

CALIFORNIA PUBLIC UTILITIES COMMISSION

FOLLOW-UP REVIEW REPORT

CORRECTIVE ACTIONS FOR INTERNAL CONTROL DEFICIENCIES

January 1, 2014, through December 31, 2014



BETTY T. YEE
California State Controller

October 2015



BETTY T. YEE
California State Controller

October 27, 2015

Tim Sullivan, Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. Sullivan:

The State Controller's Office (SCO) conducted a follow-up review of the California Public Utilities Commission's (CPUC) internal control standards to determine whether it implemented recommendations made in the SCO's December 2013 Review Report (Report).

The Report included a review of the CPUC's internal accounting and administrative controls for the period of July 1, 2011, through December 10, 2012. The review identified material weaknesses in the CPUC's system of internal accounting and administrative controls over financial management and reporting, cash procedures, personnel and payroll processes, contracting and procurement processes, and parking garage operations. The CPUC agreed with the SCO's recommendations to strengthen these internal controls.

Our follow-up review found that the CPUC has implemented, or is in the process of implementing measures to strengthen its accounting and administrative controls. The CPUC has not approved and formalized its policies and procedures to address the internal control weaknesses noted in our Report, because many of the processes still are being fully developed.

If you have any questions, please contact Andrew Finlayson, Bureau Chief, State Agency Audits Bureau, Division of Audits, by phone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Michelle Cooke, Deputy Executive Director
California Public Utilities Commission

Contents

Review Report

Introduction	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials	2
Restricted Use	2
Findings and Recommendations	3

Appendix—Summary of Prior Review Findings and Corrective Actions

Attachment—California Public Utilities Commission Review Report, Internal Accounting and Administrative Controls

Review Report

Introduction

The State Controller's Office (SCO) conducted a follow-up review of the California Public Utilities Commission (CPUC) internal control standards to determine whether it implemented recommendations made in the SCO's December 2013 Review Report (Report). The SCO entered into an Interagency Agreement with the CPUC to conduct this follow-up review. Our review found that the CPUC has implemented, or is in the process of implementing measures to strengthen its accounting and administrative controls.

Background

The CPUC consists of five commissioners appointed by the Governor, with Senate approval, to six-year terms. The CPUC has broad powers to regulate investor-owned-and-operated natural gas, electric, telephone, water, sewer, steam, and passenger transportation companies in California. The CPUC's regulatory activities—establishing operating authority, overseeing service standards, authorizing rate changes, and monitoring safety—benefit consumers by offering them more choices among new and upgraded utility products and services.

In 2013, the SCO conducted a review of the CPUC's internal accounting and administrative controls for the period of July 1, 2011, through December 10, 2012. The review identified material weaknesses in the CPUC's system of internal accounting and administrative controls over financial management and reporting, cash procedures, personnel and payroll processes, contracting and procurement processes, and parking garage operations. The CPUC agreed with the SCO's recommendations to strengthen these internal controls.

Objective, Scope, and Methodology

The objective of the follow-up review was to assess the CPUC's implementation of corrective action plans to address issues identified in the SCO's December 2013 Review Report.

The scope of the follow-up review covered the period of January 1, 2014, through December 31, 2014. The focus of the review included the following CPUC operational areas: Fiscal Operations, Personnel Service Contracts, Personnel and Payroll Processes, and Procurement.

The SCO used the following review methodologies:

- Conducted onsite visits to administrative and accounting function groups and interviewed responsible staff to gain an understanding of the corrective action plans;
- Observed implemented processes to determine whether they were consistent with the SCO's recommendations; and
- Reviewed, on a sample basis, administrative and accounting documents to determine whether the policies and procedures were consistent with the SCO's recommendations.

Conclusion

The SCO conducted a follow-up review of the CPUC's internal control standards for the period January 1, 2014, through December 31, 2014, to determine whether it implemented recommendations made in the SCO's December 2013 Review Report. The report, which included results of a review of the CPUC's internal accounting and administrative controls for the period of July 1, 2011, through December 10, 2012, identified material weaknesses in the CPUC's system of internal accounting and administrative controls over financial management and reporting, cash procedures, personnel and payroll processes, contracting and procurement processes, and parking garage operations.

The purpose of this follow-up review was to determine whether the CPUC implemented corrective actions to address our findings and recommendations. Our review found that the CPUC has implemented, or is in the process of implementing measures to strengthen its accounting and administrative controls. The CPUC has not approved and formalized its policies and procedures to address the internal control weaknesses noted in our Report, because many of the processes still are being fully developed.

**Views of
Responsible
Officials**

We discussed our follow-up review results with Michelle Cooke, Deputy Executive Director, during an initial exit conference conducted on March 27, 2015. Following this exit conference and prior to the issuance of this final report, we also discussed the review results, and confirmed the status of corrective action plans with Audrey Kitzcs, Manager, Budget and Fiscal Services on October 12, 2015. Ms. Cooke and Ms. Kitzcs agreed with the results and stated that the CPUC has made significant progress since the SCO's December 2013 Review Report to improve and implement the administrative and accounting function processes. Ms. Cooke further acknowledged that, as new processes are being evaluated and improved, related policies and procedures have not yet been formalized and adopted by the CPUC.

Restricted Use

This report is intended solely for the information and use of the CPUC and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 27, 2015

Findings and Recommendations (Prior SCO Review, Internal Control Deficiencies and Recommended Corrective Actions¹)

FINDING 1— Insufficient supervisory oversight and lack of documented policies and procedures over financial management and reporting

State Administrative Manual (SAM) section 20050 requires the California Public Utilities Commission (CPUC) to establish and maintain internal accounting and administrative controls. Further, Government Code (GC) section 13403 states that the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to (1) a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures; and (2) an established system of practices to be followed in performance of duties and functions in each of the state agencies.

During our review for the period of July 1, 2011, through December 10, 2012, we observed that the CPUC had inadequate documented policies and procedures over financial management and reporting to ensure the accrual of revenue, collection of fees, surcharges, fines, and restitutions, and documentation and review of journal entries recorded in the general ledger. These deficiencies were aggravated by insufficient supervisory oversight and the lack of coordination among the personnel responsible for contributing to financial reports.

Accrual of Revenue

In our review of telecommunication surcharges and user fees during fiscal year (FY) 2011-12, we noted that the CPUC credited revenue accounts on a cash basis on the date the remittances were received from utility companies. The CPUC did not accrue revenues for revenues earned but not received at June 30, 2012, as is required under SAM section 8290. Our analysis of revenue collected from July 2012 through March 2013 revealed that the CPUC earned telecommunication surcharges and user fees of approximately \$70 million and \$27 million, respectively, during FY 2011-12 but did not record them during the period. This practice apparently has existed for many years. In addition, as a result of the cash basis of revenue recognition, it appears the CPUC may have recorded telecommunication surcharges and user fees earned in the prior fiscal year as revenues for fiscal year 2011-12. However, we did not review the prior period fiscal year's revenues that were collected in fiscal year 2011-12. See Tables 1 and 2 below:

¹ Attachment – State Controller's Office, December 2013 Review Report: California Public Utilities Commission – Internal Accounting and Administrative Controls

Table 1 – Unaccrued Telecommunication Surcharges at June 30, 2012

Fund Name	Collected from July 2012 through March 2013	Uncollected as of March 2013	Total
Universal LifeLine Telephone Service	\$ 42,487,862	\$ —	\$ 42,487,862
California High Cost Fund- B	11,128,549	2,636	11,131,185
Deaf and Disabled Telecommunications Program	7,392,806	6,931	7,399,737
California Advanced Services Fund	5,189,806	713,344	5,903,150
California Teleconnect Fund	2,927,227	2,726	2,929,953
California High Cost Fund- A	4,104	—	4,104
Total	\$ 69,130,354	\$ 725,637	\$ 69,855,991

Source: Our analysis of the CPUC collection system's data for telecommunication surcharges from July 2012 through March 2013.

Table 2 – Unaccrued User Fees at June 30, 2012

Utility Type	Collected from July through December 2012
Electrical	\$ 11,801,770
Water and sewer	9,166,604
Telecommunications	4,664,113
Gas	1,783,444
Pipeline	24,869
Total	\$ 27,440,800

Source: Our analysis of the CPUC collection system's data for user fees from July 2012 through March 2013.

State Administrative Manual (SAM), Section 8290, states:

As of June 30 each year, income, as defined in SAM Section 8200, earned but not received will be accrued as of the fiscal year just ended if it is estimated to be collectible within one year after the end of the current fiscal year. Such amounts are considered earned as of June 30 of the year just ended.

We understand that the CPUC's nonaccrual of revenues is a timing difference in recording transactions. However, accrual accounting, when administered properly, allows the CPUC's policy makers and financial managers to understand the full benefits and costs of their decisions in the fiscal period in which those decisions are made. On the other hand, recording revenues solely on a cash basis could significantly distort the financial statements, as cash collections often fluctuate significantly from year to year. Without accurate and reliable revenue data, the CPUC would have difficulties developing meaningful budget projections.

We found that the CPUC's failure to accrue surcharges and user fees stemmed from a lack of procedures to ensure coordination between the Fiscal Office and program staff to estimate the amount of revenues to be accrued for the fiscal year. In addition, the Fiscal Office does not have sufficient coordination with Information Technology Branch staff knowledgeable for generating financial reports. CPUC Administrative Services Division management should ensure that there is sufficient supervisory oversight to ensure that SAM requirements are followed.

Recommendation

The CPUC should establish written policies and procedures to ensure that telecommunication surcharges and user fees are properly recorded. The Fiscal Office should take the lead to coordinate with program staff to develop and implement a methodology for estimating the amount of revenue that the CPUC has earned during a fiscal year and expects to collect within one year after June 30. The CPUC should report this amount as revenue at June 30. In addition, the CPUC should maintain adequate supervisory oversight over revenue accrual processes to ensure that the appropriate accounting principles are being followed.

CPUC's Response/Corrective Action Plan

The CPUC agrees with the finding that it historically did not accrue revenue for telecommunication surcharges and user fees due to difficulties in timing and estimating revenues, and a lack of communication between the Fiscal Office and program management. To remedy this situation for FY 2012-13 year-end financial statements, Fiscal Office staff analyzed CALSTARS data and internal revenue tracking systems (TMIS, TUFFS and UFS) data to estimate revenue amounts to support accrual entries for the year-end; the CPUC is now in compliance with the SAM requirements for income accrual. Fiscal Office staff are working with the Communications Division to more accurately estimate revenue streams in future years for year-end accrual.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- Added a new process for accrual of revenue for surcharges and user fees by creating more effective formulas and spreadsheets
- Prepared suggested policies and procedures for the new process of accrual of revenue for surcharges and user fees, however, still lacks formalized policies and procedures, as recommended by SCO

SCO's Follow-Up Recommendation

The CPUC lacks the recommended secondary review for the revenue accrual process, and policies and procedures. We recommend that the CPUC establish recommended processes, formalize policies and procedures, and ensure compliance with the formalized policies and procedures for the surcharge revenue accrual process.

Collection of Telecommunication Surcharges

The CPUC uses computer systems to monitor utility companies' reporting and remittances of surcharges and fees: Telecommunications and User Fees Filing System (TUFFS) for telecommunication surcharges and User Fees System (UFS) for user fees.

We identified 480 reporting utility companies in TUFFS between July 2011 and December 2012. Of the 480 utility companies, the CPUC failed to collect one or more telecommunication surcharges from 40 utility companies totaling approximately \$812,878, which includes \$725,637 earned but not recorded as revenue in FY 2011-12, as shown in Table 1. Conversely, the CPUC overcollected approximately \$10,765 from 28 utility companies. Further, we noted that 308 of the 480 utility companies took an average of 112 days to remit surcharges. Remittance of surcharges is due 40 days after end of the reporting period.

We also identified 120 reporting utility companies in UFS between July and December 2012. Of the 120 utility companies, 64 took an average of 109 days to remit user fees totaling approximately \$15 million. Included in these remittances was a user fee of \$4,645 that was remitted three years after the end of the reporting period. Remittance of user fees is due 15 days after end of the reporting period.

There is an apparent lack of coordination of collection effort between the Fiscal Office and program staff. Although the above data are available in the TUFFS and UFS systems, we found no indication that the CPUC initiated further actions to collect surcharges and fees, return over-collections, or improve collection efforts. No specific staff has been assigned to monitor and follow up on issues identified by the computer systems.

Recommendation

The CPUC should establish written policies and procedures to ensure prompt collection of surcharges and fees and assign individuals with responsibility to monitor the accuracy and timeliness of the utility company's remittances of surcharges and take actions when necessary. The Fiscal Office should coordinate with program staff to determine and monitor uncollected fees and surcharges. In addition, the CPUC should maintain adequate supervisory oversight to ensure effective and timely collection of surcharges and fees.

CPUC's Response/Corrective Action Plan

The CPUC agrees with this finding. After reviewing all three revenue tracking systems (TMIS, TUFFS and UFS) it is clear that the Fiscal Office had not been analyzing or tracking fees as they enter the systems (that is, reviewing and tracking the amount owed) and focused its efforts solely on updates related to cash receipts. To remedy this situation, the CPUC developed a detailed flowchart that outlines the TUFFS system; additional flowcharts for TMIS and UFS are under development. The Fiscal Office is developing written policies and procedures that outline roles and duties associated with the administration and tracking of TMIS, TUFFS, and UFS from the Fiscal Office side. These policies and processes are being shared with program staff as they are developed in an effort to improve communication and collaboration between the two groups. Initial analysis by the Fiscal Office Manager suggests that the

CPUC will need to reallocate existing resources or hire additional staff to complete the job functions necessary to fully administer TMIS, TUFFS, and UFS properly in the Fiscal Office. The CPUC will have written processes in place and expects to assign specific staff to support these functions beginning in 2014.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- The CPUC created a temporary internal audit position with plans to make it permanent, and is in the process of obtaining outside services/Certified Public Accountants (CPAs) to provide oversight of the collection of telecommunication and surcharges.
- The CPUC sends out letters for collection of surcharges and letters to non-reporting utility companies, however, does not keep a record of letters sent out and does not follow up with the Communications Division about which companies acted on the letters.

SCO's Follow-Up Recommendation

The CPUC continues to lack policies and procedures. We recommend that the CPUC establish recommended policies and procedures.

Utility Companies' Reported Revenue

The CPUC did not have procedures in place to ensure the accuracy of utility companies' reported revenues, as the CPUC depends on these companies to report their own revenue. Inaccurate reported revenue from utility companies presents a risk of loss of surcharges and fees to which the CPUC is entitled. We did not review the utility companies' records to verify the accuracy of reported revenues and, therefore, we cannot estimate the amount of potential loss to the CPUC.

Recommendation

The CPUC should establish written policies and procedures to ensure the accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC also should consider:

- Expanding the timing and scope of audits conducted by the Utility Audit, Finance and Compliance Branch (ACB) of the CPUC's Division of Water and Audits; or
- Establishing a unit tasked for ensuring accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC could staff this unit through redirection of existing resources from other divisions and/or by requesting additional resources through the budget process.

CPUC's Response/Corrective Action Plan

The CPUC agrees with this assessment and will have a Fiscal Office employee review and verify utility companies' claimed revenue by the end of FY 2013-14. Staff from the agency's Division of Water and Audits are providing guidance to Fiscal Office staff with regard to how

to review corporate financial statements for purposes of verifying revenue.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- The CPUC created a temporary internal audit position with plans to make it permanent, and is in the process of obtaining outside services (CPAs) to provide oversight of the collection of telecommunication and surcharges.
- The CPUC sends out letters for collection of surcharges and letters to non-reporting utility companies, however, does not keep a record of letters sent out and does not follow up with the Communications Division about which companies acted on the letters.

SCO's Follow-Up Recommendation

The CPUC continues to lack policies and procedures. We recommend that the CPUC establish recommended policies and procedures.

Significant Long-outstanding Fines and Restitutions

Per the SCO's Report of Review of Fines and Restitutions dated August 2007, the CPUC was unable to collect \$20.7 million in fines and \$11.1 million in restitutions that were imposed against utility companies since 1999. In our analysis of the CPUC's aging of accounts receivables as of December 31, 2012, we noted that the balance of outstanding receivables for fines had increased to \$21.9 million. This balance includes \$20.4 million in fines still outstanding since the SCO's review in 2007.

According to the CPUC's *Report on the Status of the CPUC as a Judgment Creditor*, the CPUC hired a collection company to attempt to recover past-due penalties and restitution in November 2008 through October 15, 2010. Despite the statutory provision giving the CPUC judgment creditor status with regard to outstanding penalties and restitutions, the collection company's efforts to locate and collect payments from these various debtors were mostly unsuccessful. Most of the firms that had been fined by the CPUC were either out of business, insolvent, in bankruptcy, or otherwise defunct. The few that were located owed small amounts and the expense of pursuing collection led the collection company to conclude that the funds were not worth collecting.

The CPUC applied to the SCO for discharge from accountability of these accounts receivable. In a memorandum from the SCO dated April 27, 2011, the applications were returned per CPUC's request for further actions. Per inquiry, the CPUC's Cashiering and Collection Section head was not aware of any actions taken by the CPUC.

