

January 04, 2018

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Public Utilities Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Barbara Owens, Enterprise Risk and Compliance Officer, at (415) 703-1072, barbara.owens@cpuc.ca.gov.

BACKGROUND

The California Public Utilities Commission (CPUC) is dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy. The CPUC is a constitutional agency with broad constitutional and statutory powers to regulate investor-owned electric, natural gas, telecommunications, and water utilities. The CPUC has licensing authority over household goods carriers (moving companies) and charter party and passenger stage carriers (limousines, shuttles, etc.). In addition, the CPUC has substantial safety enforcement responsibilities and is charged with investigating the cause of all accidents on the property of any public utility and all rail accidents, including those involving public transit vehicles. The CPUC has five Governor-appointed Commissioners, a staff of approximately 1,000. Within the CPUC, there is an independent Office of Ratepayer Advocates (ORA), with a statutory mission to advocate for the lowest possible rates for customers of California's regulated utilities consistent with safe and reliable service levels.

California has three major investor-owned electric utilities Pacific Gas and Electric Company (PG&E), Southern California Edison, and San Diego Gas and Electric Company (SDG&E) and four smaller electric utilities. The CPUC has broad authority over the operations of the electric utilities and sets and designs their retail rates through General Rate Cases as well as allocating rate-paying obligations among utility customers in other types of proceedings. In addition, the CPUC ensures that electric utilities meet the Governor's goal of procuring 50 percent of their power by renewable sources by 2030. The CPUC also regulates electric safety and the state's electric distribution safety standards through its General Orders. For major electric transmission lines within California, the CPUC serves as the lead agency under the California Environmental Quality Act to review the environmental effects of the proposed project and propose mitigation measures. The CPUC also administers the state's Public Purpose Programs for electricity such as utility sponsored energy efficiency efforts and renewable energy programs. The CPUC also coordinates its regulatory activities with those of the California Energy Commission and the California Independent System Operator.

On the federal level, the CPUC represents California and its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC). Similar to the electric industry, California has three major and one smaller investor-owned natural gas utilities. Two of these, PG&E and SDG&E are combined electric and natural gas utilities; whereas, Southern California Gas Company is part of Sempra, which also owns SDG&E. Southwest Gas is a much smaller gas utility that provides gas in the Lake Tahoe Basin and in parts of

Southern California. Similar to the electric industry, the CPUC sets retail natural gas rates and allocates rate-paying obligations for all different categories of gas customers through General Rate Cases and/or cost allocation proceedings. The CPUC also administers gas-related Public Purpose conservation programs and approves sites for gas storage fields through the Certificate of Public Convenience and Necessity (CPCN) process.

The CPUC develops and implements policies for the telecommunications industry, including ensuring fair, affordable universal access to necessary services; removing barriers that prevent a fully competitive market; and reducing or eliminating burdensome regulation. The CPUC's California Advanced Services Fund provides matching grants for the deployment of broadband infrastructure in unserved and underserved areas in California. The CPUC's communications work also includes licensing video franchises; addressing area code and number conservation issues; licensing wireline, wireless, two-way paging, cable telephony, and mobile radio providers serving residential and business customers; representing California in proceedings before the Federal Communications Commission; overseeing the Consumer Protection Initiative to help consumers manage their phone services in a changing marketplace; and investigating illegal activity by industry participants, including prepaid phone card providers.

Approximately 120 investor-owned utilities provide approximately 20 percent of the residential water used in California. The CPUC regulates this industry in a cost-of-service fashion and sets rates for the largest 10 water utilities through General Rate Cases. The CPUC also ensures that water provided by these companies meets all applicable state and federal water quality standards.

The CPUC licenses charter party carriers, passenger stage carriers, and household goods carriers. Companies interested in entering into these businesses must demonstrate that their drivers are properly licensed and participate in the state's drug and alcohol testing program; have adequate liability and property damage insurance coverage; and have paid all applicable fees to the CPUC. The CPUC's staff investigates unlicensed operators and issue citations and other enforcement measures to remove unlicensed firms from business. In the area of rail safety, the CPUC is responsible for licensing new rail crossings, safety enforcement for traditional rail freight and passenger traffic, as well as rail-based public transit including unmanned trains such as at the San Francisco International Airport.

