process.
- b. Document, clarify, and communicate the roles and responsibilities of docket team members.

3. With respect to information technology (IT):

- a. Develop and implement an IT strategy that aligns with the PUC's strategic plan and current needs, and which involves internal and external stakeholders, including the consumer advocate.
- b. Complete the Request for Information as soon as possible to avoid additional maintenance costs for the current system.

Office of the Auditor's Comments on the Public Utilities Commission Response

WE PROVIDED A DRAFT OF THIS REPORT to the Public Utilities Commission (PUC) on February 21, 2018, and met with the chairperson, the executive officer, and the chief counsel on February 23, 2018, to discuss our audit findings and recommendations. The PUC offered its written response to the draft report on February 27, 2018, which is included as Attachment 1.

The PUC generally agreed with our findings and recommendations.

We note that much of the information provided in PUC's response could have been and should have been – but was not – raised during the course of our audit fieldwork. We further note that the PUC's response includes statements that are inconsistent with those that were made to us and about which we reported. More specifically, the PUC asserts that:

Through weekly staff meetings, the PUC developed a strategic plan to provide evolving, long term guidance to the staff with respect to our regulatory direction and operational goals. These meetings also served the purpose of getting all sections involved and engaged in decisions about the organization's administration, which has helped to prevent staff from being siloed in their respective professional sections without an opportunity to contribute to improving the overarching processes and administrative functions of the PUC.

But, as we reported, the executive officer told us that the Statement of Goals is updated annually with input from the section chiefs, not weekly staff meetings. In fact, during our audit fieldwork, no PUC employee – including the commissioners, the executive officer, the section chiefs, or staff – reported weekly staff meetings to develop a strategic plan. The executive officer also told us that the commission's strategic plan, in its entirety, is the statement of "Goals and Objectives of the Commission" contained in the PUC's annual report. That Statement of Goals does not provide any meaningful plan for long-term guidance to staff.

Furthermore, contrary to the PUC's statement, we found that some staff perform work that no other staff performs – or even knows how to perform. As reported, almost all motor carrier dockets are processed by a single staff member and over the course of his nearly 25 years at the PUC he developed a process that only he fully understands.

We are encouraged that the PUC reports that it is continuing the process to identify the needs of internal users and external stakeholders before it issues a Request for Information to identify the cost of a system to replace the current Document Management System (DMS). As we reported, DMS is universally considered to be an unreliable, slow, and obsolete system and should be replaced.

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February 27, 2018

Mr. Leslie H. Kondo
State Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Re: Agency Response to the Draft Audit of the Public Utilities Commission

Dear Mr. Kondo:

We are in receipt of your Draft Audit of the Public Utilities Commission ("Report") and would like to acknowledge the time and effort your office has spent in preparing this document. We also appreciate that the stated purpose of the Audit was to assist us in becoming a better functioning organization.

The Draft Report's recommendations cover a number of issues of which the Public Utilities Commission ("PUC") has been aware, and which have been the subject of our attention during my tenure as Chair of the PUC. Notwithstanding our efforts to date, the recommendations identified in your Report will provide us with further guidance as we continue to improve our strategic planning, and to cost-effectively procure a system to improve or replace our Document Management System ("DMS") that will better serve all users.

That said, the PUC would like to provide some background and context in which this Report should be viewed.

Historical Context

The PUC prioritizes the informed review and analysis of the utility-related issues brought before us, so that our staff can make effective technical, legal, and policy recommendations to the Commissioners, that lead to the issuance of well-reasoned decisions and orders. This thorough, informed review is critically important to the resolution of the numerous and varied challenging issues that the PUC is continuously being asked to address. We note at the outset here that, as the Report acknowledges, the Audit "did not evaluate the effectiveness and efficiency of the recommendations made by the [PUC's] operational section chiefs to the Commissioners, or the decisions and

Mr. Leslie H. Kondo
February 27, 2018
Page 2

orders made by the PUC because of the technical subject matter expertise that would be required.” While acknowledging the strides that the PUC, like many of our fellow government agencies, needs to make to (1) improve our ongoing strategic planning; and (2) enhance our software systems to better serve our staff and users outside the organization, the PUC is nonetheless proud of the effectiveness and quality of the decisions and orders that we issue, that are dedicated to moving our State’s energy and other utility policies forward, consistent with the path that the Legislature has set for us.