The SCO review in 2007 recommended, "The CPUC should immediately clearly assign collection responsibility to the various divisions. In addition, the CPUC should consider establishing a centralized collection unit. The CPUC could staff the collection unit through redirection of existing resources from other divisions and/or requesting additional resources through the budget process." During our review, we observed that the Collection Unit had just one staff member

under supervision by the Cashiering and Collection Section head. The Collection Unit staff member stated that he/she did not have the time needed to effectively follow up on old accounts. The management and control of accounts receivable is an integral part of maintaining a reliable healthy cash flow. The cost of financing these past due receivables is significant.

Recommendation

The CPUC should make efforts to collect outstanding accounts receivable. In addition, the CPUC should consider adequately staffing its Collection Unit through redirection of existing resources or requesting additional resources through the budget process.

The CPUC should apply for discharge from accountability of the accounts receivable in situations in which collection efforts have been exhausted.

CPUC's Response/Corrective Action Plan

The CPUC believes that because most of the cases of long outstanding fines are uncollectable due to firms having gone out of business the most prudent action is to collect the information necessary to allow CPUC to appeal to the SCO for discharge of these debts. The CPUC has assigned an attorney from its legal department to help research the long outstanding fines and determine whether they are in fact uncollectable, or if there are other actions the agency could take with regards to collection.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- As of June 30, 2014, the CPUC adjusted/liquidated \$6.8 million in long-outstanding fines and restitutions, as well as an additional \$1.5 million liquidated in July 2014, and \$2,500 in September 2014.
- The CPUC increased the Collections staff; however, a vacant position remains to be filled.

The CPUC currently is evaluating resources to obtain an attorney or an experienced debt collector to issue liens against utility companies. All possible resources are being evaluated in order to prevent new unpaid fees from becoming long-outstanding fees.

Use of Journal Entries

In our review of selected journal entries during the period from July 2011 through December 31, 2012, we noted that the CPUC did not have properly designed, implemented, and effective policies and procedures to ensure that journal entries are adequately researched, supported, and reviewed prior to their recording in the general ledger. We reviewed 11 journal entries in Due from Other Funds and Appropriations (1400) accounts for seven funds and noted the following deficiencies:

- Lack of research and proper supporting documentation. The CPUC posted these journal entries in the accounting system to reconcile with the SCO's balances. However, there was no indication that the CPUC Fiscal Office staff conducted research to ensure the amounts

and accounts posted were accurate. Instead, the CPUC relied on the SCO's records. In addition, three of the 11 journal entries were posted late while another was posted twice in the accounting system resulting in fund balance being misstated.

- Lack of proper review and approval. During our review, we found no indication that all of the 11 journal entries were properly reviewed and approved by the CPUC Fiscal Office management prior to the entry being posted in the general ledger. The process in place allowed journal entries to be both prepared and posted by the same individual. There are no system controls currently in place to ensure proper segregation of duties related to preparation and posting journal entries.

Recommendation

The CPUC should include appropriate supporting documentation for every journal entry prepared. It should also establish written policies and procedures to ensure that journal entries are reviewed and approved by the CPUC Fiscal Office management before they are posted to the general ledger. Implementation of review procedures for journal entries will reduce errors in the general ledger and improve financial reporting. Periodically, these policies should be reviewed to determine whether individuals at the appropriate level are assigned this important responsibility.

CPUC's Response/Corrective Action Plan

The CPUC agrees with this finding. Beginning in August 2013, the Accounting Office Manager reviews every journal entry before it is posted to the general ledger by Accounting Unit staff to ensure accuracy and supporting documentation. As recommended by the Audit, this policy will be reviewed in six months to help assess individual's performance and whether the journal entry tasks are being assigned at the appropriate level.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- The CPUC has a new journal entry second level review process effective January 1, 2014.
- The Fiscal Office implemented a standard for filing all entries, daily deposit reports, and claim schedules within a week of processing to avoid misfiled/missing documentation.

SCO's Follow-Up Recommendation

The CPUC continues to lack formal policies for these implemented procedures. We recommend that the CPUC establish recommended policies and procedures.

**FINDING 2—
Insufficient supervisory
oversight and lack of
documented policies
and procedures over
cash processes**

The CPUC's Accounting Unit is dependent on the knowledge of a few employees who perform critical operational tasks. The policies and procedures used by these employees are, for the most part, undocumented, which has resulted in deficiencies in the cash accounting processes. These deficiencies were aggravated by the lack of sufficient supervisory oversight and review over cash accounting processes.

Long-outstanding Reconciling Item

We reviewed the CPUC's bank reconciliation process and selected monthly bank reconciliations from January through December 2012. In our review, we noted a long outstanding reconciling item of \$202,435 in December 2012. Per inquiry with the CPUC Accounting Unit staff, this reconciling item has been outstanding since the staff took over the duty in 2009. The CPUC Fiscal Office management was aware of the issue but had not taken action to address it. This item has resulted in an understatement of the CPUC's book balance compared to the bank balance.

Office Revolving Fund Cash Balances

State Administrative Manual (SAM) section 8060 requires that bank reconciliations be prepared and reviewed promptly. We selected and reviewed monthly bank reconciliations from January through December 2012. During our review, we noted that from January through August 2012, the Office Revolving Fund book balances did not reconcile with reconciliation reports. Per inquiry with the CPUC Accounting Unit staff, the difference of \$6,483 was due to late postings of two liquidating salary transactions done in April 2010 and May 2011. The CPUC Accounting Unit staff did not receive approval from Fiscal Office management to make the necessary adjustments until September 2012.

Review of Fund Balance Reconciliation

SAM section 7908 requires that all reconciliations include the reviewer's name and date reviewed. We selected 60 monthly SCO/CALSTARS fund balance reconciliations for 10 funds from July through December 2012 for review. Of the 60 reconciliations, 20 (33%) did not have any indication of supervisory review. In addition, 8 (13%) of the 60 reconciliations were reviewed two months after end of the month.

Recommendation

The CPUC should establish written policies and procedures to ensure that cash handling and processing are proper and that periodic reconciliations are prepared and reviewed promptly by Fiscal Office management. The CPUC should ensure that the Accounting Unit staff know and follow policies and procedures for cash processing. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response/Corrective Action Plan***Long-outstanding Reconciling Item***

The CPUC agrees with this finding. Upon further analysis it appears that Accounting Unit staff had not followed proper procedure and had made additional changes to the outstanding item balance (that is, folding in

other adjustments) since 2009. To remedy this, the Fiscal Office Manager has directed Accounting Unit staff to immediately stop using the item as an offset, and to also research and identify the original error that caused the item to appear in 2009. Once this error is identified, the CPUC will work with the SCO to determine the appropriate way to adjust or clear the entry. To prevent this sort of error from reoccurring in the future, the Fiscal Office Manager is now reviewing monthly bank reconciliations.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

The Fiscal Office is evaluating available resources and has delayed actions to remedy this outstanding reconciling item; the CPUC will contact the SCO's Division of Accounting and Reporting to seek guidance to resolve, reconcile, and write off this outstanding reconciliation balance. As for new outstanding debt, offsets are not permitted.

Office Revolving Fund Cash Balances

The CPUC agrees with this finding. The reconciling item in question for the Office Revolving Fund (0998) has been corrected and there is no longer a discrepancy. Management is now reviewing all reconciliations monthly and providing timely guidance to Accounting Unit staff.

SCO's Follow-Up Observations: Corrective Action – Implemented

Corrected; we verified the reconciling item for the Office Revolving Fund.

Review of Fund Balance Reconciliation

The CPUC agrees with this finding. The Fiscal Office Manager has directed staff to verify all fund balances with the SCO monthly. To verify that all funds are reconciled, a reconciliation log is now kept by the Fiscal Office Manager and progress is tracked with the Accounting Unit staff in bi-weekly meetings. To date, all but two funds have been fully reconciled with the SCO. The two funds that have not yet been reconciled are funds 3015 and 0483, which are shared funds.

SCO's Follow-Up Observations: Corrective Action – Implemented

The monthly fund balance reconciliations are now performed and reviewed in a timely manner.

**FINDING 3—
Inadequate segregation
of duties**

SAM Sections 8080, 8080.1, and 8080.2 require that agencies establish and maintain an adequate system of internal control. An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations in which an employee has the ability to perpetrate an error or irregularity and to conceal it. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. During our review, we noted several situations involving conflicting duties, such as:

- The Cashiering Unit employee responsible for maintaining the accounts receivable records occasionally handles, processes, and records cash receipts and prepares bank deposits.
- The Accounting Unit employee responsible for review and reconciliation of accounts is also responsible for posting entries into the accounting system.
- The chief accounting officer who was involved in all accounting operations, including monthly bank reconciliations, has the ability to sign checks.
- The employees designated to distribute live warrants were also responsible for preparing and handling time and attendance reports.
- The Fiscal Office employees who initiate transactions also perform related data entry on the computer.

Each of the situations above could result in an error or irregularity going undetected.

Recommendation

We recommend that such conflicting responsibilities be separated to the extent possible, considering the limited number of employees involved. The segregation of responsibilities will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another.

CPUC's Response/Corrective Action Plan

The CPUC agrees with this finding. The Fiscal Office Manager is analyzing the job duties of Fiscal Office staff to identify areas of work and situations that could lead to problems with internal controls – this includes addressing the situations identified by the Audit as conflicting duties. The CPUC has already changed its policy regarding the distribution of live warrants so that employees who prepare and handle attendance reports can no longer distribute the warrants. Human Resources (HR) now provides the Fiscal Office with a list of timekeepers that to ensure that these individuals do not also pick up payroll warrants. HR will update this list and continue to review and send to the Fiscal Office on an annual basis or whenever a change occurs.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

- The CPUC separated potential conflicting responsibilities within the Cashiering Unit; however, direct supervisor approval does not appear to follow the established direct supervision protocol. Cashiering transactions are approved by supervisors who do not have proper authorization.
- The CPUC separated potential conflicting responsibilities among the Accounting Unit staff.
- The CPUC separated potential conflicting responsibilities for the Chief Accounting Officer.

- The CPUC created separate duties for payroll liaisons and timekeepers; however, it appears the process remains at risk for conflicting responsibilities as a responsible CPUC employee is not complying with these new procedures.

SCO's Follow-Up Recommendation

The CPUC continues to lack policies and procedures and the recommended secondary review and segregation of responsibilities. We recommend that the CPUC establish recommended processes and ensure compliance with the formalized policies and procedures.

FINDING 4— Lack of documented policies and procedures over procurement process

During our review, we noted that the CPUC had inadequate documented policies and procedures over the procurement process, resulting in deficiencies in contract files, purchase orders, and services orders. These deficiencies were aggravated by the lack of communication between stock room and Fiscal Office staff.

Contracts

We selected 28 of 211 contract files for review. Our review of the 28 contract files indicated the following:

- One contract for \$30 million was procured using the secondary request-for-proposal (RFP) method. There was not enough information in the files to determine whether this procurement complies with the State Contracting Manual's secondary RFP method;
- One California Environmental Quality Act contract for \$19.5 million was procured using the request-for-qualification (RFQ) method. Supporting documentation for the RFQ process, such as scoring sheets, was not maintained in the contract file;
- Three contract files could not be located and were not provided during our review; and
- Four disabled attendee contracts did not include documentation of cost justifications.

Purchase Order for Goods

During our review, we observed that the CPUC did not have an efficient system for processing purchase orders or incoming goods. Of the 19 purchase orders selected and reviewed, six were approved after purchases had already been made. For example, an invoice was dated October 4, 2012, but the corresponding purchase order did not complete the approval process until October 9, 2012. We also noted that four purchase orders were submitted to the SCO for payment without any indication that goods were received. Further, the purchase order approval process appears to be redundant, requiring purchase order forms to be signed and approved by the same staff members multiple times. The current purchase order approval practice requires the Business Service Unit (BSU) manager, BSU supervisor, and BSU services officer to each approve the purchase order forms twice. We noted that the purchase order approval process could take as long as four weeks, which is extremely time consuming.

Service Orders and Purchase Orders for Services

We selected 20 service orders and purchase orders for services for review. Of the 20, service orders and purchase orders for services, nine were approved after the invoice date. For example, an invoice for \$3,986.57 was dated August 4, 2011, but the corresponding purchase order was not completely approved until September 19, 2011. In a similar instance, a service order with an invoice dated October 9, 2012, was not approved until November 15, 2012.

Customer Relationship Management Records

The CPUC uses its Customer Relationship Management (CRM) system for procurement of goods and services. During our review of the CRM listing for information technology procurements, we noted that 35 of the 745 procurements had inaccurate total contract values. The CPUC's Information Technology Branch staff stated that these were due to either a CRM system malfunction or staff incorrectly entering contract amounts into the system.

Recommendation

The CPUC should establish written policies and procedures to ensure the integrity and efficiency of procurement and purchasing processes and compliance with rules and regulations. Documented policies and procedures should ensure that procurement, stock room, and Fiscal Office staff know and follow the State Contracting Manual policies and procedures. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response/Corrective Action Plan

The CPUC agrees with this finding and has drafted new Policies and Procedures for the Procurement of Goods and Services which will help communicate Business Service's role in the numerous aspects of procurement within the agency as well as the steps in various procurement processes.

Contracts – Lack of Documented Procedures

The CPUC agrees with this finding, and in June completed a first draft of a comprehensive revision to the CPUC Personal Services Consultant Contracts Manual (Contracts Manual), which had not been revised since 2007. The revision includes updates to procedural changes in the contracting process and outlines the responsibilities of all parties involved in the process including project managers, Contracts Office staff, and management. The Contracts Office expects to send the final version of the Contracts Manual to the Divisions in September 2013. In addition, the Contracts Office staff and CPUC training staff will develop a training program for CPUC project managers and Division management by the end of 2013 with the goal of better engaging staff in the contracting process and answering more specific program questions regarding contracting.

In addition to the Contracts Manual, the Contracts Office has enacted and documented the following policies: Invoicing Policy to comply with Prompt Payment (September 2013), Contracts File Retention Policy (August 2013), and Access and Security Policy (August 2013). The

Contracts Office has also implemented and documented detailed procedures for Invoicing Processing (January 2013), Database (CRM) data entry requirements (January 2013) and Reporting (May 2013).

The Contracts Office is also documenting the following processes and procedures in 2013 and 2014:

- Contracts office communication policy (related to customer service)
- Small Business/DVBE policy and contracting procedures
- Electronic records policy and procedure
- OSP printing policy and procedures
- Procedure to reconcile contract balances with the Fiscal Office
- Procedure for creating and maintaining the office contracts file
- Procedure and/or process to improve records tracking
- Procedure for completing the annual 810 report for small business/DVBE reporting

Lack of information to verify compliance with secondary RFP method and incomplete supporting documents in the RFQ contract file

The CPUC agrees with these finding and believes that the deficiencies identified by the Audit were in both cases a result of poor record tracking and/or issues with file access and security, each leading to inadequate documentation in the contracts file. The Contracts Office is establishing tighter guidelines with regard to records retention and file security and access, and policies (as described above) that will make clear management's expectations to contract officers with regard to these areas. In addition, the updated Contracts Manual will include a directive that all contract files must reference the physical location of any RFP or RFQ documents that are not in the contract file. In January 2014 the Contracts Office will begin updating the existing secondary RFP template to include a checklist to verify compliance with secondary RFP requirements. As part of the FY 2014 Budget Process the CPUC is requesting additional staff to support compliance with contracting requirements. This position would be responsible for auditing all consultant services, goods, services and IT procurement methods, process and files to ensure better CPUC compliance.

Missing Files

The CPUC agrees that improvements must be made to the management and security of physical contract files. To immediately address the Audit's security concerns, a Contracts File Retention, Access & Security Policy was created and implemented in August 2013. In addition, starting October 2013, security for the cabinets containing original RFPs and other procurement documents will be enhanced. These measures will ensure access to contract files is strictly limited to Contracts Office staff. Another improvement made in July 2013 is the addition of a data field in CRM to track the physical location of contract files. Finally, in September 2013, the Contracts Office will be transferring contracts that have expired more than three years ago to the State Records Center in compliance with its record retention schedule; the location of these files will be documented in CRM. In October 2013 the Contracts Office will

relocate contracts that expired less than three years ago to locked archive filing cabinets and the new file location will be documented in CRM.

SCO's Follow-Up Observations: Contracts Corrective Action – Partially Implemented

The CPUC is in compliance with the California State Contracting Manual, which provides that the Secondary RFP method is required when services are complex, uncommon, or require unique approaches/methods/techniques. Cost proposals are submitted, proposers are interviewed and evaluated, and the highest overall score is awarded.

However, the contract file reviewed lacked consultant scoring sheets or documentation of the project vendor proposals and rankings. The CPUC Personal Service Consulting Contracts Manual states that CEQA consultants are procured using the competitive bidding RFQ method.

Also provided was the approved DGS rotating “when needed” consultant list, but the list is not contract-specific and details on the awarded vendor and rankings sheets of all vendors were not available. The processes, policies, and policies for contract specific list and awarded vendor ranking sheets are currently under consideration.

During the prior SCO audit of the CPUC, four disabled attendee contracts did not include documentation of cost justifications. These contract types now include cost justification; however, the actual “hourly rate” expected standard within the communications assistance services is not listed on the documents to support the justification.