The CPUC has recently gone through a strategic planning process which has resulted in the establishment of a mission statement and 15 strategic directives. This spring the implementation plans for the strategic directives listed will be established and implemented by our divisions. The directives, including the mission statement, are listed below:

Strategic Directives

SD -01 **Mission**- The CPUC regulates services and utilities, protects consumers, safeguards the environment, and assures Californians' access to safe and reliable utility infrastructure and services.

SD-02 **Safety** - The CPUC secures health and safety with a goal of achieving zero accidents and injuries across all entities it regulates, and within the CPUC workplace.

SD-03 **Reliability and Resiliency** - The CPUC assures reliable and resilient service of the entities it regulates.

SD-04 **Rates and Affordability** - The CPUC ensures that rates are just and reasonable.

SD-05 **Universal Access/Universal Service** - The CPUC seeks to provide Californians with access to necessary services from utilities and regulated entities.

SD-06 **Consumer Protection, Education, and Assistance** - The CPUC protects, educates and assists consumers in their purchase and use of services from utilities and regulated entities.

SD-07 **Compliance and Enforcement** - The CPUC monitors regulated entities' compliance with applicable law, including CPUC rules, regulations and orders.

SD-08 **Climate Change** - The CPUC promotes greenhouse gas (GHG) reductions through its decisions and leadership for the benefit of California residents, ecosystems, climate and economy.

SD-09 **Environmental Sustainability** - The CPUC implements state and federal law and develops policies that are consistent with California's environmental sustainability laws and goals.

SD-10 **Economic Prosperity** - The CPUC promotes a strong California economy that provides jobs and general prosperity.

SD-11 **Administration** - The CPUC responsibly administers the human, financial and information resources entrusted to it.

SD-12 **Communication and Engagement** - The CPUC engages in open communication with staff stakeholders and members of the public.

SD-13 **Decision-making Process** - The CPUC commits to a decision-making process that is impartial, fair, consistent and transparent, maintains integrity at all levels and adheres to the law.

SD-14 **Coordination with Other Governmental Entities** - The CPUC collaborates and coordinates with local, state, federal and tribal entities as appropriate to achieve its goals.

SD-15 **Risk Management** - The CPUC maintains a continuously improving enterprise risk management system and internal audit function.

ONGOING MONITORING

As the head of Public Utilities Commission, Timothy J. Sullivan, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Public Utilities Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Timothy J. Sullivan, Executive Director, Barbara Owens, Enterprise Risk and Compliance Officer, and Elizabeth Echols, Director, Office of Ratepayer Advocates (for purposes of internal control monitoring within ORA).

MONITORING ACTIVITIES

CPUC monitoring activities occur in a variety of manners and at multiple levels. Risks associated with regulatory policies and programs are monitored through formal proceedings in which CPUC staff, regulated entities and interested parties report on associated risks and issues, and recommend controls and improvements for formal Commission adoption. From a governance and administration standpoint, the CPUC Commissioners convene biweekly meetings of subcommittees which discuss agency risks, control issues and potential administrative deficiencies along with remedial actions. Executive and divisional management participate in weekly directors and Executive Safety Council meetings at which risks and control issues are analyzed and discussed and resources are reallocated as

needed. Analogous management meetings take place at all levels of CPUC management on a weekly, bi-weekly, or monthly basis as needed. Further communications between executive management and staff regarding daily operations and needed controls occur through many different venues such as the formal Commission decision meetings (that always include a safety report), Director's blog, CPUC Newsletter, staff workshops, surveys and staff meetings.

ADDRESSING VULNERABILITIES

Control deficiencies are currently addressed by management in the relevant division, often by providing corrective action plans. The Enterprise Risk and Compliance Office (ERCO) is responsible to ensure that once a risk has been identified, a corrective action plan should be provided by the relevant management area. This process is intended to address risks and control deficiencies identified by the enterprise risk program as well as internal/external audits. State control agencies such as Dept. of Finance, State Controller's Office and Dept. of General Services audit the CPUC with the expectation that control deficiencies will be addressed by corrective actions. In addition, ERCO has been assigned the responsibility to ensure corrective actions taken by management are tested to ensure effective and efficient remediation and their status will be reported at the Director level. ERCO is responsible to ensure these issues are communicated to management and keeping the Executive Director informed of their status. ORA is responsible for addressing any internal control deficiencies within its own organization except for the shared services ORA pays the CPUC to provide.