Hiring

When I was appointed Chair of the PUC in January of 2015, the staff count stood at 34 out of a total of 65 positions authorized by Act 108, SLH 2014.

Given the number of pending dockets, all of which have significant importance for the public utility landscape in Hawaii, our first priority was to increase our staffing in order to have the necessary resources to review and issue decisions on pending dockets.

It is important to note that the field of regulatory utility law and policy is a small, niche area, and many of those currently employed in the field work in the private sector, which makes the recruitment of qualified personnel subject to stiff competition with the salary and benefits offered by private utilities and other companies, as well as those companies’ often greater opportunities for promotion.

Staff Retention

Despite these obstacles, the PUC has been able to hire staff who are bright, enthusiastic, and committed to the work of the PUC, bringing our staff count to 58 at the present time. We have significantly increased the opportunities for training having increased our training expenditures from about \$8,600 in FY2004 to \$33,300 in FY17.

While many of those that we have hired are still early in their careers at the PUC, we have been fortunate to have been able to bring some exceptional people on board, many of whom have had previous energy and utility experience, or other valuable prior work experience. PUC staff members that have been with the organization for 5 years or less, have been invited to make presentations at conferences on cutting-edge energy issues, including at the U.S. Department of Energy’s Energy Storage Seminar, Institute of Electrical and Electronics Engineers Symposium (related to distributed energy resources), and the Energy Bar Association’s Western Chapter Annual Conference, among others. Our staff is asked to present at these events because their creative thinking and ability to solve complex, often-unique, new problems, draws from best

Mr. Leslie H. Kondo
February 27, 2018
Page 3

practices in other jurisdictions to create innovative solutions for moving Hawaii energy policy forward, which is of national and international interest. All that to say, while many of our staff have been at the PUC for 5 years or less, some of these staff came to us with significant experience, and are recognized as leaders in energy regulatory practice. In addition, the dedicated efforts of all staff, regardless of length of service, are capably and competently serving the PUC and the State.

Administrative Organization

Despite the continuous effort spent on major energy policy-related dockets, providing guidance to the State's major utilities, and addressing the variety of complaints, letters, tariff transmittals, and other filings we receive, we have made progress in improving the overall operation of the PUC.

Through weekly staff meetings, the PUC developed a strategic plan to provide evolving, long term guidance to the staff with respect to our regulatory direction and operational goals. These meetings also served the purpose of getting all sections involved and engaged in decisions about the organization's administration, which has helped to prevent staff from being siloed in their respective professional sections without an opportunity to contribute to improving the overarching processes and administrative functions of the PUC.

DMS

The PUC is continuing our efforts to clearly identify the attributes we require for an updated or replacement DMS system, and the steps necessary to cost-effectively update or replace that system.

Currently, the PUC is identifying the DMS-related needs of internal system users, and where appropriate, external stakeholders. Once we have completed this task, we intend to issue an RFI, consistent with the recommendation in the Audit Report, to identify what a replacement system would cost, at which time we will make the request for an appropriation to proceed with updating or replacing the system. We appreciate your recommendation that an RFI should be completed as soon as possible, and are working to ensure that any new software system(s) provide the maximum effectiveness for PUC staff, the regulated community, and the public.

Mr. Leslie H. Kondo
February 27, 2018
Page 4

Strategic Planning

As noted above, while the PUC regulates utilities across many industries, it is the energy sector that demands much of our attention. Issues of significant consequence, such as distributed energy resources, demand response, decoupling, power supply planning, grid modernization, and performance based regulation, understandably require significant time, attention, and resources.

Without question, the environment in which the PUC operates has changed drastically since the last Audit was performed in 2004, necessitating that the agency be increasingly responsive and nimble. Most significantly, Hawaii codified its intention to reach a 100% renewable portfolio standard by 2045. The transformation of Hawaii's energy sector has prompted the PUC to respond by opening highly technical and complex policy dockets that require more technical expertise, time, and resources to arrive at decisions that help weave together the various considerations necessary to move the State forward towards this ambitious goal.