Purchase Orders for Goods

The CPUC agrees with this finding. Business Services has begun a concerted overhaul of the procurement process to remedy the inefficiencies and mistakes identified by the Audit. For the procurement of goods, the lead procurement officer now conducts compliance checks on every purchase to ensure that a completed Equipment Supply and Service Request (ESSR) form is included and that signature approval from a Division's Budget Control Officer (BCO) has been obtained. Business Services has also added internal controls for invoice payments - a copy of the signed purchase order, invoice from a vendor and packing slip are now required to be sent to the assigned procurement officer for verification and approval of goods for payment. In addition, the Fiscal Office Manager has directed Accounts Payable staff to not pay invoices unless all goods and services have been received. The CPUC is evaluating centralizing all invoice processing within the Fiscal Office to help with tracking and ensure timely payments. As the CPUC revises its internal processes, staff continue to look for ways to eliminate redundancies and shorten the time it takes for programs to receive their orders and vendors to receive payments.

SCO's Follow-Up Observations: Purchase Orders for Goods Corrective Action – Partially Implemented

The CPUC has followed the SCO's recommendation of implementing a more efficient system for processing purchase orders or incoming goods. The CPUC currently is in the process of drafting policies and procedures for these new procedures, hence, is still lacking formalized policies and procedures, as recommended by SCO.

Purchase Orders for goods received are not sent out for payment until verified by a procurement officer. The CPUC has implemented a more efficient system for processing POs or incoming goods. The PO now requires only two approval signatures, creating a faster turnaround time. Also, as mentioned above, there are more internal controls for verification of incoming goods before POs are submitted for payment.

Service Orders and Purchase Orders for Services

The CPUC agrees with this finding and recognizes the need for better management and control of the approval of purchase and service orders so that issues such as those identified by the Audit no longer occur. Business Services has already made changes to this system - effective September 2013, all ESSRs submitted to Business Services are managed first by the lead procurement officer (with the Business Services Manager's oversight) before being assigned to procurement office staff. In addition, weekly compliance checks are now performed by the lead procurement office to ensure the timely processing of ESSRs.

SCO's Follow-Up Observations: Service Orders and Purchase Orders for Services Corrective Action – Implemented

Service/purchase orders are requested/approved by the department manager and invoiced/paid by Fiscal after services are provided.

Customer Relationship Management Records

During the time the Auditors reviewed CRM, the system was not yet fully deployed and did not fully capture all procurement activities. Since this time, data entry deficiencies were corrected and full rollout of CRM is scheduled for September 2013. Business Services Management has been meeting regularly with procurement staff to discuss CRM and address questions and provide training, and procurement officers have successfully been using CRM to input all ESSRs. In addition, Business Service Management now regularly conducts audits of CRM to ensure that a "no blank space" policy is being consistently followed by procurement officers.

SCO's Follow-Up Observations: Customer Relationship Management Records Corrective Action – Implemented

The CPUC has taken steps to ensure that contract values are consistent with the CRM system. IT has formalized policies and procedures in place, as recommended by the SCO.

**FINDING 5—
Lack of documented
policies and procedures
over personnel and
payroll process**

The CPUC's Human Resources Branch is dependent on the knowledge of a few employees who perform critical operational tasks. The policies and procedures used by these employees were, for the most part, undocumented, resulting in deficiencies in the personnel and payroll process.

Employee Separation

Between July 1, 2011, and December 31, 2012, the CPUC had 100 separating employees. We selected 20 employee-separation files for review. Of the 20 selections, four files could not be located while 11 did not include adequate supporting documentation.

Salary Warrants

We selected for review all 37 outstanding salary warrants between July 1, 2011, and December 31, 2012. Of the 37 warrants, 15 live warrants were outstanding for 90 days or more and have not been returned to the SCO. SAM section 8580.5 requires that warrants not delivered within 90 calendar days of receipt be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

The CPUC did not maintain a written record of all undeliverable salary warrants. Undeliverable salary warrants were maintained in a box and not accounted for. SAM section 8580.5 requires that a written record of all undeliverable warrants will be maintained and a copy given to the payroll office.

Leave Balances

Bargaining unit contracts and the California Department Human Resources (CalHR) rules limit vacation and annual leave balances to a set maximum amount. In an effort to comply with bargaining unit contracts and CalHR rules and to reduce excess balances, on June 1, 2012, the CPUC's Human Resources Branch issued Vacation/Annual Leave Over Maximum memoranda to employees whose leave balances exceeded 640 hours. The memoranda required employees to submit a written plan outlining how they would reduce their excess leave balances. Unit supervisors were to approve the plans and submit them to the Human Resources Branch by June 30, 2012. As of January 2013, 71 of the 147 employees with excess leave balances did not have written and approved plans in their files.

Out-of-Class Assignments

For the period of July 1, 2011, through June 30, 2012, the CPUC had 26 employees who received out-of-class pay, totaling approximately \$70,000. We selected all 26 out-of-class assignments for review. Five of the assignments did not have associated files, and files for the remaining 19 assignments did not include sufficient information to support employees' out-of-class status.

Individual Development Plans

Individual Development Plan (IDP) reports are due annually on employees' birthdays. We identified 799 IDP reports that were due for submission from July 1, 2011, through December 31, 2012. Of the 799 IDP reports, 512 were not submitted as of December 31, 2012.

Employee Timesheets

In our review of the CPUC's Incomplete Timesheet Report, provided by the Human Resources Branch, from July 2011 through December 2012, we noted that 3,786 of 17,543 (22%) timesheets were not submitted to the Human Resources Branch. We also selected 97 of 963 employees in five different units for review of timesheets and supporting documentation. Of the 97 employees, 45 (46%) did not submit their timesheets. SAM section 8539 requires agencies to maintain complete records of attendance and absences for each employee during each pay period.

Salary Advances

In our review of the CPUC's Aged Revolving Fund Advances Report as of December 31, 2012, we noted outstanding salary advances from 26 employees, totaling \$30,487, that were over three years old. As of February 2013, we were not aware of any actions taken by the CPUC to collect or discharge these advances.

Recommendation

The CPUC should establish written policies and procedures to ensure that personnel and payroll transactions are proper and in accordance with rules and regulations. Documented policies and procedures should ensure that Human Resources Branch staff know and follow personnel policies and procedures. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response/Corrective Action Plan

The CPUC agrees with the Audit's findings in this area and has significantly improved the documentation of critical Human Resources (HR) functions, as described below.

Employee Separation

The CPUC agrees with this finding. HR support staff are now tasked with monitoring the filing of separation documents to ensure all documents are filed no later than 30 days from completion of paperwork by Transactions staff. In addition, HR works with Division Management to enforce timely submission of attendance records. HR periodically notifies Division HR Liaisons and timekeepers of the need for timely and accurate submission of timesheets. Upon notification of an employee's pending separation, Transactions staff now immediately follow-up with timekeepers regarding missing timesheets for a separating employee. HR continues to reiterate the importance of timely return of a signed clearance checklist to ensure return of ID cards, passes, keys, credit cards, other State property, or other outstanding items, and the importance of obtaining employee and supervisor signatures on separation forms. HR and the Fiscal Office are revising the Clearance Form to Release Final Paycheck to expedite the separation process.

Salary Warrants

To immediately address this concern, the Fiscal Office developed procedures for undeliverable salary warrants and communicated the procedures to all Divisions. Many of the warrants identified by the Audit were not actually salary warrants but direct deposit remittances - procedures were also written for the handling of these documents. As part of the procedures the Fiscal Office developed a tracking spreadsheet to track the salary warrants that the Fiscal Office holds so that they can be managed in accordance with SAM guidelines. The CPUC is now in compliance with SAM with respect to this finding.

Leave Balances

The CPUC agrees that this finding is accurate. In July 2013, the CPUC issued another memo requiring submittal of leave reduction plans. As of September 16, 2013, 36 employees have not yet submitted leave reduction plans. Submitted plans are now reviewed on a quarterly basis to ensure they are followed or revised if and when necessary. Directors will be notified if and when plans are not submitted or being followed so that they can determine other options and solutions to reduce balances.

Out-of-Class Assignments

The CPUC agrees with this finding. Historically, requests for out-of-class pay were often approved at the Division level without supporting duty statements to justify the pay increase. To remedy the situation, HR Classification and Pay Analysts no longer forward out-of-class request paperwork to the HR Classification and Pay Manager for approval unless an approved duty statement is attached.

Individual Development Plans

The CPUC agrees with this finding and is working to improve the efficiency and effectiveness of the current IDP process. The CPUC is considering making HR the initiator of the agency's IDP process (rather than the employee's supervisor) and having the Division HR Liaison more actively track IDP progress and report on delinquencies to HR and Division Management. In addition, the Director of Administrative Services now receives a copy of the agency's IDP delinquency list monthly. HR is also making an agency-wide effort to update staff duty statements through a Position Description Questionnaire (PDQ) process, which is underway. Having accurate, updated duty statements will greatly facilitate the IDP process for both CPUC supervisors and staff. The CPUC has also hired an employment attorney who will work to support staff by providing supervisors training on how to properly give feedback in relation to IDPs, as well as training to handle other performance issues.

Employee Timesheets

The CPUC agrees with this finding. The issue of incomplete timesheets continues to be a problem in the CPUC, in part because the agency utilizes both an Oracle-based Work Tracking System (WTS) and HRIS, which are not interconnected. The current structure results in data being entered into multiple systems, many corrections in the official timekeeping system, and a significant number of outstanding timesheets. HR has been evaluating potential changes to the timekeeping process

focused on more timely inputs and eliminating corrections. This will allow delinquent reports to be sent to management on a timely schedule. This new process will require significant training to the employees, supervisors and timekeepers. HR expects the new process to be implemented effective January 1, 2014.

Salary Advances

The CPUC agrees with this finding - salary advances were not being cleared within a reasonable timeframe. HR historically sent letters to debtors with outstanding salary advances on a 30-day interval policy, and on the 90th day submitted copies of letters and supporting documentation to the Fiscal Office for follow through with FTB for collection. HR and the Fiscal Office are finalizing the details for transitioning this function to the Fiscal Office who has an automated tracking method that can be utilized.

SCO's Follow-Up Observations: Corrective Action – Partially Implemented

Overall, the CPUC is in the process of creating policies and procedures manual incorporating the new HR system being used.

SCO's Follow-Up Observations: Employee Separation Corrective Action – Partially Implemented

HR works closely with division management to ensure that the employee separation process is proper and adequately supported and documented. Upon notification of an employee's separation, HR staff now immediately follow-up with the supervisor or timekeeper to ensure timely and accurate submission of attendance records using items such as:

- a) Signed clearance checklist to ensure return of ID cards, keys, passes, credit cards, other state property, or other outstanding items; and
- b) Supervisor signatures on separation forms obtained for separating employees.

HR also works closely with the Fiscal Office to ensure that all outstanding advances are cleared and State-owned property is returned prior to releasing salary warrants to separating employees.

Tests of five of the 21 separated employees revealed that separation files did not include adequate supporting documentation, specifically, timesheets. Timesheets support all salary payments, including regular payroll, overtime, and shift differential, and show that items are properly certified. Without timesheets, time paid for work performed and lump-sum separation pay may not be correct.

SCO's Follow-Up Recommendation

We recommend that the CPUC formalize recommended policies and procedures and ensure that responsible staff adhere to these protocols to process employee separations.

SCO's Follow-Up Observations: Salary Warrants Corrective Action – Not Implemented

The CPUC does not have written procedures for handling undeliverable salary warrants, but is in process of establishing them. Responsible CPUC staff mentioned that they have received these warrants and direct deposit stubs from the SCO without CPUC's HR notification, and, hence have filed these in the Master File. Staff also stated that it appears that some warrant control instructions were either not properly filed in the Fiscal Office or the information may have never been received from the specialists in HR for these items to be released to the employee. The Fiscal Office sent emails to HR on a regular basis requesting instructions for the unaccounted warrants. Staff also stated that it is not uncommon that the HR staff was unwilling to cooperate with the Fiscal Office to resolve such issues.

To verify these statements, we reviewed all outstanding salary warrants in the master file. We found that nine salary warrants were outstanding for 90 days or more and had not been returned to the SCO.

SCO's Follow-Up Recommendation

We recommend that the CPUC formalize recommended policies and procedures and ensure that responsible staff adhere to these protocols for handling undeliverable salary warrants.

SCO's Follow-Up Observations: Leave Balances Corrective Action – Implemented

The HR division sent out a Vacation/Annual Leave-Over Maximum Memorandum with an Annual Vacation/Leave Balance Worksheet to employees who had a leave balance exceeding 640 hours. The memorandum required a written plan outlining how each employee would reduce the excess leave balance. The unit supervisor was to approve the plan and submit it to HR by July 31, 2013. To verify this process, we noted that there were 15 employees in the administrative unit who exceeded the leave balance maximum of 640 hours and had completed the written plan.

SCO's Follow-Up Observations: Out-of-Class Assignments Corrective Action – Implemented

HR Classification and Pay Analysts are now reviewing the Out-Of-Class (OOC) assignment package. This is to ensure that the OOC assignment files include sufficient information to support an employee's out-of-class status before forwarding out-of-class request paperwork to the HR Classification and Pay Manager for approval. To verify this process, we judgmentally selected for review five of 18 individuals who have received OOC pay. These files selected for review included duty statements and other supporting documents for the respective positions for the out-of-class assignments.

SCO's Follow-Up Observations: Individual Development Plans
Corrective Action – Implemented

The CPUC has a procedure in place to ensure that all employees have completed and turned in their IDP reports and to ensure that the supervisor meets and discusses the employee's objectives and plans for development. Supervisors rated their employee's skills, knowledge, and performance on the factors listed on the Standard (STD) Form 637 and provided substantiating comments on the employee's performance. The CPUC utilizes the IDP process to assist its employees in career and personal development and to reach short-and long-term career goals, as well as to improve their job performance.

To verify this process, we performed a review of the pending IDP report for the administrative unit. We noted that all staff in the administrative unit completed the required IDP form (STD 637).

SCO's Follow-Up Observations: Employee Timesheets Corrective
Action – Implemented

The CPUC implemented a new Employee Timesheet System (ETS) to process timesheets. The ETS replaced the Oracle-based Work Tracking System (WTS) in September 2014, streamlining and simplifying the time reporting process and delivering numerous advantages to the CPUC. ETS quantifies the amount of time spent on specific tasks at the employee, division, and commission levels. The data allows management to better allocate resources. More importantly, there is an established timeframe for the time reporting process. Employees enter and submit leave and work on ETS on the second working day, supervisors review and approve work and leave on ETS on the fourth working day, timekeepers complete an audit of timesheet on the fifth working day, and Human Resources completes a review of exceptions on the ninth working day. Once submitted through the entire approval process, the timesheet is final. If the timesheet is not submitted on time, ETS generates reminders and notifications to the employee, supervisor, and manager. To verify this process, we selected the September Division Compliance Report for review and noted that the timesheet submission was in compliance with the newly implemented process.

SCO's Follow-Up Observations: Salary Advances Corrective Action –
Not Implemented

Our review found that the CPUC lacks adequate policies and procedures to ensure salary advances are collected in a timely manner. In our review of the June 2014 salary advance transactions, we noted that 26 salary advances, more than three years old, totaling \$30,487, still are outstanding. In addition, we noted that five advances more than 120 days old, totaling \$1,887, have not been cleared. This resulted from a lack of coordination, clear roles, and responsibilities for salary advance clearance and collection between the Fiscal and Personnel offices. The collection and clearance of outstanding salary warrants requires close coordination between the two offices. We observed that, in general, the CPUC lacks a cohesive process, significantly delaying its ability to collect and clear outstanding salary warrants in a timely manner.

SCO's Follow-Up Recommendation

We recommend that the CPUC establish recommended processes and ensure compliance with the formalized policies and procedures.

FINDING 6— Inadequate control over parking garage operations

Garage Operations

We observed the CPUC's garage operation and noted the following deficiencies:

- The parking attendant allowed manual changes to entry time reflected on tickets, resulting in incorrect fees. In addition, there were instances when the Ticketech machine's time was incorrect, according to the parking attendant.
- Upon exit of garage customers, the parking attendant manually calculated parking fees instead of scanning tickets. Afterward, tickets were scanned through the Ticketech machine and transactions officially recorded. At times, the parking attendant would recall actual fees collected and override the machine-generated amount. These deficiencies create potential risk for error and abuse.
- Receipts were not provided to customers.
- Closed tickets were re-sorted in numerical order for storage purposes instead of being kept intact according to daily closed tickets, impeding reconciliation of daily collections with reports.

Reconciliation of Reports and Cash Collections

We reviewed the End of Day Report and Daily Parking Report and noted that these reports did not reconcile. We also found discrepancies between the two reports. The End of Day Report showed 75 closed tickets and \$455 in collections. The Daily Parking Report had 78 closed tickets and \$483 in collections. Our independent reconciliation revealed that tickets did not register in the End of Day Report or Daily Parking Report even if parking attendants had properly validated them. We inquired of parking garage staff but failed to obtain an explanation.

Further, we reviewed the parking garage cash collections for December 2012 and noted that daily collections were prepared, reviewed, and deposited. However, we observed that the CPUC did not perform sufficient reconciliation of the End of Day Reports, Daily Parking Reports, and actual cash collections. The lack of adequate reconciliation could result in errors not detected and presents a risk of loss of parking fees to which the CPUC is entitled.

Outstanding Tickets

We reviewed the Open Tickets Report generated at close of business on March 14, 2013. The report contained 260 open tickets with 247 outstanding tickets issued between November 29, 2012, and March 13, 2013.