COMMUNICATION

Many types of documentation are generated and reviewed as part of the CPUC's monitoring and control systems. These include filed testimony and comments in formal proceedings, monitoring reports from utilities, investigative and audit reports, and memos and other materials provided to Commissioners and division directors in committee and management meetings. In some instances, deputies report to their division director and the Commission regarding the status of work plans in their area. These reports inform the Commission and executive management of relevant risks, monitoring practices being conducted, improvements needed, and the overall status of the areas in which they perform oversight. CPUC has established an Enterprise Risk and Compliance Office that has developed a tracking mechanism to ensure the Department is addressing all priority risks, control deficiencies and mandatory reporting issues in a timely manner. ORA's monitor will perform these functions on behalf of ORA, except for the shared services.

ONGOING MONITORING COMPLIANCE

The Public Utilities Commission has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Public Utilities Commission systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Public Utilities Commission risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

RISK IDENTIFICATION

In September 2016, the Enterprise and Risk Office (ERCO) developed a risk assessment survey and distributed it to all staff and management. This assisted in assessing the control environment and

allowed us to gather valuable input by staff into the risk assessment process. The prior year's staff had never been asked for their input regarding what they felt posed a risk to the CPUC. There were 20 questions which were multiple choice and two questions which were open ended. These open ended questions provided us with several areas to review with management regarding risks. In addition it demonstrated that management and staff felt the same in several different areas.

ERCO then set up meetings with management from each division and explained the entire risk assessment process and how to assess risk. The risk matrix was then given to the entire management team to fill out for each unit in the division. ERCO then met again with management to go over their risk assessment and ask further questions if needed. During this time ERCO gathered information regarding what they were doing to lower the risks in the way of preventive action and what they hoped they could do in the future. The final risk matrix from each division was then sent out to each division. Once all the risks were gathered together in one risk matrix there were over 200 risks. These risks fell into the following categories; Internal Risks (HR, IT, Admin, Contracts, Facilities, Programs), Strategic Risks (strategic directives risk) and External Risks (compliance and reputational). The ranking of risks was done by management utilizing a scale provided to them regarding impact and probability. Management provided both key performance indicators in place to reduce the risk and key risk indicators that are being monitored to ensure the risk does not return or escalate. These risks and the performance indicators and risk indicators will be entered into our new Governance, Risk and Compliance database so we will be able to continually monitor all of the risks and automatically send out notices to the owner of the risk for an update.

RISK RANKING

Once the risk statements were identified, the divisions were given an opportunity to rank them according to probability and impact.

The impact scores were as follows: High - Long term or serious effect on the Department, High-Medium - Significant effect on long-term programs, could result in safety hazards, serious injury or damage, significant financial budgeting problems, negative publicity, causes to not achieve strategic objectives or blocks success, Medium - Could delay operations, affect short term programs, require moderate management effort, may draw publicity, minor to moderate, safety hazards present, negative impact to achieving strategic objectives; Medium - Low - Minimal impact on operations, reputation, financial, safety, strategic directives, Low- insignificant impact on operations, financial, safety, strategic directives.

The probability scores were as follows: High - High probability the risk will occur and immediate action plans required, High-Medium- More than likely to occur and management or organizers should begin to mitigate, Medium - Likely to occur and precautions should be taken to reduce or control risk, Medium-Low - Moderately unlikely to happen in the near future and minimal action needed, Low - Nearly unlikely to happen in the near or immediate future.

Once all the risks were compiled on the spreadsheet ERCO assigned a score to each area of impact and probability and then added the two scores. This then provided us with a spreadsheet we could sort from the highest risk to the lowest risk. This provided us with our risk ranking.