Regarding strategy, the PUC has issued a number of orders in recent years that collectively seek to maintain focus on, and coordinate movement towards, increased renewable energy utilization in the State, and specifically, this RPS goal. The PUC issued its Inclinations White Paper in April of 2014, which established policy leadership and a vision for aligning business strategies, customers' interests, and the State's energy policy goals. The PUC has also approved numerous renewable energy Power Purchase Agreements, directed implementation of a grid modernization strategy, established a number of innovative distributed energy resources tariffs, recently approved the Hawaiian Electric Companies to move forward with procuring an unprecedented amount of variable renewable energy, and approved a framework for a community-based renewable energy program, among numerous other things, in furtherance of these goals. This is in addition to improvements in enforcement in the PUC's Compliance Division, continuing to efficiently process motor carrier applications, addressing applications from the ever-evolving telecommunications industry, examining the infrastructure and rate design challenges with the private water and wastewater utilities in the State that often have smaller service areas and customer bases, and addressing various expenditure and operational approval requests from various utilities. The PUC has also dedicated significant resources in recent years to evaluating the HECO/NextEra merger application, and is currently evaluating five major rate cases across the electricity, gas, and interisland shipping industries.

Mr. Leslie H. Kondo
February 27, 2018
Page 5

Standardized Docket Procedures

Understandably, the issues presented in docket filings can vary widely, and can arise unexpectedly, making it challenging to predetermine standardized procedures from docket-to-docket. The procedural schedules that are proposed by the parties to our dockets, and approved by the PUC, establish the cadence of each docket, informed by any applicable statutory deadlines. Besides ultimately issuing well-reasoned, thorough, orders that are consistent with the public interest, the most important goal for the PUC, the regulated audience, and stakeholders, is the timeliness of decisions.

From the beginning of my tenure, the PUC has prioritized the timeliness of decision-making, recognizing that there are consequences to unnecessary delay, and I am proud of what we have accomplished. Since January 2015, we have seen the closure rate for dockets improve from 61% (590 pending dockets with 358 closed) to 74% (617 pending dockets with 454 closed), annually. In 2004, the year of the last PUC audit, the closure rate was 40% (740 pending dockets with 294 closures).

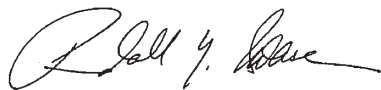
Conclusion

Our accomplishments by no means imply that we will cease to endeavor to seek continuous improvement across our organization.

We recognize that we can improve, and will continue to strive to do so.

We again acknowledge your work in preparing this Report. We agree that the issues identified in the Report must be addressed, and the PUC will continue with its concerted efforts to address them. The Report's recommendations serve to further emphasize the importance of these issues as we continue our day-to-day work, and we will proceed with purpose to improve, consistent with the areas you have identified.

Sincerely,



Randall Y. Iwase
Chair

RYI:sl

Appendix A

PUC's Functional Statement

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

PUBLIC UTILITIES COMMISSION

FUNCTIONAL STATEMENT

The Public Utilities Commission ("Commission") regulates all chartered, franchised, certificated, and registered public service companies operating in the State of Hawaii ("State") that provide electricity, telecommunication, gas, private water and sewage, motor and water carrier transportation services and other entities as required by law. The Commission has the statutory authority to enforce applicable State statutes, and to establish and enforce administrative rules and regulations, and to set policies and standards.

- Adopts and promulgates rules and regulations pertaining to standards of efficient and reasonable services, safety of operations, adequacy of facilities, accounting methods and records, financial and statistical reports, filings with the Commission, and practices and procedures before the Commission.
- Prescribes rates, tariffs, charges and fees. Determines the allowable rate of earnings in establishing rates.
- Issues orders and guidelines concerning the general management and safe operation of regulated utility businesses.
- Acts on applications for certification and for the extension or abandonment of services.
- Prescribes the methods, service, lives and annual rates of depreciation for utility properties.
- Acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations.
- Acts on requests for the issuance and disposition of securities and other evidences of long-term indebtedness.
- Implements the State's policies and performs oversight duties of legislatively mandated initiatives.

OFFICE OF COMMISSION COUNSEL

Provides in-house legal counsel to the Commission and its staff.