Recommendation

The CPUC should establish procedures to ensure the proper reconciliation of garage collections. The End of Day Report should be used to identify staff or system errors. The CPUC should also establish procedures to ensure collection of unpaid parking fees in a timely manner. Further, closed tickets should be kept according to daily collections to facilitate reconciliation with daily reports.

CPUC's Response/Corrective Action Plan

The CPUC agrees with the Audit's findings in this area and has significantly improved control over parking garage operations as described below. In addition, the CPUC is exploring ways to eliminate the need for cash handling for garage operations.

Garage Operations

Effective August 2013, manual changes are no longer allowed; alternative procedures have been established if the ticket machine time stamp malfunctions. All tickets must be scanned to calculate fees using the Ticketech machines; alternative procedures have been established in the event of equipment malfunctions. No overriding of date and time stamps is allowed. Receipts are generated by the Ticketech machine for every transaction, and effective September 2013 the parking garage attendants are required to provide each customer with a receipt. In addition all tickets are now kept in the order that they were generated to facilitate the reconciliation of reports.

Reconciliation of Reports and Cash Collections

The CPUC agrees with this finding – in the past, reconciliation of reports and cash collection was not performed at a supervisor level. Since June 2013, the garage attendant reconciles tickets and cash in front of an operating supervisor; cash is recounted by the supervisor to ensure accuracy. In addition, daily Parking Reports are turned in with the End of Day Reports, along with the tickets and cash. This internal control will help identify possible system or staff errors.

Outstanding Tickets

The CPUC agrees with this finding and is actively working to collect on the outstanding tickets. CPUC garage attendants have been directed to match all unpaid parking tickets at the end of the day and include them with the End of the Day Report along with paid tickets (clearly segregated).

SCO's Follow-Up Observations: Garage Operations Corrective Action – Implemented

Previous operations have been suspended, thus, recommendations were not implemented. Instead, beginning August 1, 2014, the garage is open between 7:00 a.m. and 12:00 p.m. for daily parking. Staff entering between these hours must prepay \$8. Between 12:00 p.m. and 3:00 p.m., no daily parking is allowed, and between 3:00 p.m. and 6:00 p.m., parking is free. This new process eliminates future outstanding tickets, as staff either have a monthly parking pass or pre-pay when entering.

SCO's Follow-Up Observations: Reconciliation of Reports and Cash Collections Corrective Action– Implemented

The garage attendant still collects half of the parking stub, and logs the customer's name. The ticket stub also is cleared through the machine as a closed ticket after receipt of payment. After 12:00 p.m., the garage attendant performs his or her closing process, generates the closed ticket report, counts the cash receipts, and fills out the Daily Cash Reconciliation Report. The CPUC's Business Services Office (BSO) Specialist subsequently reviews the transactions and, upon approval, locks the cash in the BSO office until submission to the Fiscal Office for depositing.

SCO's Follow-Up Observations: Outstanding Tickets Corrective Action – Implemented

There are no new open tickets since new Garage Operations have been applied August 1, 2014. As for outstanding tickets, the CPUC is evaluating available resources and outcomes as there are many open tickets that are old and have no identifying information. Efforts to collect outstanding tickets have been deferred but options to clear some of the outstanding ticket debts are being evaluated.

As of August 13, 2014, the outstanding ticket machine report total was 987; the new machine report as of December 4, 2014, had 797 open tickets. The CPUC has 190 fewer open tickets since August 2014. Current employees with unpaid tickets have been placed on a "No Park List" and 140 "No Park List" accounts have been collected.

Appendix—Summary of Prior Review Findings and Corrective Actions

Summary of Prior Review Findings and Corrective Actions

2013 Findings/Recommendation	Implementation Status	SCO's Follow-Up Observations and Recommendations
FINDING 1 – Insufficient supervisory oversight and lack of documented policies and procedures over financial management and reporting		
<p>Accrual of Revenue</p> <p>The CPUC should establish written policies and procedures to ensure that telecommunication surcharges and user fees are properly recorded. The Fiscal Office should take the lead to coordinate with program staff to develop and implement a methodology for estimating the amount of revenue that the CPUC has earned during a fiscal year and expects to collect within one year after June 30. The CPUC should report this amount as revenue at June 30. In addition, the CPUC should maintain adequate supervisory oversight over revenue accrual processes to ensure that the appropriate accounting principles are being followed.</p>	Partial	<ul style="list-style-type: none"> • Added a new process for accrual of revenue for surcharges and user fees by creating more effective formulas and spreadsheets • Prepared suggested policies and procedures for the new process of accrual of revenue for surcharges and user fees, however, still lacks formalized policies and procedures, as recommended by SCO <p>The CPUC continues to lack the recommended secondary review for the revenue accrual process, and policies and procedures.</p>
<p>Collection of Telecommunication Surcharges</p> <p>The CPUC should establish written policies and procedures to ensure prompt collection of surcharges and fees and assign individuals with responsibility to monitor the accuracy and timeliness of the utility companies' remittances of surcharges and take action as necessary. The Fiscal Office should coordinate with program staff to determine and monitor uncollected fees and surcharges. In addition, the CPUC should maintain adequate supervisory oversight to ensure effective and timely collection of surcharges and fees.</p> <p>Utility Companies' Reported Revenue</p> <p>The CPUC should establish written policies and procedures to ensure the accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC also should consider:</p> <p>Expanding the timing and scope of audits conducted by the Utility Audit, Finance and Compliance Branch (ACB) of the CPUC's Division of Water and Audits; or establishing a unit tasked for</p>	Partial	<ul style="list-style-type: none"> • Created a temporary internal audit position with plans of making it permanent, and is in the process of obtaining outside services/Certified Public Accountants (CPAs) to provide oversight of the collection of telecommunication and surcharges • Sends out letters for collection of surcharges and letters to non-reporting utility companies, however, does not keep a record of letters sent out and does not follow up with the Communications Division about which companies acted on the letters. <p>The CPUC continues to lack policies and procedures.</p>

<p>ensuring accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC could staff this unit through redirection of existing resources from other divisions and/or by requesting additional resources through the budget process.</p>		
<p>Significant Long-outstanding Fines and Restitutions</p> <p>The CPUC should make efforts to collect outstanding accounts receivable. In addition, the CPUC should consider adequately staffing its Collection Unit through redirection of existing resources or requesting additional resources through the budget process.</p> <p>The CPUC should apply for discharge from accountability of the accounts receivable in situations in which collection efforts have been exhausted.</p>	<p>Partial</p>	<ul style="list-style-type: none"> • Adjusted/liquidated \$6.8 million in long-outstanding fines and restitutions, as well as an additional \$1.5 million liquidated in July 2014 and \$2,500 in September 2014 • Increased the Collections staff, however, a vacant position remains to be filled <p>The CPUC is currently evaluating resources to obtain an attorney or experienced debt collector to issue liens against utility companies. All possible resources are being evaluated in order to avoid new unpaid fees becoming long-outstanding fees.</p>
<p>Use of Journal Entries</p> <p>The CPUC should include appropriate supporting documentation for every journal entry prepared. It also should establish written policies and procedures to ensure that journal entries are reviewed and approved by the CPUC Fiscal Office management before being posted to the general ledger. Implementation of review procedures for journal entries will reduce errors in the general ledger and improve financial reporting. Periodically, these policies should be reviewed to determine whether individuals at the appropriate level are assigned this important responsibility.</p>	<p>Partial</p>	<ul style="list-style-type: none"> • New journal entry second level review and approval process • The Fiscal Office implemented a standard for filing all entries, daily deposit reports, and claim schedules within a week of processing to avoid misfiled/missing documentation <p>The CPUC continues to lack policies and procedures.</p>
<p>FINDING 2 – Insufficient supervisory oversight and lack of documented policies and procedures over cash processes</p>		
<p>Long-outstanding Reconciling Item</p> <p>The CPUC should establish written policies and procedures to ensure that cash handling and processing are proper and that periodic reconciliations are prepared and reviewed promptly by Fiscal Office management. The CPUC should ensure that the Accounting Unit staff know and follow policies and procedures for cash processing. Such policies and procedures would also benefit the CPUC during turnover of key staff members.</p>	<p>Partial</p>	<p>The Fiscal Office is evaluating available resources and has delayed actions to remedy this outstanding reconciling item; the CPUC will contact the SCO’s Division of Accounting and Reporting in seeking guidance to resolve, reconcile, and write-off this outstanding reconciliation balance. As for new outstanding debt, offsets are not permitted.</p>

<p>Office Revolving Fund Cash Balances</p> <p>Please see Long-outstanding Reconciling Item, above.</p>	<p>Yes</p>	<p>We verified the reconciling item for the Office Revolving Fund.</p>
<p>Review of Fund Balance Reconciliation</p> <p>Please see Long-outstanding Reconciling Item, above.</p>	<p>Yes</p>	<p>The monthly fund balance reconciliations are now performed and reviewed in a timely manner.</p>
<p>FINDING 3 – Inadequate segregation of duties</p>		
<p>We recommend that such conflicting responsibilities be separated to the extent possible, considering the limited number of employees involved. The segregation of responsibilities will provide a stronger system of internal control, whereby the functions of each employee are subject to the review of another.</p>	<p>Partial</p>	<ul style="list-style-type: none"> • Separated potential conflicting responsibilities within the Cashiering Unit; however, direct supervisor approval does not appear to follow the organization chart, per auditors’ testing of A/R reports • Separated potential conflicting responsibilities within the Accounting Unit • Separated potential conflicting responsibilities for the Chief Accounting Officer • Created separate duties for payroll liaisons and timekeepers; however, it appears the process is still at risk for conflicting responsibilities as a responsible CPUC staff member did not comply with these new procedures <p>The CPUC continues to lack policies and procedures and the recommended secondary review and segregation of responsibilities.</p>
<p>FINDING 4 – Lack of documented policies and procedures over procurement process</p>		
<p>Contracts</p> <p>The CPUC should establish written policies and procedures to ensure the integrity and efficiency of procurement and purchasing processes and compliance with rules and regulations. Documented policies and procedures should ensure that procurement, stock room, and Fiscal Office staff know and follow the State Contracting Manual policies and procedures. Such policies and procedures also would benefit the CPUC during turnover of key staff members.</p>	<p>Partial</p>	<p>The CPUC is in compliance with the California State Contracting Manual, which provides that the Secondary Request for Proposal (RFP) method is required when services are complex, uncommon, or require unique approaches/methods/ techniques. Cost proposals are submitted, proposers are interviewed and evaluated, and the highest overall score is awarded.</p> <p>However, the contract file reviewed lacked consultant scoring sheets or documentation of the project vendor proposals and rankings. The CPUC Personal Service Consulting Contracts Manual states that California Environmental Quality Act (CEQA) consultants are procured using the competitive bidding Request for Qualifications (RFQ) method.</p> <p>Also provided was the approved DGS rotating “when needed” consultant list, but the list is not contract-specific and details on the awarded vendor and rankings sheets of all vendors were not available. Policies are being formed.</p>

		Sampled “disabled attendee” contracts include cost justification; however, the actual “hourly rate” expected standard within the communications assistance services is not listed on the documents to support the cost justification.
Purchase Orders (PO) for Goods See Contracts above.	Partial	POs for goods received are not sent out for payment until verified by a procurement officer. The CPUC has implemented a more efficient, streamlined system for processing POs for incoming goods. Each PO now requires only two approval signatures, creating a faster turnaround time. Also, there are more internal controls for verification of incoming goods before POs are submitted for payment. The CPUC is in the process of drafting policies and procedures for this new method for processing and PO payments.
Service Orders and Purchase Orders for Services See Contracts above.	Yes	Service/purchase orders are requested/approved by the department manager and invoiced/paid by Fiscal after services are provided.
Customer Relationship Management (CRM) Records Please see Contracts above.	Yes	The CPUC has taken steps to ensure that the procurement’s contract values are consistent with the CRM system. IT has formalized policies and procedures in place, as recommended by the SCO.
FINDING 5 – Lack of documented policies and procedures over personnel and payroll process		
Employee Separations The CPUC should establish written policies and procedures to ensure that personnel and payroll transactions are proper and in accordance with rules and regulations. Documented policies and procedures should ensure that Human Resources Branch staff know and follow personnel policies and procedures. Such policies and procedures would also benefit the CPUC during turnover of key staff members.	Partial	HR works closely with the CPUC’s division management to ensure that the employee separation process is proper and adequately supported and documented. Upon notification of an employee’s separation, HR staff now immediately follow-up with supervisor or timekeeper to ensure timely and accurate submission of attendance records: a) Signed clearance checklist to ensure return of ID cards, keys, passes, credit cards, other state property, or other outstanding items; and b) Supervisor signatures on separation forms are obtained for separating employees. HR also works closely with the Fiscal Office to ensure that all outstanding advances are cleared and state-owned property is returned prior to releasing salary warrants to separating employees. Tests of five of the 21 separated employees revealed that separation files did not include adequate supporting documentation, specifically, timesheets. Timesheets support all salary payments including regular payroll, overtime, and shift differential,

		<p>and are properly certified. Without timesheets, time paid for work performed and lump-sum separation pay may not be correct.</p> <p>We recommend that the CPUC formalize recommended policies and procedures and ensure that responsible staff adhere to these protocols to process employee separations.</p>
<p>Salary Warrants</p> <p>See Employee Separations, above.</p>	<p>No</p>	<p>The CPUC does not have written procedures for handling undeliverable salary warrants but is in process of establishing one. Responsible CPUC staff mentioned that they have received salary warrants and direct deposit stubs from the SCO without their knowledge, and filed them in the Master File. Staff also stated that it appears that some warrant control instructions were either not properly filed in the Fiscal Office or the information may have never been received for these items to be released to the employee from the specialists in HR. The Fiscal Office sent emails to HR on a regular basis requesting instructions for the unaccounted warrants. Staff also stated that it is not uncommon that the HR staff were unwilling to cooperate with the Fiscal Office to resolve such issues.</p> <p>To verify these statements, we reviewed all outstanding salary warrants in the master file. We found that nine salary warrants were outstanding for 90 days or more and have not been returned to the SCO.</p> <p>We recommend that the CPUC formalize recommended policies and procedures and ensure that responsible staff adhere to these protocols for handling undeliverable salary warrants.</p>
<p>Leave Balances</p> <p>See Employee Separations, above.</p>	<p>Yes</p>	<p>The HR division sent out a Vacation/Annual Leave-Over Maximum Memorandum with an Annual Vacation/Leave Balance Worksheet to employees with a leave balance exceeding 640 hours. The memorandum required a written plan outlining how each employee would reduce the excess leave balances. The unit supervisor was to approve the plan and submit it to HR by July 31, 2013. To verify this process, we noted that there were 15 employees in the administrative unit that exceeded the leave balance of 640 hours and have completed the written plan.</p>
<p>Out-of-Class Assignments</p> <p>See Employee Separations, above.</p>	<p>Yes</p>	<p>HR Classification and Pay Analysts are now reviewing the Out-Of-Class (OOC) assignment package. This is to ensure that the OOC assignment files include sufficient information to support an employee's out-of-class status before forwarding out-of-class request paperwork to the HR Classification and Pay Manager for approval. To verify this process, we judgmentally selected for review five of 18 individuals who have received OOC pay. These files selected for review included</p>

		duty statements of the respective position for the out-of-class assignment with other supporting documents.
<p>Individual Development Plans</p> <p>See Employee Separations, above.</p>	Yes	<p>The CPUC has a procedure in place to ensure that all employees have completed and turned in their IDP reports and to ensure that the supervisor meets and discusses the employee’s objectives and plans for development. Supervisors rated their employee’s skills, knowledge, and performance on the factors listed on the Standard (STD) Form 637 and provided substantiating comments on the employee’s performance. The CPUC utilizes the IDP process to assist its employees in career and personal development and to reach short- and long-term career goals, as well as to improve their job performance.</p> <p>To verify this process, we performed a review of the pending IDP report for the administrative unit. We noted that all staff in the administrative unit completed the required IDP form, STD 637.</p>
<p>Employee Timesheets</p> <p>See Employee Separations, above.</p>	Yes	<p>The CPUC implemented a new Employee Timesheet System (ETS) to process timesheets. The ETS replaced the Oracle-based Work Tracking System (WTS) in September 2014, streamlining and simplifying the time reporting process and delivering numerous advantages to the CPUC. ETS quantifies the amount of time spent on specific tasks at the employee, division, and commission level. This data allows management to better allocate resources. More importantly, there is an established timeframe for the time reporting process. Employees enter and submit leave and work on ETS on the second working day, supervisors review and approve work and leave on ETS on the fourth working day, timekeepers complete audit of timesheet on the fifth working day, and Human Resources complete HR review of exceptions on the ninth working day. Once submitted through the entire approval process, the timesheet is final. If the timesheet is not submitted on time, ETS generates reminders and notifications to the employee, supervisor, and management.</p> <p>To verify this process, we selected the September Division Compliance Report for review and noted that the timesheet submission was in compliance with this newly implemented process.</p>
<p>Salary Advances</p> <p>See Employee Separations, above.</p>	No	<p>Our review found that the CPUC lacks adequate policies and procedures to ensure salary advances are collected in a timely manner. In our review of the June 2014 salary advance transactions, we noted that 26 salary advances over three years old totaling \$30,487 are still outstanding. In addition, we noted that five advances over 120 days old totaling \$1,887 have not been cleared. This resulted from a lack of coordination, clear roles, and responsibilities for salary advance clearance and collection between the Fiscal and Personnel offices. The collection and clearance of</p>