RISKS AND CONTROLS

RISK: OPERATIONS -EXTERNAL-STAFF—RECRUITMENT, RETENTION, STAFFING LEVELS

Staffing limitations were reported in 17 different instances during the risk assessment process. If the staffing deficiencies continue, this will prevent the CPUC from achieving its mission and objectives regarding protection of consumers, monitoring and oversight, and compliance.

The HR process takes on average over 200 days to bring on new staff and many divisions have not been focused on filling the vacancies because of time constraints.

Staff shortages prevent operating divisions from achieving their primary objectives. This in turn can prevent the CPUC from achieving all operational and strategic objectives.

CONTROL A

A directive was given to the divisions to focus on filling all their existing vacancies and resources have been directed to hire viable candidates.

CONTROL B

In addition, some resources in HR have been shifted to focus on filling over 200 vacancies at the CPUC. Some of these are in different stages of the hiring process. This has allowed more personnel to focus on pushing through applications for processing and reducing the hiring times.

CONTROL C

A database was designed and implemented that tracks all vacancies through each set of the hiring process until filled.

RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING

Inability to replace train and skilled staff loss through retirements or staff turnover.

Example: In a current assessment 100% of our Staff Services Manager IIIs and 53% of our Managers and Supervisors are aged at the baby boomer level and are at retirement age.

Lack of adequate succession planning and workforce development.

The loss of institutional knowledge as the workforce ages has reduced the pool of subject matter experts on staff as well as seasoned managers and supervisors. In some cases, the CPUC still relies on retired annuitants to perform critical tasks. This makes it very difficult for divisions to perform their required tasks.

CONTROL A

The HR Division has been chosen as one of the pilot departments to work with CALHR on developing a succession plan for CPUC. This has involved all of the Division Directors as participants.

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE

Lack of adequate IT tools to support the divisions' work and to process information in an adequate and timely manner. Multiple divisions struggle with out of date software and databases that cause manual work arounds and a possibility of inaccurate data.

Example: Several divisions within the CPUC have complained about having inadequate or outdated IT tools to keep up with the current demand of information and processes. Consumer Protection and Enforcement

Division collects information from consumers about fraud or non-compliance from utility companies but their database was found deficient in a 2014 audit and has still not been updated.

The divisions do not have input regarding IT projects nor do they assist in setting priority to projects.

The CPUC has several databases and manual work around processes that don't allow for timely or accurate data processing.

CONTROL A

The IT Division was directed to establish an IT Governance group to meet monthly to begin to assist in establishing a priority list of projects needed by the divisions to achieve their business objectives.

RISK: OPERATIONS -EXTERNAL-TECHNOLOGY—DATA SECURITY

The CPUC was audited in 2014 and still has not meet requirements in the State Administrative Manual for security requirements. The databases at the CPUC retain personally identifiable information as well as Utility Company's information which if leaked staff responsible could be charged with a misdemeanor.

The IT Division has lacked sufficient resources to adequately satisfy the audit recommendations.

The result is the CPUC is vulnerable to information security threats and leaking of information.

CONTROL A

Currently, the IT Division has made some progress in compliance in addressing these issues with more resources. The IT Division had been given new positions in the information security area to assist with the audit deficiencies.

RISK: OPERATIONS -INTERNAL-PHYSICAL RESOURCES—MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY

The current building in San Francisco at 505 Van Ness Ave has multiple problems that have not been adequately addressed such as; sprinkler system that was not functional, alarm system that was not functional, inadequate physical access system, dead tree in the courtyard, and mice in the building, which result in an unsafe work environment.

Lack of attention by management to maintenance needs of the building.

Low morale of staff and unsafe working conditions.

CONTROL A

The CPUC facilities unit has established a list of deficiencies and is working with DGS to get some of the items addressed. Monthly meetings have been set up with DGS and CPUC management to ensure deficiencies are being cleared from the list. The sprinkler system and the alarm system are being addressed first to ensure the building is removed from fire watch.

RISK: OPERATIONS -INTERNAL-STAFF—TRAINING, KNOWLEDGE, COMPETENCE

Inadequate training resources and lack of enterprise wide coordination of training needs leads to inefficiencies with untrained staff.