- Furnishes general legal advisory services in all matters involving the Commission's functions and activities under governing statutes, rules, and policies applicable to or affecting the Commission.
- Manages and drafts Commission orders and Decisions & Orders.
- Represents the Commission before reviewing courts, the State Legislature and other State and Federal agencies.
- Assists in the formulation of rules and regulations and of legislative matters pertaining to the Commission.

OFFICE OF THE EXECUTIVE OFFICER

Plans, directs, and manages the operations of the Commission.

- Administers the daily operations of the Commission ensuring availability of appropriate resources to effectively perform daily tasks and meet organizational goals and objectives.
- Oversees the personnel functions of the Commission, including management and recruitment of personnel, and staff development; fiscal functions of the

Commission, including budget planning and implementation, procurement and contract administration, transactional functions, and payroll; and implementation of administrative and legislatively directed programs and projects.

- Plans, organizes, coordinates, and directs the formulation of plans, strategies, and implementation actions that support the Commission's short and long term goals.
- Develops and coordinates the plans, functions, and production of the Audit, Engineering, Consumer Affairs and Compliance, Administrative Support Services, Fiscal, and Personnel Sections to ensure effective achievement of Commission tasks and goals.

Audit Section

Provides assistance in conducting audit projects that involve the examination of accounts and records; the review and evaluation of reports, working papers and expenditures; the development and implementation of research projects and audit studies; and the preparation of reports of audits and special projects for matters under consideration by the Commission.

- Assists the Commission in research, analysis and preparation of summaries in exhibits and information for matters before the Commission.
- Examines accounts and records of regulated companies to ascertain compliance with the Commission's policies, orders, and records keeping requirements and regulations.
- Reviews and evaluates reports, working papers, and expenditures of public utilities to determine whether the public utilities' operations are consistent with the Commission's objectives to provide reasonable rates and charges.
- Furnishes reports to the Commission on its audit activities.

Note: The primary focus of the Audit Section is the examination of accounting records to check for accuracy, conformance to prescribed standards, and propriety of transactions. The Policy & Research Section uses the data gathered by the Audit Section and from other sources in its financial analyses of the regulated companies.

Engineering Section

Provides assistance in carrying out engineering functional duties, preparing and/or compiling data into comprehensive studies and reports, and conducts investigations requiring technical determinations on complaints and compliance by the regulated entities.

- Assists the Commission by providing engineering data and studies concerning system design, construction, maintenance and operation of entities regulated by the Commission.
- Conducts investigations, studies and prepares reports relating to overhead line construction by electric and telephone companies for compliance with standards; conducts investigations to enforce compliance with service standards for all regulated companies; reviews and reports on studies utilized to justify recommendation for revision of existing rules and regulations.
- Analyzes and evaluates depreciation studies of electric, gas and telephone utilities to determine service lives of equipment used or useful for public utility purposes including analysis of retirement dispersions, annuity rates, salvage ratio and other factors affecting the depreciation rates.
- Performs capacity studies based on load growth and system reliability to determine future requirements of the regulated utility companies; review, analyze and evaluate capital expenditure requests by regulated companies

to install and construct equipment and facilities or to lease or purchase property for public utility purposes.

- Analyzes and evaluates all testimony and exhibits in cases relating to fuel oil, maintenance, generation transmission, distribution costs including all factors relating to cost of service, rate base, and revenue requirements advocated by the respective parties to assist the Commission in their deliberation of the proceeding.

Consumer Affairs and Compliance Section

Establishes and maintains contact with the media, regulated entities, government agencies, and the public; disseminates public information; provides investigation, complaint resolution, and enforcement services; and conducts community outreach and educational services on behalf of the Commission.

- Receives, reviews, attempts to resolve informal inquiries and complaints or refers to appropriate government agency for follow up action.
- Plans, organizes, coordinates, and directs the Commission's education and community outreach activities and tasks.
- Plans, coordinates, and implements the Commission's public information programs and activities across all media.
- Oversees the administration of projects and legislatively mandated programs as appropriate.
- Conducts inspections, surveys, tests, and inquiries into the operations, practices, services, records, and property of the regulated entities and submits reports to the Commission regarding these studies.
- Issues citations and serves subpoenas to alleged violators of Commission statutes, rules, and regulations.