			<p>outstanding salary warrants requires close coordination between the two offices. We observed that, in general, the CPUC lacks a cohesive process, significantly delaying its ability to collect and clear outstanding salary warrants in a timely manner.</p> <p>We recommend that the CPUC establish and follow recommended policies and procedures and ensure compliance with these formalized policies and procedures.</p>
FINDING 6 – Inadequate internal control over parking garage operations			
	<p>Garage Operations</p> <p>The CPUC should establish procedures to ensure the proper reconciliation of garage collections. The End of Day Report should be used to identify staff or system errors. The CPUC should also establish procedures to ensure collection of unpaid parking fees in a timely manner. Further, closed tickets should be kept according to daily collections to facilitate reconciliation with daily reports.</p>	<p>Yes</p>	<p>Previous operations have been suspended, thus, recommendations were not implemented. Beginning August 1, 2014, the garage is open between 7:00 a.m. and 12:00 p.m. for daily parking. Staff entering between these hours must prepay \$8 per day. Between 12:00 p.m. and 3:00 p.m., no daily parking is allowed, and between 3:00 p.m. and 6:00 p.m., parking is free. This new process eliminates future outstanding tickets, as staff either have monthly parking pass or pre-pay when entering.</p>
	<p>Reconciliation of Reports and Cash Collections</p> <p>See Garage Operations, above.</p>	<p>Yes</p>	<p>The garage attendant still collects the other half of the parking stub, and logs the customer’s name. The ticket stub is also cleared through the machine as a closed ticket after receipt of payment. After 12:00 p.m., the garage attendant performs his or her closing process, generates the closed tickets report, counts the cash receipts, and fills out the Daily Cash Reconciliation Report. The Business Services Office (BSO) Specialist subsequently reviews the transactions and upon approval, locks the cash in the BSO office until submission to the Fiscal Office for depositing.</p>
	<p>Outstanding Tickets</p> <p>See Garage Operations, above.</p>	<p>Yes</p>	<p>There are no new open tickets since new Garage Operations have been applied August 1, 2014. As for outstanding tickets, CPUC is evaluating available resources and outcomes as there are many open tickets that are old and have no identifying information. Efforts to collect outstanding tickets have been deferred but options to clear some of the outstanding ticket debts are being evaluated.</p> <p>As of August 13, 2014, the outstanding ticket machine report total was 987; the new machine report as of December 4, 2014, had 797 open tickets. The CPUC has 190 fewer open tickets since August 2014. Current employees with unpaid tickets have been placed on a “No Park List” and 140 “No Park List” accounts have been collected.</p>

**Attachment—
California Public Utilities Commission
Review Report
Internal Accounting and Administrative Controls**

**CALIFORNIA PUBLIC UTILITIES
COMMISSION**

REVIEW REPORT

**INTERNAL ACCOUNTING AND ADMINISTRATIVE
CONTROLS**

July 1, 2011, through December 10, 2012



JOHN CHIANG
California State Controller

December 2013



JOHN CHIANG
California State Controller

December 9, 2013

Paul Clanon, Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. Clanon:

Enclosed is the report of the State Controller's Office (SCO) review of the California Public Utilities Commission's (CPUC) system of internal accounting and administrative controls. This engagement was conducted at your request for a review of the CPUC's internal accounting and administrative controls.

Our review identified material weaknesses in the CPUC's system of internal accounting and administrative controls over financial management and reporting, cash processes, personnel and payroll processes, contracting and procurement processes, and parking garage operations. These weaknesses include:

- Insufficient supervisory oversight and lack of documented policies and procedures over financial management and reporting;
- Insufficient supervisory oversight and lack of documented policies and procedures over cash processes;
- Inadequate segregation of duties;
- Lack of documented policies and procedures over procurement processes;
- Lack of documented policies and procedures over personnel and payroll processes; and
- Inadequate controls over parking garage operations.

A draft report was presented to the CPUC on August 1, 2013. You responded to the findings in a letter dated September 16, 2013, included in this report as an attachment. You agreed with the majority of the findings and did not dispute any of the findings. In addition, since the completion of our fieldwork, you indicated that the CPUC has already taken steps to improve operations in a number of areas that were highlighted by this review. These improvements were not subjected to our review procedures and were not verified.

Paul Clanon, Executive Director

-2-

December 9, 2013

If you have any questions, please contact Andrew Finlayson, Bureau Chief, State Agency Audits Bureau, Division of Audits, by phone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/nh

cc: Michelle Cooke, Director of Administrative Services
California Public Utilities Commission

Contents

Review Report

Introduction	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials	3
Restricted Use	3
Findings and Recommendations	4
Attachment—California Public Utilities Commission Response to Draft Review Report	

Review Report

Introduction

The State Controller's Office (SCO) reviewed the California Public Utilities Commission's (CPUC) internal accounting and administrative controls for the period of July 1, 2011, through December 10, 2012. The SCO entered into an interagency agreement with the CPUC, which included the SCO performing a review of the CPUC's internal accounting and administrative controls.

This report presents the findings and recommendations of the SCO in its review of the CPUC's internal accounting and administrative controls.

Background

The CPUC consists of five commissioners appointed by the Governor, with Senate approval, to six-year terms. The CPUC has broad powers to regulate investor-owned and operated natural gas, electric, telephone, water, sewer, steam, and passenger transportation companies in California. The CPUC's regulatory activities—such as establishing operating authority, overseeing service standards, authorizing rate changes, and monitoring safety—benefit consumers by offering them more choices among new and upgraded utility products and services, and by protecting them in ways that competition does not.

Objective, Scope, and Methodology

The scope of the review covered the period of July 1, 2011, through December 10, 2012. The focus of the review included the following CPUC operational areas: Fiscal Operations, Personnel Service Contracts, Personnel and Payroll Processes, and Procurement.

The objectives of the review were to determine whether the CPUC's internal accounting and administrative controls are in place to ensure the following:

- Reliability and integrity of financial information and accounting records;
- Compliance with and adequacy of policies, procedures, laws, and regulations;
- The safeguard of assets;
- Adequacy of reporting relationships and staffing resources;
- Economical and effective use of resources; and
- Accomplishment of established objectives and goals for operations.

To accomplish our objective, we performed various procedures, which include:

- Reviewing governing statutes, the State Administrative Manual, and any other applicable laws, rules, and regulations;
- Reviewing reports issued by any audit organization;
- Evaluating the CPUC's formal written internal policies and procedures;
- Conducting interviews with CPUC employees and observing individuals involved in the various CPUC operations;
- Documenting, analyzing, and evaluating internal controls;
- On a limited basis, performing tests of transactions to ensure adherence with prescribed policies and procedures and to test and validate the effectiveness of controls; and
- Performing analyses to determine the adequacy of staffing resources utilized.

Conclusion

Our review of the CPUC internal and administrative accounting controls for the period of July 1, 2011, through December 10, 2012, identified material weaknesses in the CPUC's system of internal accounting and administrative controls over financial management and reporting, cash processes, personnel and payroll processes, contracting and procurement processes, and parking garage operations. These weaknesses include:

- Insufficient supervisory oversight and lack of documented policies and procedures over financial management and reporting;
- Insufficient supervisory oversight and lack of documented policies and procedures over cash processes;
- Inadequate segregation of duties;
- Lack of documented policies and procedures over procurement processes;
- Lack of documented policies and procedures over personnel and payroll processes; and
- Inadequate controls over parking garage operations.

The material weaknesses are detailed in the Findings and Recommendations section of our report. In addition to the recommendations described in the Findings and Recommendations section of the report, we strongly recommend that the CPUC consider implementing an internal auditing function within the agency in order to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives.

**Views of
Responsible
Officials**

We presented a draft report to the CPUC on August 1, 2013. Paul Clanon, Executive Director, responded to the findings in a letter dated September 16, 2013. The CPUC agrees with the majority of the findings and did not dispute any of the findings. The CPUC indicates that improvements have been made or that remedial actions are in the process of being implemented since the end of our fieldwork. These improvements were not subjected to our review procedures, and accordingly, we cannot attest to their implementation or adequacy. The CPUC's responses are included in this report as an attachment.

Restricted Use

This report is intended solely for the information and use of the California Public Utilities Commission and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 9, 2013

Findings and Recommendations

**FINDING 1—
Insufficient supervisory
oversight and lack of
documented policies
and procedures over
financial management
and reporting**

State Administrative Manual (SAM) section 20050 requires the California Public Utilities Commission (CPUC) to establish and maintain internal accounting and administrative controls. Further, Government Code (GC) section 13403 states that the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to (1) a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures; and (2) an established system of practices to be followed in performance of duties and functions in each of the state agencies.

During our review for the period of July 1, 2011, through December 10, 2012, we observed that the CPUC had inadequate documented policies and procedures over financial management and reporting to ensure the accrual of revenue, collection of fees, surcharges, fines, and restitutions, and documentation and review of journal entries recorded in the general ledger. These deficiencies were aggravated by insufficient supervisory oversight and the lack of coordination among the personnel responsible for contributing to financial reports.

Accrual of Revenue

In our review of telecommunication surcharges and user fees during fiscal year (FY) 2011-12, we noted that the CPUC credited revenue accounts on a cash basis on the date the remittances were received from utility companies. The CPUC did not accrue revenues for revenues earned but not received at June 30, 2012, as is required under SAM section 8290. Our analysis of revenue collected from July 2012 through March 2013 revealed that the CPUC earned telecommunication surcharges and user fees of approximately \$70 million and \$27 million, respectively, during FY 2011-12 but did not record them during the period. This practice apparently has existed for many years. In addition, as a result of the cash basis of revenue recognition, it appears the CPUC may have recorded telecommunication surcharges and user fees earned in the prior fiscal year as revenues for fiscal year 2011-12. However, we did not review the prior period fiscal year's revenues that were collected in fiscal year 2011-12. See Tables 1 and 2 below:

Table 1 -- Unaccrued Telecommunication Surcharges at June 30, 2012

Fund Name	Collected from July 2012 through March 2013	Uncollected as of March 2013	Total
Universal LifeLine Telephone Service	\$ 42,487,862	\$ —	\$ 42,487,862
California High Cost Fund-B Deaf and Disabled Telecommunications Program	11,128,549	2,636	11,131,185
California Advanced Services Fund	7,392,806	6,931	7,399,737
California Teleconnect Fund	5,189,806	713,344	5,903,150
California High Cost Fund-A	2,927,227	2,726	2,929,953
	4,104	—	4,104
Total	\$ 69,130,354	\$ 725,637	\$ 69,855,991

Source: Our analysis of the CPUC collection system's data for telecommunication surcharges from July 2012 through March 2013.

Table 2 -- Unaccrued User Fees at June 30, 2012

Utility Type	Collected from July through December 2012
Electrical	\$ 11,801,770
Water and sewer	9,166,604
Telecommunications	4,664,113
Gas	1,783,444
Pipeline	24,869
Total	\$ 27,440,800

Source: Our analysis of the CPUC collection system's data for user fees from July 2012 through March 2013.

State Administrative Manual (SAM), Section 8290, states:

As of June 30 each year, income, as defined in SAM Section 8200, earned but not received will be accrued as of the fiscal year just ended if it is estimated to be collectible within one year after the end of the current fiscal year. Such amounts are considered earned as of June 30 of the year just ended.

We understand that the CPUC's nonaccrual of revenues is a timing difference in recording transactions. However, accrual accounting, when administered properly, allows the CPUC's policy makers and financial managers to understand the full benefits and costs of their decisions in the fiscal period in which those decisions are made. On the other hand, recording revenues solely on a cash basis could significantly distort the financial statements, as cash collections often fluctuate significantly from year to year. Without accurate and reliable revenue data, the CPUC would have difficulties developing meaningful budget projections.

We found that the CPUC's failure to accrue surcharges and user fees stemmed from a lack of procedures to ensure coordination between the Fiscal Office and program staff to estimate the amount of revenues to be accrued for the fiscal year. In addition, the Fiscal Office does not have sufficient coordination with Information Technology Branch staff knowledgeable for generating financial reports. CPUC Administrative Services Division management should ensure that there is sufficient supervisory oversight to ensure that SAM requirements are followed.

Recommendation

The CPUC should establish written policies and procedures to ensure that telecommunication surcharges and user fees are properly recorded. The Fiscal Office should take the lead to coordinate with program staff to develop and implement a methodology for estimating the amount of revenue that the CPUC has earned during a fiscal year and expects to collect within one year after June 30. The CPUC should report this amount as revenue at June 30. In addition, the CPUC should maintain adequate supervisory oversight over revenue accrual processes to ensure that the appropriate accounting principles are being followed.

CPUC's Response

The CPUC agrees with the finding that it historically did not accrue revenue for telecommunication surcharges and user fees due to difficulties in timing and estimating revenues, and a lack of communication between the Fiscal Office and program management. To remedy this situation for FY 2012-13 year-end financial statements, Fiscal Office staff analyzed CALSTARS data and internal revenue tracking systems (TMIS, TUFFS and UFS) data to estimate revenue amounts to support accrual entries for the year-end; the CPUC is now in compliance with the SAM requirements for income accrual. Fiscal Office staff are working with the Communications Division to more accurately estimate revenue streams in future years for year-end accrual.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

Collection of Telecommunication Surcharges

The CPUC uses computer systems to monitor utility companies' reporting and remittances of surcharges and fees: Telecommunications and User Fees Filing System (TUFFS) for telecommunication surcharges and User Fees System (UFS) for user fees.

We identified 480 reporting utility companies in TUFFS between July 2011 and December 2012. Of the 480 utility companies, the CPUC failed to collect one or more telecommunication surcharges from 40 utility companies totaling approximately \$812,878, which includes \$725,637 earned but not recorded as revenue in FY 2011-12, as shown in Table 1.

Conversely, the CPUC overcollected approximately \$10,765 from 28 utility companies. Further, we noted that 308 of the 480 utility companies took an average of 112 days to remit surcharges. Remittance of surcharges is due 40 days after end of the reporting period.

We also identified 120 reporting utility companies in UFS between July and December 2012. Of the 120 utility companies, 64 took an average of 109 days to remit user fees totaling approximately \$15 million. Included in these remittances was a user fee of \$4,645 that was remitted three years after the end of the reporting period. Remittance of user fees is due 15 days after end of the reporting period.

There is an apparent lack of coordination of collection effort between the Fiscal Office and program staff. Although the above data are available in the TUFFS and UFS systems, we found no indication that the CPUC initiated further actions to collect surcharges and fees, return over-collections, or improve collection efforts. No specific staff has been assigned to monitor and follow up on issues identified by the computer systems.

Recommendation

The CPUC should establish written policies and procedures to ensure prompt collection of surcharges and fees and assign individuals with responsibility to monitor the accuracy and timeliness of the utility company's remittances of surcharges and take actions when necessary. The Fiscal Office should coordinate with program staff to determine and monitor uncollected fees and surcharges. In addition, the CPUC should maintain adequate supervisory oversight to ensure effective and timely collection of surcharges and fees.

CPUC's Response

The CPUC agrees with this finding. After reviewing all three revenue tracking systems (TMIS, TUFFS and UFS) it is clear that the Fiscal Office had not been analyzing or tracking fees as they enter the systems (that is, reviewing and tracking the amount owed) and focused its efforts solely on updates related to cash receipts. To remedy this situation, the CPUC developed a detailed flowchart that outlines the TUFFS system; additional flowcharts for TMIS and UFS are under development. The Fiscal Office is developing written policies and procedures that outline roles and duties associated with the administration and tracking of TMIS, TUFFS, and UFS from the Fiscal Office side. These policies and processes are being shared with program staff as they are developed in an effort to improve communication and collaboration between the two groups. Initial analysis by the Fiscal Office Manager suggests that the CPUC will need to reallocate existing resources or hire additional staff to complete the job functions necessary to fully administer TMIS, TUFFS, and UFS properly in the Fiscal Office. The CPUC will have written processes in place and expects to assign specific staff to support these functions beginning in 2014.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

Utility Companies' Reported Revenue

The amount of surcharges paid by each telecommunication carrier is determined by revenues subject to surcharges multiplied by a surcharge rate. Likewise, the amount of user fees paid by each utility company is determined by revenues subject to fees multiplied by a fee factor. During our review, we noted that the CPUC did not have procedures in place to ensure the accuracy of utility companies' reported revenues, as the CPUC depends on these companies to report their own revenue. Inaccurate reported revenue from utility companies presents a risk of loss of surcharges and fees to which the CPUC is entitled. We did not review the utility companies' records to verify the accuracy of reported revenues and, therefore, we cannot estimate the amount of potential loss to the CPUC.

Recommendation

The CPUC should establish written policies and procedures to ensure the accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC should also consider:

- Expanding the timing and scope of audits conducted by the Utility Audit, Finance and Compliance Branch (ACB) of the CPUC's Division of Water and Audits; or
- Establishing a unit tasked for ensuring accuracy of reported revenues and related surcharges and fees from utility companies. The CPUC could staff this unit through redirection of existing resources from other divisions and/or requesting additional resources through the budget process.

CPUC's Response

The CPUC agrees with this assessment and will have a Fiscal Office employee review and verify utility companies' claimed revenue by the end of FY 2013-14. Staff from the agency's Division of Water and Audits are providing guidance to Fiscal Office staff with regard to how to review corporate financial statements for purposes of verifying revenue.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

Significant Long-outstanding Fines and Restitutions

Per the SCO's Report of Review of Fines and Restitutions dated August 2007, the CPUC was unable to collect \$20.7 million in fines and \$11.1 million in restitutions that were imposed against utility companies since 1999. In our analysis of the CPUC's aging of accounts receivables as of December 31, 2012, we noted that the balance of outstanding receivables for fines had increased to \$21.9 million. This balance includes \$20.4 million in fines still outstanding since the SCO's review in 2007.

According to the CPUC's *Report on the Status of the CPUC as a Judgment Creditor*, the CPUC hired a collection company to attempt to recover past-due penalties and restitution in November 2008 through October 15, 2010. Despite the statutory provision giving the CPUC judgment creditor status with regard to outstanding penalties and restitutions, the collection company's efforts to locate and collect payments from these various debtors were mostly unsuccessful. Most of the firms that had been fined by the CPUC were either out of business, insolvent, in bankruptcy, or otherwise defunct. The few that were located owed small amounts and the expense of pursuing collection led the collection company to conclude that the funds were not worth collecting.

The CPUC applied to the SCO for discharge from accountability of these accounts receivable. In a memorandum from the SCO dated April 27, 2011, the applications were returned per CPUC's request for further actions. Per inquiry, the CPUC's Cashiering and Collection Section head was not aware of any actions taken by the CPUC.

The SCO review in 2007 recommended that "The CPUC should immediately clearly assign collection responsibility to the various divisions. In addition, the CPUC should consider establishing a centralized collection unit. The CPUC could staff the collection unit through redirection of existing resources from other divisions and/or requesting additional resources through the budget process." During our review, we observed that the Collection Unit had just one staff member under supervision by the Cashiering and Collection Section head. The Collection Unit staff member stated that he/she did not have the time needed to effectively follow up on old accounts. The management and control of accounts receivable is an integral part of maintaining a reliable healthy cash flow. The cost of financing these past due receivables is significant.

Recommendation

The CPUC should make efforts to collect outstanding accounts receivable. In addition, the CPUC should consider adequately staffing its Collection Unit through redirection of existing resources or requesting additional resources through the budget process.

The CPUC should apply for discharge from accountability of the accounts receivable in situations in which collection efforts have been exhausted.

CPUC's Response

The CPUC believes that because most of the cases of long outstanding fines are uncollectable due to firms having gone out of business the most prudent action is to collect the information necessary to allow CPUC to appeal to the SCO for discharge of these debts. The CPUC has assigned an attorney from its legal department to help research the long outstanding fines and determine whether they are in fact uncollectable, or if there are other actions the agency could take with regards to collection.

SCO's Comment

The CPUC does not dispute the finding. The CPUC has indicated that they are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

Use of Journal Entries

In our review of selected journal entries during the period from July 2011 through December 31, 2012, we noted that the CPUC did not have properly designed, implemented, and effective policies and procedures to ensure that journal entries are adequately researched, supported, and reviewed prior to their recording in the general ledger. We reviewed 11 journal entries in Due from Other Funds and Appropriations (1400) accounts for seven funds and noted the following deficiencies:

- Lack of research and proper supporting documentation. Of the 11 journal entries, four were posted to reflect a net amount of \$78.1 million in interfund loan transactions in prior fiscal years. The CPUC posted these journal entries in the accounting system to reconcile with the SCO's balances. However, there was no indication that the CPUC Fiscal Office staff conducted research to ensure the amounts and accounts posted were accurate. Instead, the CPUC relied on the SCO's records. In addition, three of the 11 journal entries were posted late while another was posted twice in the accounting system. As a result, two fund balances were misstated by \$2.8 million at December 31, 2012.
- Lack of proper review and approval. During our review, we found no indication that all of the 11 journal entries were properly reviewed and approved by the CPUC Fiscal Office management prior to the entry being posted in the general ledger. The process in place allowed journal entries to be both prepared and posted by the same individual. There are no system controls currently in place to ensure proper segregation of duties related to preparation and posting journal entries.

Recommendation

The CPUC should include appropriate supporting documentation for every journal entry prepared. It should also establish written policies and procedures to ensure that journal entries are reviewed and approved by the CPUC Fiscal Office management before they are posted to the general ledger. Implementation of review procedures for journal entries

will reduce errors in the general ledger and improve financial reporting. Periodically, these policies should be reviewed to determine whether individuals at the appropriate level are assigned this important responsibility.

CPUC's Response

The CPUC agrees with this finding. Beginning in August 2013, the Accounting Office Manager reviews every journal entry before it is posted to the general ledger by Accounting Unit staff to ensure accuracy and supporting documentation. As recommended by the Audit, this policy will be reviewed in six months to help assess individual's performance and whether the journal entry tasks are being assigned at the appropriate level.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

FINDING 2— Insufficient supervisory oversight and lack of documented policies and procedures over cash processes

The CPUC's Accounting Unit is dependent on the knowledge of a few employees who perform critical operational tasks. The policies and procedures used by these employees are, for the most part, undocumented, which has resulted in deficiencies in the cash accounting processes. These deficiencies were aggravated by the lack of sufficient supervisory oversight and review over cash accounting processes.

Long-outstanding Reconciling Item

We reviewed the CPUC's bank reconciliation process and selected monthly bank reconciliations from January through December 2012. In our review, we noted a long outstanding reconciling item of \$202,435 in December 2012. Per inquiry with the CPUC Accounting Unit staff, this reconciling item has been outstanding since the staff took over the duty in 2009. The CPUC Fiscal Office management was aware of the issue but had not taken action to address it. This item has resulted in an understatement of the CPUC's book balance compared to the bank balance.

Office Revolving Fund Cash Balances

SAM section 8060 requires that bank reconciliations be prepared and reviewed promptly. We selected and reviewed monthly bank reconciliations from January through December 2012. During our review, we noted that from January through August 2012, the Office Revolving Fund book balances did not reconcile with reconciliation reports. Per inquiry with the CPUC Accounting Unit staff, the difference of \$6,483 was due to late postings of two liquidating salary transactions done in April 2010 and May 2011. The CPUC Accounting Unit staff did not receive approval from Fiscal Office management to make the necessary adjustments until September 2012.

Review of Fund Balance Reconciliation

SAM section 7908 requires that all reconciliations include the reviewer's name and date reviewed. We selected 60 monthly SCO/CALSTARS fund balance reconciliations for 10 funds from July through December 2012 for review. Of the 60 reconciliations, 20 (33%) did not have any indication of supervisory review. In addition, 8 (13%) of the 60 reconciliations were reviewed two months after end of the month.

Recommendation

The CPUC should establish written policies and procedures to ensure that cash handling and processing are proper and that periodic reconciliations are prepared and reviewed promptly by Fiscal Office management. The CPUC should ensure that the Accounting Unit staff know and follow policies and procedures for cash processing. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response

Long-outstanding Reconciling Item

The CPUC agrees with this finding. Upon further analysis it appears that Accounting Unit staff had not followed proper procedure and had made additional changes to the outstanding item balance (that is, folding in other adjustments) since 2009. To remedy this, the Fiscal Office Manager has directed Accounting Unit staff to immediately stop using the item as an offset, and to also research and identify the original error that caused the item to appear in 2009. Once this error is identified, the CPUC will work with the SCO to determine the appropriate way to adjust or clear the entry. To prevent this sort of error from reoccurring in the future, the Fiscal Office Manager is now reviewing monthly bank reconciliations.

Office Revolving Fund Cash Balances

The CPUC agrees with this finding. The reconciling item in question for the Office Revolving Fund (0998) has been corrected and there is no longer a discrepancy. Management is now reviewing all reconciliations monthly and providing timely guidance to Accounting Unit staff.

Review of Fund Balance Reconciliation

The CPUC agrees with this finding. The Fiscal Office Manager has directed staff to verify all fund balances with the SCO monthly. To verify that all funds are reconciled, a reconciliation log is now kept by the Fiscal Office Manager and progress is tracked with the Accounting Unit staff in bi-weekly meetings. To date, all but two funds have been fully reconciled with the SCO. The two funds that have not yet been reconciled are funds 3015 and 0483, which are shared funds.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

**FINDING 3—
Inadequate segregation
of duties**

SAM Sections 8080, 8080.1, and 8080.2 require that agencies establish and maintain an adequate system of internal control. An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations in which an employee has the ability to perpetrate an error or irregularity and to conceal it. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. During our review, we noted several situations involving conflicting duties, such as:

- The Cashiering Unit employee responsible for maintaining the accounts receivable records occasionally handles, processes, and records cash receipts and prepares bank deposits.
- The Accounting Unit employee responsible for review and reconciliation of accounts is also responsible for posting entries into the accounting system.
- The chief accounting officer who was involved in all accounting operations, including monthly bank reconciliations, has the ability to sign checks.
- The employees designated to distribute live warrants were also responsible for preparing and handling time and attendance reports.
- The Fiscal Office employees who initiate transactions also perform related data entry on the computer.

Each of the situations above could result in an error or irregularity going undetected.

Recommendation

We recommend that such conflicting responsibilities be separated to the extent possible, considering the limited number of employees involved. The segregation of responsibilities will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another.

CPUC's Response

The CPUC agrees with this finding. The Fiscal Office Manager is analyzing the job duties of Fiscal Office staff to identify areas of work and situations that could lead to problems with internal controls – this includes addressing the situations identified by the Audit as conflicting duties. The CPUC has already changed its policy regarding the distribution of live warrants so that employees who prepare and handle

attendance reports can no longer distribute the warrants. Human Resources (HR) now provides the Fiscal Office with a list of timekeepers that to ensure that these individuals do not also pick up payroll warrants. HR will update this list and continue to review and send to the Fiscal Office on an annual basis or whenever a change occurs.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

FINDING 4— Lack of documented policies and procedures over procurement process

During our review, we noted that the CPUC had inadequate documented policies and procedures over the procurement process, resulting in deficiencies in contract files, purchase orders, and services orders. These deficiencies were aggravated by the lack of communication between stock room and Fiscal Office staff.

Contracts

We selected 28 of 211 contract files for review. Our review of the 28 contract files indicated the following:

- One contract for \$30 million was procured using the secondary request-for-proposal (RFP) method. There was not enough information in the files to determine whether this procurement complies with the State Contracting Manual's secondary RFP method;
- One California Environmental Quality Act contract for \$19.5 million was procured using the request-for-qualification (RFQ) method. Supporting documentation for the RFQ process, such as scoring sheets, was not maintained in the contract file;
- Three contract files could not be located and were not provided during our review; and
- Four disabled attendee contracts did not include documentation of cost justifications.

Purchase Order for Goods

During our review, we observed that the CPUC did not have an efficient system for processing purchase orders or incoming goods. Of the 19 purchase orders selected and reviewed, six were approved after purchases had already been made. For example, an invoice was dated October 4, 2012, but the corresponding purchase order did not complete the approval process until October 9, 2012. We also noted that four purchase orders were submitted to the SCO for payment without any indication that goods were received. Further, the purchase order approval process appears to be redundant, requiring purchase order forms to be signed and approved by the same staff members multiple times. The current purchase order approval practice requires the Business Service

Unit (BSU) manager, BSU supervisor, and BSU services officer to each approve the purchase order forms twice. We noted that the purchase order approval process could take as long as four weeks, which is extremely time consuming.

Service Orders and Purchase Orders for Services

We selected 20 service orders and purchase orders for services for review. Of the 20 service orders and purchase orders for services, nine were approved after the invoice date. For example, an invoice for \$3,986.57 was dated August 4, 2011, but the corresponding purchase order was not completely approved until September 19, 2011. In a similar instance, a service order with an invoice dated October 9, 2012, was not approved until November 15, 2012.

Customer Relationship Management Records

The CPUC uses its Customer Relationship Management (CRM) system for procurement of goods and services. During our review of the CRM listing for information technology procurements, we noted that 35 of the 745 procurements had inaccurate total contract values. The CPUC's Information Technology Branch staff stated that these were due to either a CRM system malfunction or staff incorrectly entering contract amounts into the system.

Recommendation

The CPUC should establish written policies and procedures to ensure the integrity and efficiency of procurement and purchasing processes and compliance with rules and regulations. Documented policies and procedures should ensure that procurement, stock room, and Fiscal Office staff know and follow the State Contracting Manual policies and procedures. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response

The CPUC agrees with this finding and has drafted new Policies and Procedures for the Procurement of Goods and Services which will help communicate Business Service's role in the numerous aspects of procurement within the agency as well as the steps in various procurement processes.

Contracts – Lack of Documented Procedures

The CPUC agrees with this finding, and in June completed a first draft of a comprehensive revision to the CPUC Personal Services Consultant Contracts Manual (Contracts Manual), which had not been revised since 2007. The revision includes updates to procedural changes in the contracting process and outlines the responsibilities of all parties involved in the process including project managers, Contracts Office staff, and management. The Contracts Office expects to send the final version of the Contracts Manual to the Divisions in September 2013. In addition, the Contracts Office staff and CPUC training staff will

develop a training program for CPUC project managers and Division management by the end of 2013 with the goal of better engaging staff in the contracting process and answering more specific program questions regarding contracting.

In addition to the Contracts Manual, the Contracts Office has enacted and documented the following policies: Invoicing Policy to comply with Prompt Payment (September 2013), Contracts File Retention Policy (August 2013), and Access and Security Policy (August 2013). The Contracts Office has also implemented and documented detailed procedures for Invoicing Processing (January 2013), Database (CRM) data entry requirements (January 2013) and Reporting (May 2013).

The Contracts Office is also documenting the following processes and procedures in 2013 and 2014:

- Contracts office communication policy (related to customer service)
- Small Business/DVBE policy and contracting procedures
- Electronic records policy and procedure
- OSP printing policy and procedures
- Procedure to reconcile contract balances with the Fiscal Office
- Procedure for creating and maintaining the office contracts file
- Procedure and/or process to improve records tracking
- Procedure for completing the annual 810 report for small business/DVBE reporting

Lack of information to verify compliance with secondary RFP method and incomplete supporting documents in the RFQ contract file

The CPUC agrees with these finding and believes that the deficiencies identified by the Audit were in both cases a result of poor record tracking and/or issues with file access and security, each leading to inadequate documentation in the contracts file. The Contracts Office is establishing tighter guidelines with regard to records retention and file security and access, and policies (as described in 4a(1)) that will make clear management's expectations to contract officers with regard to these areas. In addition, the updated Contracts Manual will include a directive that all contract files must reference the physical location of any RFP or RFQ documents that are not in the contract file. In January 2014 the Contracts Office will begin updating the existing secondary RFP template to include a checklist to verify compliance with secondary RFP requirements. As part of the FY 2014 Budget Process the CPUC is requesting additional staff to support compliance with contracting requirements. This position would be responsible for auditing all consultant services, goods, services and IT procurement methods, process and files to ensure better CPUC compliance.

Missing Files

The CPUC agrees that improvements must be made to the management and security of physical contract files. To immediately address the Audit's security concerns, a Contracts File Retention, Access & Security Policy was created and implemented in August 2013. In addition, starting October 2013, security for the cabinets containing original RFPs and other procurement documents will be enhanced.

These measures will ensure access to contract files is strictly limited to Contracts Office staff. Another improvement made in July 2013 is the addition of a data field in CRM to track the physical location of contract files. Finally, in September 2013, the Contracts Office will be transferring contracts that have expired more than three years ago to the State Records Center in compliance with its record retention schedule; the location of these files will be documented in CRM. In October 2013 the Contracts Office will relocate contracts that expired less than three years ago to locked archive filing cabinets and the new file location will be documented in CRM.

Purchase Orders for Goods

The CPUC agrees with this finding. Business Services has begun a concerted overhaul of the procurement process to remedy the inefficiencies and mistakes identified by the Audit. For the procurement of goods, the lead procurement officer now conducts compliance checks on every purchase to ensure that a completed Equipment Supply and Service Request (ESSR) form is included and that signature approval from a Division's Budget Control Officer (BCO) has been obtained. Business Services has also added internal controls for invoice payments - a copy of the signed purchase order, invoice from a vendor and packing slip are now required to be sent to the assigned procurement officer for verification and approval of goods for payment. In addition, the Fiscal Office Manager has directed Accounts Payable staff to not pay invoices unless all goods and services have been received. The CPUC is evaluating centralizing all invoice processing within the Fiscal Office to help with tracking and ensure timely payments. As the CPUC revises its internal processes, staff continue to look for ways to eliminate redundancies and shorten the time it takes for programs to receive their orders and vendors to receive payments.

Service Orders and Purchase Orders for Services

The CPUC agrees with this finding and recognizes the need for better management and control of the approval of purchase and service orders so that issues such as those identified by the Audit no longer occur. Business Services has already made changes to this system - effective September 2013, all ESSRs submitted to Business Services are managed first by the lead procurement officer (with the Business Services Manager's oversight) before being assigned to procurement office staff. In addition, weekly compliance checks are now performed by the lead procurement office to ensure the timely processing of ESSRs.

Customer Relationship Management Records

During the time the Auditors reviewed CRM, the system was not yet fully deployed and did not fully capture all procurement activities. Since this time, data entry deficiencies were corrected and full rollout of CRM is scheduled for September 2013. Business Services Management has been meeting regularly with procurement staff to discuss CRM and address questions and provide training, and procurement officers have successfully been using CRM to input all ESSRs. In addition, Business Service Management now regularly conducts audits of CRM to ensure that a "no blank space" policy is being consistently followed by procurement officers

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

**FINDING 5—
Lack of documented
policies and procedures
over personnel and
payroll process**

The CPUC's Human Resources Branch is dependent on the knowledge of a few employees who perform critical operational tasks. The policies and procedures used by these employees were, for the most part, undocumented, resulting in deficiencies in the personnel and payroll process.