Administrative Support Services Section

Provides specialized staff support to the Executive Officer in the administration of the daily operations of the Commission and assists with the planning, coordination, execution, and oversight of Commission special projects and activities.

Case Management Services Staff

Maintains and preserves the Commission's official docket files and quasi-judicial records and provides support services to the Chief Counsel and Legal Section.

- Receives, records, issues, and preserves the quasi-judicial records and tariffs of the Commission in official hard-copy, electronic, and permanent (e.g., microfilm) forms.
- Maintains a register of all Commission decisions, orders, records all votes and official acts of the Commission.
- Schedules and makes arrangements for Commission hearings and other official proceedings and issues required official public notices.
- Assists the regulated entities, their counsel, other stakeholders, and the general public with docketed matters.
- Files/transmits official Commission documents all rules and regulations with respective courts and government offices and agencies.

Clerical Services Staff

- Provides clerical support services such as record and systems maintenance, typing, duplicating, travel voucher preparation, processing mail, messenger services, reception activities, and administrative and clerical support for all Commission staff.
- Maintains Commission's non docketed files and records.
- Receives and processes informal complaints and inquiries.
- Provides reception services to the general public.

Information Technology Staff

Provides Information Technology (IT) support and information to the Commission Chairperson, Commissioners, and staff.

- Administer, maintain, enhance, and procure the Commission's IT infrastructure that includes equipment, cabling/wiring, and services for the Commission's Wide Area Network (WAN), Local Area Network (LAN), telecommunication network, servers, workstations, mobile devices, communication devices, copy/scan/print devices, and Audio/Video systems.
- Recommend, develop, maintain, and enhance IT systems and applications.
- Provide end user support for IT infrastructure, systems, and office applications through onsite and help desk support, documentation, and training.
- Serve as a knowledge base for IT standards and trends.

Fiscal Section

Plans, develops, coordinates, and implements the Commission's fiscal and procurement activities ensuring compliance and completeness of all processes.

- Plans, executes, manages, and reconciles the Commission's budget; prepares budget proposals, reports and testimonies; and formulates responses to audit inquiries and investigations.
- Manages and processes payroll and all related transactions.
- Provides clerical fiscal support for all matters concerning the Commission's fiscal activities, maintains the Commission's physical inventory, and maintains fiscal records.
- Plans, and conducts the Commission's procurement activities, including travel requests, prioritizing and coordinating requests from the different offices and sections while adhering to the budget execution plan.
- Coordinates and administers contract activities such as development and preparation of specifications, requests for proposals, review and selection of proposals, publication notices, contract execution, and vendor compliance and satisfactory performance to program standards.

Personnel Section

Oversees and performs internal personnel support functions for the Commission ensuring compliance and completeness of all personnel support activities.

- Coordinates, assists, and processes recruitment, on board, and orientation activities; and completes and files necessary forms and documents with respective agencies.

- Maintains and updates Commission's personnel records and files, distributes personnel related documents, assists with staff personnel inquiries, and maintains confidentiality.
- Oversees and coordinates staff development and discipline; PAS execution and compliance; developing, budgeting, and tracking of training activities; and coordination of Commission initiated staff training sessions.
- Provides support and guidance to staff on Human Resource related inquiries and requests.

OFFICE OF POLICY AND RESEARCH

Provides comprehensive and technical policy analysis and research; financial, statistical, and economic evaluations; legislative and media support functions; and assists with the development of Commission rules and policies.

Utility Analysis Section

- Conducts analyses of all phases of utility and transportation company operations dealing with financial needs, methods, practices, costs thereof, and rates of return.
- Analyzes emerging issues and developing trends in industries regulated by the Commission.
- Identifies objectives and policies the Commission should pursue and develops programs to support stated policies.
- Advises the Commission on all regulated industry and government policy matters.
- Develops strategies and oversees implementation of action plans and programs that carry out legislatively mandated goals and objectives including the State's clean energy initiatives.
- Coordinates, manages, and oversees Commission Legislative team and related efforts.