Employee Separation

Between July 1, 2011, and December 31, 2012, the CPUC had 100 separating employees. We selected 20 employee-separation files for review. Of the 20 selections, four files could not be located while 11 did not include adequate supporting documentation.

Salary Warrants

We selected for review all 37 outstanding salary warrants between July 1, 2011, and December 31, 2012. Of the 37 warrants, 15 live warrants were outstanding for 90 days or more and have not been returned to the SCO. SAM section 8580.5 requires that warrants not delivered within 90 calendar days of receipt be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

The CPUC did not maintain a written record of all undeliverable salary warrants. Undeliverable salary warrants were maintained in a box and not accounted for. SAM section 8580.5 requires that a written record of all undeliverable warrants will be maintained and a copy given to the payroll office.

Leave Balances

Bargaining unit contracts and the California Department Human Resources (CalHR) rules limit vacation and annual leave balances to a set maximum amount. In an effort to comply with bargaining unit contracts and CalHR rules and to reduce excess balances, on June 1, 2012, the CPUC's Human Resources Branch issued Vacation/Annual Leave Over Maximum memoranda to employees whose leave balances exceeded 640 hours. The memoranda required employees to submit a written plan outlining how they would reduce their excess leave balances. Unit supervisors were to approve the plans and submit them to the Human Resources Branch by June 30, 2012. As of January 2013, 71 of the 147 employees with excess leave balances did not have written and approved plans in their files.

Out-of-Class Assignments

For the period of July 1, 2011, through June 30, 2012, the CPUC had 26 employees who received out-of-class pay, totaling approximately \$70,000. We selected all 26 out-of-class assignments for review. Five of the assignments did not have associated files, and files for the remaining 19 assignments did not include sufficient information to support employees' out-of-class statuses.

Individual Development Plans

GC section 19992.1. (a) states:

The system of performance reports shall be designed to permit as accurately and fairly as is reasonably possible, the evaluation by his or her appointing power of each employee's performance of his or her duties. The evaluation shall be set forth in a performance report, the form for which shall be prescribed or approved by the department. The department may investigate administration of the system and enforce adherence to appropriate standards.

At the CPUC, Individual Development Plan (IDP) reports are due annually on employees' birthdays. We identified 799 IDP reports that were due for submission from July 1, 2011, through December 31, 2012. Of the 799 IDP reports, 512 were not submitted as of December 31, 2012.

Employee Timesheets

In our review of the CPUC's Incomplete Timesheet Report, provided by the Human Resources Branch, from July 2011 through December 2012, we noted that 3,786 of 17,543 (22%) timesheets were not submitted to the Human Resources Branch. We also selected 97 of 963 employees in five different units for review of timesheets and supporting documentation. Of the 97 employees, 45 (46%) did not submit their timesheets. SAM section 8539 requires agencies to maintain complete records of attendance and absences for each employee during each pay period.

Salary Advances

In our review of the CPUC's Aged Revolving Fund Advances Report as of December 31, 2012, we noted outstanding salary advances from 26 employees, totaling \$30,487, that were over three years old. As of February 2013, we were not aware of any actions taken by the CPUC to collect or discharge these advances.

Recommendation

The CPUC should establish written policies and procedures to ensure that personnel and payroll transactions are proper and in accordance with rules and regulations. Documented policies and procedures should ensure that Human Resources Branch staff know and follow personnel policies and procedures. Such policies and procedures would also benefit the CPUC during turnover of key staff members.

CPUC's Response

The CPUC agrees with the Audit's findings in this area and has significantly improved the documentation of critical Human Resources (HR) functions, as described below.

Employee Separation

The CPUC agrees with this finding. HR support staff are now tasked with monitoring the filing of separation documents to ensure all documents are filed no later than 30 days from completion of paperwork by Transactions staff. In addition, HR works with Division Management to enforce timely submission of attendance records. HR periodically notifies Division HR Liaisons and timekeepers of the need for timely and accurate submission of timesheets. Upon notification of an employee's pending separation, Transactions staff now immediately follow-up with timekeepers regarding missing timesheets for a separating employee. HR continues to reiterate the importance of timely return of a signed clearance checklist to ensure return of ID cards, passes, keys, credit cards, other State property, or other outstanding items, and the importance of obtaining employee and supervisor signatures on separation forms. HR and the Fiscal Office are revising the Clearance Form to Release Final Paycheck to expedite the separation process.

Salary Warrants

To immediately address this concern, the Fiscal Office developed procedures for undeliverable salary warrants and communicated the procedures to all Divisions. Many of the warrants identified by the Audit were not actually salary warrants but direct deposit remittances - procedures were also written for the handling of these documents. As part of the procedures the Fiscal Office developed a tracking spreadsheet to track the salary warrants that the Fiscal Office holds so that they can be managed in accordance with SAM guidelines. The CPUC is now in compliance with SAM with respect to this finding.

Leave Balances

CPUC agrees that this finding is accurate. In July 2013, the CPUC issued another memo requiring submittal of leave reduction plans. As of September 16, 2013, 36 employees have not yet submitted leave reduction plans. Submitted plans are now reviewed on a quarterly basis to ensure they are followed or revised if and when necessary. Directors will be notified if and when plans are not submitted or being followed so that they can determine other options and solutions to reduce balances.

Out-of-Class Assignments

The CPUC agrees with this finding. Historically, requests for out-of-class pay were often approved at the Division level without supporting duty statements to justify the pay increase. To remedy the situation, HR Classification and Pay Analysts no longer forward out-of-class request paperwork to the HR Classification and Pay Manager for approval unless an approved duty statement is attached.

Individual Development Plans

The CPUC agrees with this finding and is working to improve the efficiency and effectiveness of the current IDP process. The CPUC is considering making HR the initiator of the agency's IDP process (rather than the employee's supervisor) and having the Division HR Liaison more actively track IDP progress and report on delinquencies to HR and Division Management. In addition, the Director of Administrative Services now receives a copy of the agency's IDP delinquency list monthly. HR is also making an agency-wide effort to update staff duty statements through a Position Description Questionnaire (PDQ) process, which is underway. Having accurate, updated duty statements will greatly facilitate the IDP process for both CPUC supervisors and staff. The CPUC has also hired an employment attorney who will work to support staff by providing supervisors training on how to properly give feedback in relation to IDPs, as well as training to handle other performance issues.

Employee Timesheets

The CPUC agrees with this finding. The issue of incomplete timesheets continues to be a problem in the CPUC, in part because the agency utilizes both an Oracle-based Work Tracking System (WTS) and HRIS, which are not interconnected. The current structure results in data being entered into multiple systems, many corrections in the official timekeeping system, and a significant number of outstanding timesheets. HR has been evaluating potential changes to the timekeeping process focused on more timely inputs and eliminating corrections. This will allow delinquent reports to be sent to management on a timely schedule. This new process will require significant training to the employees, supervisors and timekeepers. HR expects the new process to be implemented effective January 1, 2014.

Salary Advances

The CPUC agrees with this finding - salary advances were not being cleared within a reasonable timeframe. HR historically sent letters to debtors with outstanding salary advances on a 30-day interval policy, and on the 90th day submitted copies of letters and supporting documentation to the Fiscal Office for follow through with FTB for collection. HR and the Fiscal Office are finalizing the details for transitioning this function to the Fiscal Office who has an automated tracking method that can be utilized.

SCO's Comment

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

**FINDING 6—
Inadequate control
over parking garage
operations**

Garage Operations

We observed the CPUC's garage operation on March 14, 2013, and noted the following deficiencies:

- The parking attendant allowed manual changes to entry time reflected on tickets, resulting in incorrect fees. In addition, there were instances when the Ticketech machine's time was incorrect, according to the parking attendant.
- Upon exit of garage customers, the parking attendant manually calculated parking fees instead of scanning tickets. Afterward, tickets were scanned through the Ticketech machine and transactions officially recorded. At times, the parking attendant would recall actual fees collected and override the machine-generated amount. These deficiencies create potential risk for error and abuse.
- Receipts were not provided to customers.
- Closed tickets were re-sorted in numerical order for storage purposes instead of being kept intact according to daily closed tickets, impeding reconciliation of daily collections with reports.

Reconciliation of Reports and Cash Collections

We reviewed the End of Day Report and Daily Parking Report for March 14, 2013, and noted that these reports did not reconcile. We also found discrepancies between the two reports. The End of Day Report showed 75 closed tickets and \$455 in collections. The Daily Parking Report had 78 closed tickets and \$483 in collections. Our independent reconciliation revealed that tickets did not register in the End of Day Report or Daily Parking Report even if parking attendants had properly validated them. We inquired of parking garage staff but failed to obtain an explanation.

Further, we reviewed the parking garage cash collections for December 2012 and noted that daily collections were prepared, reviewed, and deposited. However, we observed that the CPUC did not perform sufficient reconciliation of the End of Day Reports, Daily Parking Reports, and actual cash collections. The lack of adequate reconciliation could result in errors not detected and presents a risk of loss of parking fees to which the CPUC is entitled.

Outstanding Tickets

We reviewed the Open Tickets Report generated at close of business on March 14, 2013. The report contained 260 open tickets with 247 outstanding tickets issued between November 29, 2012, and March 13, 2013.

Recommendation

The CPUC should establish procedures to ensure the proper reconciliation of garage collections. The End of Day Report should be used to identify staff or system errors. The CPUC should also establish procedures to ensure collection of unpaid parking fees in a timely manner. Further, closed tickets should be kept according to daily collections to facilitate reconciliation with daily reports.

CPUC's Response

The CPUC agrees with the Audit's findings in this area and has significantly improved control over parking garage operations as described below. In addition, the CPUC is exploring ways to eliminate the need for cash handling for garage operations.

Garage Operations

Effective August 2013, manual changes are no longer allowed; alternative procedures have been established if the ticket machine time stamp malfunctions. All tickets must be scanned to calculate fees using the Ticketech machines; alternative procedures have been established in the event of equipment malfunctions. No overriding of date and time stamps is allowed. Receipts are generated by the Ticketech machine for every transaction, and effective September 2013 the parking garage attendants are required to provide each customer with a receipt. In addition all tickets are now kept in the order that they were generated to facilitate the reconciliation of reports.

Reconciliation of Reports and Cash Collections

The CPUC agrees with this finding – in the past, reconciliation of reports and cash collection was not performed at a supervisor level. Since June 2013, the garage attendant reconciles tickets and cash in front of an operating supervisor; cash is recounted by the supervisor to ensure accuracy. In addition, daily Parking Reports are turned in with the End of Day Reports, along with the tickets and cash. This internal control will help identify possible system or staff errors.

Outstanding Tickets

The CPUC agrees with this finding and is actively working to collect on the outstanding tickets. CPUC garage attendants have been directed to match all unpaid parking tickets at the end of the day and include them with the End of the Day Report along with paid tickets (clearly segregated).

SCO's Response:

The CPUC agrees with the finding. The CPUC has indicated that since the end of review fieldwork, they have implemented or are in the process of implementing remedial actions. The SCO has not verified any of the remedial actions noted.

**Attachment—
California Public Utilities Commission's
Response to Draft Review Report**

PUBLIC UTILITIES COMMISSION

605 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



September 16, 2013

Mr. Jeffrey V. Brownfield, CPA
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Response to the State Controller's Office Draft Report on the California Public Utilities Commission's Internal Accounting and Administrative Controls

Dear Mr. Brownfield,

The California Public Utilities Commission (CPUC) provides the following information and response to the August 1, 2013 letter from the State Controller's Office regarding the audit of internal accounting and administrative controls it performed at the CPUC's request. We agree with the majority of the audit's findings and have already taken steps to improve operations in a number of areas that were highlighted in the audit. We appreciate the time and effort the audit team has put into helping us identify internal weaknesses and we have been making the recommended improvements.

Finding 1. Insufficient supervisory oversight and lack of documented policies and procedures over financial management and reporting.

The CPUC agrees that it historically had insufficient supervisory oversight and lack of documented policies and procedures. The improvements recommended by this audit are being addressed in concert with those identified in the January 2013 Department of Finance Audit which also noted weaknesses in the Fiscal Office's Accounting Unit. As part of the CPUC's response to the DOF Audit the Fiscal Office has developed numerous written processes both at a higher-level (to illustrate the Fiscal Office's relationship with other Divisions), as well as procedural desk manuals for staff. While we have made substantial progress, this is a work in progress. Documenting processes has been an excellent opportunity to improve the efficiency of existing processes, introduce new technological solutions, and re-evaluate job duties and positions. In May 2013 the CPUC hired a new Fiscal Office Manager who is tasked with actively following up CPUC's response to this Audit as well as the DOF's Audit recommendations. In addition, the CPUC established a limited-term Manager of Budget and Fiscal Services position - this individual provides additional oversight and coordination of the many improvements occurring in the Fiscal and Budget Offices.

1a. Accrual of revenue

The Audit notes that the CPUC only recorded telecommunication surcharges and user fees on a cash basis rather than an accrual basis, identifying this practice as inconsistent with State Administrative manual (SAM) section 8290 regarding income accrual, and resulting in an understatement of revenues and accounts receivable at year-end. The Audit noted that CPUC's failure to accrue surcharges and user fees stemmed from a lack of procedures to ensure coordination between Fiscal Office and program staff and that meaningful budget projects are dependent on accurate and reliable revenue data.

Response:

The CPUC agrees with the finding that it historically did not accrue revenue for telecommunication surcharges and user fees due to difficulties in timing and estimating revenues, and a lack of communication between the Fiscal Office and program management. To remedy this situation for FY 2012-13 year-end financial statements, Fiscal Office staff analyzed CALSTARS data and internal revenue tracking systems (TMIS, TUFFS and UFS) data to estimate revenue amounts to support accrual entries for the year-end; the CPUC is now in compliance with the SAM requirements for income accrual. Fiscal Office staff are working with the Communications Division to more accurately estimate revenue streams in future years for year-end accrual.

1b. Collection of Telecommunication surcharges

The Audit found that the CPUC's three user fee tracking systems failed to collect \$812,878 in FY 2011-12 from 40 utility companies, as well as over collection of \$10,765 from 10 other companies. The Audit cited a lack of coordination of collection efforts between the Fiscal Office and program staff as the main reason for these lapses and mistakes in collection of revenues.

Response:

The CPUC agrees with this finding. After reviewing all three revenue tracking systems (TMIS, TUFFS and UFS) it is clear that the Fiscal Office had not been analyzing or tracking fees as they enter the systems (that is, reviewing and tracking the amount owed) and focused its efforts solely on updates related to cash receipts. To remedy this situation, the CPUC developed a detailed flowchart that outlines the TUFFS system; additional flowcharts for TMIS and UFS are under development. The Fiscal Office is developing written policies and procedures that outline roles and duties associated with the administration and tracking of TMIS, TUFFS and UFS from the Fiscal Office side. These policies and processes are being shared with program staff as they are developed in an effort to improve communication and collaboration between the two groups. Initial analysis by the Fiscal Office Manager suggests that the CPUC will need to reallocate existing resources or hire additional staff to complete the job functions necessary to fully administer TMIS, TUFFS and UFS properly in the Fiscal Office. The CPUC will have written processes in place and expects to assign specific staff to support these functions beginning in 2014.

1c. Utility Companies' Reported Revenue

The Audit noted that the CPUC does not have procedures in place to ensure the accuracy of utility companies' reported revenues.

Response:

The CPUC agrees with this assessment and will have a Fiscal Office employee review and verify utility companies' claimed revenue by the end of FY 2013-14. Staff from the agency's Division of Water and Audits are providing

guidance to Fiscal Office staff with regard to how to review corporate financial statements for purposes of verifying revenue.

1d. Significant Long-outstanding Fines and Restitutions

The Audit notes that the CPUC has long-outstanding fines due to the agency from before 2007, and that insufficient actions have been taken by the agency to either collect the fines or have them properly discharged by the SCO.

Response:

The CPUC believes that because most of the cases of long outstanding fines are uncollectable due to firms having gone out of business the most prudent action is to collect the information necessary to allow CPUC to appeal to the SCO for discharge of these debts. The CPUC has assigned an attorney from its legal department to help research the long outstanding fines and determine whether they are in fact uncollectable, or if there are other actions the agency could take with regards to collection.

1c. Use of Journal Entries

The Audit found deficiencies in journal entries for seven funds, including a lack of research and proper supporting documentation, and lack of proper review and approval of journal entries.

Response:

The CPUC agrees with this finding. Beginning in August 2013, the Accounting Office Manager reviews every journal entry before it is posted to the general ledger by Accounting Unit staff to ensure accuracy and supporting documentation. As recommended by the Audit, this policy will be reviewed in six months to help assess individual's performance and whether the journal entry tasks are being assigned at the appropriate level.

Finding 2. Insufficient supervisory oversight and lack of documented policies and procedures over cash processes

The CPUC agrees with the Audit's findings in this area and has significantly improved management oversight of the Fiscal Office and the documentation of cash processes. As described below, the Fiscal Office Manager is actively reviewing reconciliations on a monthly basis and providing better guidance and oversight of Accounting Unit staff. In addition, the Fiscal Office Manager is updating all duty statements, establishing written policies and desk manuals for each employee's duties.