Economic and Research Section

- Prepares financial analyses on pending applications involving regulated companies' requests to issue securities or assume liabilities and obligations thereof, to modify capital structures, and to reorganize.
- Plans, organizes and performs economic analyses of operations, methods, and costs of financing, rates of return and other financial and economic information regarding matters under consideration by the Commission.
- Investigates, reviews and evaluates operating activities of franchised or certified public service companies, including rates, tariffs, charges, rules and regulations, practices, services, capital improvement plans, blueprints, facilities, transactions with affiliates, agreements, load growth projections and peak load requirements.
- Conducts studies and renders technical assistance, advice, and evaluation of mathematical and statistical aspects of matters subject to the Commission's jurisdiction.
- Provides research support and analytical functions to the Commission.

Appendix B

Texas Workforce Plan (Excerpt)

WORKFORCE PLAN

Strategy Development

The Commission has developed workforce goals to address the potential deficit between the current workforce and future demands. The strategies will need to be assessed periodically to determine their effectiveness in achieving the PUC's workforce goals.

- GOAL ONE:** Recruit professionals with the requisite skills to complement the Commission's existing workforce and take steps to retain these professionals.
- Rationale:** The demand for educated, licensed and/or certified staff in the electric and telecommunication industries requires special agency efforts. Competition with the private sector for the same labor supply creates a disadvantage for state agencies due to salary differences.
- Action Steps:**
- Continue to market the "total" state compensation and benefits program to potential applicants/employees.
 - Human Resources and/or Division Directors will participate in university sponsored career fairs, locate free advertising with associated and minority organizations, appropriate technical educational institutions, and Work In Texas (Texas Workforce Commission) to aggressively recruit qualified minority males, females, and people with disabilities.
 - Expand the Commission's volunteer internship program to alert and encourage qualified minority males, females, and people with disabilities to apply.
 - Improve recruiting techniques by streamlining application procedures and reviewing applicant flow data to target sources that will assist with hiring employees in underutilized job categories.
 - Require managers to work with new employees to attempt to align PUC employment opportunities with the employee's individual career goals.
- GOAL TWO:** Retain qualified and experienced staff ensuring smooth business operations and excellent customer service.
- Rationale:** The Commission's experience with high turnover in a competitive market for certain skills supports the need for this goal.
- Action Steps:**
- Increase employee career planning assistance through training programs and participation in continuous professional development initiatives that enhance the employee's current job performance and future opportunities within the agency.
 - Ensure that managers and supervisors, especially those new to these responsibilities, have adequate training in how to recruit, train and retain quality staff.
 - Manage available funds to award merit increases to provide a fair balance of rewarding employee performance and maximizing retention of key personnel.
- GOAL THREE:** Review FTE allocations to ensure conformance to current agency priorities and workload.
- Rationale:** Varying workload demands and shifting priorities can change the appropriate allocation of agency resources.
- Action Steps:**
- Continue to assess all vacancies created by employee departures to determine whether the position should be modified or relocated in the agency.
 - When a need for additional staffing in a given area is identified and vacant positions are not available, offer current employees the opportunity to relocate within the agency.
 - Encourage employees to cross train in related skill areas to provide flexibility in staff assignments.

WORKFORCE PLAN

GOAL FOUR: Develop a formal agency succession plan.

Rationale: It is critical that the agency have a leadership development program and identify potential staff with leadership and other critical skills in the event the agency experiences the loss of key staff members in leadership/critical positions (through retirement or otherwise).

Action Steps:

- Continue to concentrate on leadership development across the agency.
- Identify training programs that focus on development of needed critical skills and competencies.
- Develop skills of staff level employees through training and mentoring to provide in-house candidates for management positions that become available.
- Identify capable successor candidates interested in leadership and critical positions early and provide appropriate opportunities for growth.

Conclusion

During the next five years, the Commission must ensure that it does not experience a deficit in leadership and knowledge talent. As the labor force segment age 25 to 34 years declines, there will be fewer younger workers to fill vacant positions. Also, Texas population is expected to grow from 27.5 to 45.3 million by 2040, increasing demands for state and local government services.

Available talent, as well as the state's ability to develop and retain a competent, qualified workforce will be a limiting or enabling factor for state government in general. An effective workforce plan will translate into successful strategic goal achievement, program initiatives and sustained momentum for efficient, well-run agencies. The Commission's strategies encompass a realigned workforce plan to meet future business objectives by developing an effective succession management and talent retention program.