2a. Long-outstanding Reconciling Item

The Audit noted that a long outstanding reconciliation item of \$202,435 had not been addressed by Fiscal Unit staff, and that it resulted in an understatement of the CPUC's book balance compared to the bank balance.

Response:

The CPUC agrees with this finding. Upon further analysis it appears that Accounting Unit staff had not followed proper procedure and had made additional changes to the outstanding item balance (that is, folding in other adjustments) since 2009. To remedy this, the Fiscal Office Manager has directed Accounting Unit staff to immediately stop using the item as an offset, and to also research and identify the original error that caused the item to appear in 2009. Once this error is identified, the CPUC will work with SCO to determine the appropriate way to adjust or clear

the entry. To prevent this sort of error from reoccurring in the future, the Fiscal Office Manager is now reviewing monthly bank reconciliations.

2b. Office Revolving Fund Cash Balances

The Audit noted that the CPUC's Revolving Fund book balances did not reconcile with reconciliation reports, and that management delayed in approving necessary adjustments to fix the reconciliation.

Response:

The CPUC agrees with this finding. The reconciling item in question for the Office Revolving Fund (0998) has been corrected and there is no longer a discrepancy. Management is now reviewing all reconciliations monthly and providing timely guidance to Accounting Unit staff.

2c. Review of Fund Balance Reconciliation

The Audit noted that the CPUC was not properly reconciling its fund balances with the SCO.

Response:

The CPUC agrees with this finding. The Fiscal Office Manager has directed staff to verify all fund balances with the SCO monthly. To verify that all funds are reconciled, a reconciliation log is now kept by the Fiscal Office Manager and progress is tracked with the Accounting Unit staff in bi-weekly meetings. To date, all but two funds have been fully reconciled with the SCO. The two funds that have not yet been reconciled are funds 3015 and 0483, which are shared funds.

Finding 3. Inadequate segregation of duties

The Audit found several instances of inadequate segregation of duties for Fiscal Office staff that are inconsistent with adequate systems of internal control.

Response:

The CPUC agrees with this finding. The Fiscal Office Manager is analyzing the job duties of Fiscal Office staff to identify areas of work and situations that could lead to problems with internal controls - this includes addressing the situations identified by the Audit as conflicting duties. The CPUC has already changed its policy regarding the distribution of live warrants so that employees who prepare and handle attendance reports can no longer distribute the warrants. Human Resources (HR) now provides the Fiscal Office with a list of timekeepers that to ensure that these individuals do not also pick up payroll warrants. HR will update this list and continue to review and send to the Fiscal Office on an annual basis or whenever a change occurs.

Finding 4. Lack of documented policies and procedures over procurement process

The Audit noted that CPUC had inadequate documented policies and procedures over the agency's procurement process, resulting in deficiencies in contract files, purchase orders and service orders. These deficiencies were aggravated by the lack of communication between the stock room and Fiscal Office staff.

Response:

The CPUC agrees with this finding and has drafted new Policies and Procedures for the Procurement of Goods and Services which will help communicate Business Service's role in the numerous aspects of procurement within the agency as well as the steps in various procurement processes.

4a. Contracts

In its sampling of 28 of 211 contract files, the Audit found a lack of process substantiation in two files (for a secondary request-for-proposal (RFP) process and request-for-qualification (RFQ) process), as well as missing supporting documentations such as scoring sheets in one of these files. In addition three contract files could not be located, or were not provided during the Auditor's review, and four disabled attendee contracts did not include documentation that justified costs.

Response:

4a (1) - Lack of Documented Procedures

The CPUC agrees with this finding, and in June completed a first draft of a comprehensive revision to the CPUC Personal Services Consultant Contracts Manual (Contracts Manual), which had not been revised since 2007. The revision includes updates to procedural changes in the contracting process and outlines the responsibilities of all parties involved in the process including project managers, Contracts Office staff, and management. The Contracts Office expects to send the final version of the Contracts Manual to the Divisions in September 2013. In addition, the Contracts Office staff and CPUC training staff will develop a training program for CPUC project managers and Division management by the end of 2013 with the goal of better engaging staff in the contracting process and answering more specific program questions regarding contracting.

In addition to the Contracts Manual, the Contracts Office has enacted and documented the following policies: Invoicing Policy to comply with Prompt Payment (September 2013), Contracts File Retention Policy (August 2013), and Access and Security Policy (August 2013). The Contracts Office has also implemented and documented detailed procedures for Invoicing Processing (January 2013), Database (CRM) data entry requirements (January 2013) and Reporting (May 2013).

The Contracts Office is also documenting the following processes and procedures in 2013 and 2014:

- Contracts office communication policy (related to customer service)
- Small Business/DVBE policy and contracting procedures
- Electronic records policy and procedure
- OSP printing policy and procedures
- Procedure to reconcile contract balances with the Fiscal Office
- Procedure for creating and maintaining the office contracts file
- Procedure and/or process to improve records tracking
- Procedure for completing the annual 810 report for small business/DVBE reporting

4a (2 and 3) - Lack of information to verify compliance with secondary RFP method and incomplete supporting documents in the RFQ contract file

The CPUC agrees with these finding and believes that the deficiencies identified by the Audit were in both cases a result of poor record tracking and/or issues with file access and security, each leading to inadequate documentation in the contracts file. The Contracts Office is establishing tighter guidelines with regard to records retention and file security and access, and policies (as described in 4a(1)) that will make clear management's expectations to contract officers with regard to these areas. In addition, the updated Contracts Manual will include a directive that all contract files must reference the physical location of any RFP or RFQ documents that are not in the contract file. In January

2014 the Contracts Office will begin updating the existing secondary RFP template to include a checklist to verify compliance with secondary RFP requirements. As part of the FY 2014 Budget Process the CPUC is requesting additional staff to support compliance with contracting requirements. This position would be responsible for auditing all consultant services, goods, services and IT procurement methods, process and files to ensure better CPUC compliance.

4a (1) - Missing files

The CPUC agrees that improvements must be made to the management and security of physical contract files. To immediately address the Audit's security concerns, a Contracts File Retention, Access & Security Policy was created and implemented in August 2013. In addition, starting October 2013, security for the cabinets containing original RFPs and other procurement documents will be enhanced. These measures will ensure access to contract files is strictly limited to Contracts Office staff. Another improvement made in July 2013 is the addition of a data field in CRM to track the physical location of contract files. Finally, in September 2013, the Contracts Office will be transferring contracts that have expired more than three years ago to the State Records Center in compliance with its record retention schedule; the location of these files will be documented in CRM. In October 2013 the Contracts Office will relocate contracts that expired less than three years ago to locked archive filing cabinets and the new file location will be documented in CRM.

4b. Purchase Orders for Goods

The Audit noted that the CPUC did not have an efficient system for processing purchase orders or incoming goods, highlighting cases in which purchase orders were approved after purchases had already been made, as well as payments submitted to the SCO without indication that goods had been received. The Audit noted significant redundancies within the current system and that the overall process was exceedingly time-consuming.

Response:

The CPUC agrees with this finding. Business Services has begun a concerted overhaul of the procurement process to remedy the inefficiencies and mistakes identified by the Audit. For the procurement of goods, the lead procurement officer now conducts compliance checks on every purchase to ensure that a completed Equipment Supply and Service Request (ESSR) form is included and that signature approval from a Division's Budget Control Officer (BCO) is has been obtained. Business Services has also added internal controls for invoice payments - a copy of the signed purchase order, invoice from a vendor and packing slip are now required to be sent to the assigned procurement officer for verification and approval of goods for payment. In addition, the Fiscal Office Manager has directed Accounts Payable staff to not pay invoices unless all goods and services have been received. The CPUC is evaluating centralizing all invoice processing within the Fiscal Office to help with tracking and ensure timely payments. As the CPUC revises its internal processes, staff continue to look for ways to eliminate redundancies and shorten the time it takes for programs to receive their orders and vendors to receive payments.

4c. Service Orders and Purchase Orders for Services

The audit noted that of the 20 services and purchase orders for services it reviewed, 9 were approved after the invoice date.

Response:

The CPUC agrees with this finding and recognizes the need for better management and control of the approval of purchase and service orders so that issues such as those identified by the Audit no longer occur. Business Services has already made changes to this system - effective September 2013, all ESSRs submitted to Business Services are managed first by the lead procurement officer (with the Business Services Manager's oversight) before being assigned

to procurement office staff. In addition, weekly compliance checks are now performed by the lead procurement office to ensure the timely processing of ESSRs.

4d. Customer Relationship Management Records

The Audit noted that 35 of the 745 procurements listed in the CPUC's Customer Relationship Management (CRM) system had inaccurate total contract values.

Response

During the time the Auditors reviewed CRM, the system was not yet fully deployed and did not fully capture all procurement activities. Since this time, data entry deficiencies were corrected and full rollout of CRM is scheduled for September 2013. Business Services Management has been meeting regularly with procurement staff to discuss CRM and address questions and provide training, and procurement officers have successfully been using CRM to input all ESSRs. In addition, Business Service Management now regularly conducts audits of CRM to ensure that a "no blank space" policy is being consistently followed by procurement officers.

Finding 5. Lack of documented policies and procedures over personnel and payroll process

The CPUC agrees with the Audit's findings in this area and has significantly improved the documentation of critical Human Resources (HR) functions, as described below.

5a. Employee Separation

The Audit found that employee separation files did not include adequate supporting documentation.

Response:

The CPUC agrees with this finding. HR support staff are now tasked with monitoring the filing of separation documents to ensure all documents are filed no later than 30 days from completion of paperwork by Transactions staff. In addition, HR works with Division Management to enforce timely submission of attendance records. HR periodically notifies Division HR Liaisons and timekeepers of the need for timely and accurate submission of timesheets. Upon notification of an employee's pending separation, Transactions staff now immediately follow-up with timekeepers regarding missing timesheets for a separating employee. HR continues to reiterate the importance of timely return of a signed clearance checklist to ensure return of ID cards, passes, keys, credit cards, other State property, or other outstanding items, and the importance of obtaining employee and supervisor signatures on separation forms. HR and the Fiscal Office are revising the Clearance Form to Release Final Paycheck to expedite the separation process.

5b. Salary Warrants

The Audit found that the CPUC was not following SAM guidelines with regards to undeliverable salary warrants.

Response:

To immediately address this concern, the Fiscal Office developed procedures for undeliverable salary warrants and communicated the procedures to all Divisions. Many of the warrants identified by the Audit were not actually salary warrants but direct deposit remittances – procedures were also written for the handling of these documents. As part of the procedures the Fiscal Office developed a tracking spreadsheet to track the salary warrants that the Fiscal Office

holds so that they can be managed in accordance with SAM guidelines. The CPUC is now in compliance with SAM with respect to this finding.

5c. Leave Balances

The Audit found that 71 of the 147 of CPUC employees did not have written and approved plans to reduce their excess leave balances as required by CalHR and in compliance with a June 1, 2012 CPUC memo.

Response:

CPUC agrees that this finding is accurate. In July 2013, the CPUC issued another memo requiring submittal of leave reduction plans. As of September 16, 2013, 36 employees have not yet submitted leave reduction plans. Submitted plans are now reviewed on a quarterly basis to ensure they are followed or revised if and when necessary. Directors will be notified if and when plans are not submitted or being followed so that they can determine other options and solutions to reduce balances.

5d. Out-of-Class Assignments

The Audit noted that 5 of the 26 out-of-class assignments it reviewed did not have associated files with them, and 19 assignments did not include sufficient supporting information.

Response:

The CPUC agrees with this finding. Historically, requests for out-of-class pay were often approved at the Division level without supporting duty statements to justify the pay increase. To remedy the situation, HR Classification and Pay Analysts no longer forward out-of-class request paperwork to the HR Classification and Pay Manager for approval unless an approved duty statement is attached.

5e. Individual Development Plans

The Audit noted a significant lapse in the submission of CPUC employee Individual Development Plans (IDPs).

Response:

The CPUC agrees with this finding and is working to improve the efficiency and effectiveness of the current IDP process. The CPUC is considering making HR the initiator of the agency's IDP process (rather than the employee's supervisor) and having the Division HR Liaison more actively track IDP progress and report on delinquencies to HR and Division Management. In addition, the Director of Administrative Services now receives a copy of the agency's IDP delinquency list monthly. HR is also making an agency-wide effort to update staff duty statements through a Position Description Questionnaire (PDQ) process, which is underway. Having accurate, updated duty statements will greatly facilitate the IDP process for both CPUC supervisors and staff. The CPUC has also hired an employment attorney who will work to support staff by providing supervisors training on how to properly give feedback in relation to IDPs, as well as training to handle other performance issues.

5f. Employee timesheets

The Audit noted that sampling of timesheets and supporting materials found that a significant portion of employees during the time period assessed had not submitted their timesheet.

Response:

The CPUC agrees with this finding. The issue of incomplete timesheets continues to be a problem in the CPUC, in part because the agency utilizes both an Oracle-based Work Tracking System (WTS) and HRIS, which are not

interconnected. The current structure results in data being entered into multiple systems, many corrections in the official timekeeping system, and a significant number of outstanding timesheets. HR has been evaluating potential changes to the timekeeping process focused on more timely inputs and eliminating corrections. This will allow delinquent reports to be sent to management on a timely schedule. This new process will require significant training to the employees, supervisors and timekeepers. HR expects the new process to be implemented effective January 1, 2014.

5g. Salary Advances

The Audit noted outstanding salary advances from 26 employees that were over three years old and no evidence that the CPUC had collected or discharged these advances.

Response:

The CPUC agrees with this finding - salary advances were not being cleared within a reasonable timeframe. HR historically sent letters to debtors with outstanding salary advances on a 30-day interval policy, and on the 90th day submitted copies of letters and supporting documentation to the Fiscal Office for follow through with FTB for collection. HR and the Fiscal Office are finalizing the details for transitioning this function to the Fiscal Office who has an automated tracking method that can be utilized.

Finding 6. Inadequate control over parking garage operations

The CPUC agrees with the Audit's findings in this area and has significantly improved control over parking garage operations as described below. In addition, the CPUC is exploring ways to eliminate the need for cash handling for garage operations.

6a. Garage Operations

The Audit noted manual changes were allowed to entry and exit times in the CPUC parking garage resulting in the calculation and collection of incorrect fees. In addition, receipts for parking fees were not provided to customers, and closed tickets were re-sorted in numerical order for storages purposes rather than being kept intact according to daily closed tickets which impeded the reconciliation of daily collections with reports.

Response:

Effective August 2013, manual changes are no longer allowed; alternative procedures have been established if the ticket machine time stamp malfunctions. All tickets must be scanned to calculate fees using the Ticketech machines; alternative procedures have been established in the event of equipment malfunctions. No overriding of date and time stamps is allowed. Receipts are generated by the Ticketech machine for every transaction, and effective September 2013 the parking garage attendants are required to provide each customer with a receipt. In addition all tickets are now kept in the order that they were generated to facilitate the reconciliation of reports.

6b. Reconciliation of Reports and Cash Collections

The Audit noted that the End of Day Report from the Parking Garage and the Daily Parking Report (March 14, 2013) did not reconcile, and discrepancies were found in the two reports. The reconciliation completed by the SCO Auditors revealed that tickets did not register in the End of Day Report or Daily Parking Report even if parking attendants had properly validated them. In addition, the Audit noted that the CPUC did not perform sufficient reconciliation of the End of Day Reports, Daily Parking Reports, and actual cash collections, resulting in errors and potential under collection of parking fees by the CPUC.

Response:

cash is recounted by the supervisor to ensure accuracy. In addition, daily Parking Reports are turned in with the End of Day Reports, along with the tickets and cash. This internal control will help identify possible system or staff errors.

6c. Outstanding tickets

The Audit noted that the Open Tickets Report for March 14, 2013 contained 260 open tickets with 247 outstanding tickets issued between November 29, 2012 and March 13, 2013.

Response:

The CPUC agrees with this finding and is actively working to collect on the outstanding tickets. CPUC garage attendants have been directed to match all unpaid parking tickets at the end of the day and include them with the End of the Day Report along with paid tickets (clearly segregated).

Summary of Response

The Audit correctly identifies that insufficient supervisory oversight and a lack of documentation of policies and procedures have been the root of a number of weaknesses in CPUC's internal accounting and administrative controls. We have already made clear progress to address these deficiencies. Our new Fiscal Office Manager is focused on improving operations, documenting policies and procedures, and actively supervising staff. Our limited-term Manager of Budget and Fiscal Services is providing additional oversight and coordination of the improvements occurring in the Fiscal and Budget Offices. CPUC Contracts Office and Business Services staff are documenting policies and processes and simultaneously improving the efficiency, effectiveness, and coordination with other agency staff. Human Resource is changing policies and procedures to tighten up internal controls and ensure the CPUC is in compliance with all state regulations and best practices. The CPUC has identified necessary milestones in each of these areas and is tracking progress until we get to where we need to be – this will no doubt take time given the scope of some of these issues, but we are committed to these improvements in support of the CPUC's regulatory responsibilities.

Should you have any questions, please feel free to contact Michelle Cooke, Deputy Executive Director for Budget and Administration, at (415) 703-2163.

Sincerely,



Paul Clanon
Executive Director

cc: Michael R. Peevey, President, CPUC
Michelle Cooke, Deputy Executive Director of Budget and Administration

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>