Example: New staff are hired at the CPUC and sometimes unable to attend needed training to perform their job duties successfully.

Lack of an overall training plan for the employees at the CPUC, both at the division level and enterprise wide.

The result is longer delays in work, manual work arounds, incomplete work by staff, more supervision and insufficient succession planning.

CONTROL A

The CPUC realizes the need to develop employees more and has just completed a leadership training series with managers and deputy directors. In addition, a contract with CalHR training has been implemented to allow staff to attend needed skills training. Some divisions are performing their own skills assessment to address the training needs of new and existing staff.

RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS

Lack of policies and procedures and clear responsibilities have been established in areas of the CPUC.

Example: The CPUC does not have an administrative manual for its staff and several areas within the CPUC have no documented policies and procedures.

There has never been a requirement to document policies and procedures by management.

The result is employees leave jobs without documenting their procedures for the next employee or there is a basic lack of documented process to perform the job. This leads to a loss of valuable institutionalized knowledge, much longer lead times to get employees up to speed in their new jobs, rework must be performed by managers and supervisors, and the possibility of incorrect processes being followed.

CONTROL A

The new Administrative Services Deputy is going to be working on developing an Administrative Services Manual for the CPUC, which collects most of the procedures and policies of the administrative services units.

RISK: OPERATIONS -INTERNAL-WORKPLACE ENVIRONMENT

Staff and management complaints of harassment and bullying.

Example: Multiple staff have filed complaints regarding lack of compliance with contracting, hiring, and governance issues.

Lack of adequate management and clearly defined roles and responsibilities.

Staff morale has been negatively impacted and many staff have been looking to find new jobs or transfer out of their division, which impairs CPUC's ability to achieve its goals and objectives.

CONTROL A

There are ongoing reviews by EEO, HR and Legal to ensure staff are being treated fairly and rules and regulations are being followed by management.

CONTROL B

The Commission has instituted anti-bullying training for supervisors and managers.

CONTROL C

The CPUC will be implementing an ethics office this spring which will include ethics training and a whistleblower hotline for employees.

RISK: OPERATIONS -EXTERNAL-ECONOMIC VOLATILITY

Failure of long-term planning efforts to result in adequate, affordable, or environmentally-preferred electric and gas supply.

Lack of maintenance of adequate supply resources.

The result would be the failure of having in place available, affordable and environmentally preferred electricity and gas.

CONTROL A

Energy Division staff has conducted extensive modeling on the optimal economic path to maintain a reliable system and meet the state's aggressive greenhouse gas emission reductions strategies and spare capacity.

CONTROL B

1. Effective Participation in Federal Energy Regulatory Commission (FERC) rate cases for transmission charges;
2. Staff environmental review of projects required by CEQA sometimes requires the revelation of Alternatives that Meet Same Project Objectives (some alternatives may have higher or lower costs).
3. Progress on Residential Rate Reform (PRRR) reports, semi-annually through default implementation, with no explicit end date;
4. Semi-annual ME&O surveys – no explicit end date as of yet;
5. 2018 Rate Design Window Applications and Decision, which should clarify the ongoing use of the above reports and or any other information sources that the Commission/Energy Division can use to track progress and customer performance.
6. Staff Participation in the CAISO's Transmission Planning Process;
7. Staff Participation in West-Wide Transmission Planning Coordination effort;

CONTROL C

1. tracking of cost of gas transport, commodity and gas programs.
2. cost of gas commodity
3. cost of additional gas programs (e.g. gas safety, leak abatement, renewable gas/decarbonization programs)
4. Staff ratemaking review and balancing account oversight

RISK: REPORTING -EXTERNAL-INFORMATION COLLECTED—ADEQUACY, ACCURACY, INTERPRETATION, TIMELINESS

The CPUC does not have a process or system to fully reconcile all positions.

Example: Accounting and Budgets have not retained the history of the positions or how they were established. When looking for positions that were moved from a division it was hard to find where they were relocated.

The cause is the lack of a documented procedures or implemented process in place to track all positions.

Human Resources and Budgeting doesn't have a working policy of requesting budget approval or notifying budgets prior to filling positions. In addition, vacancy reports are manually created and are not reconciled with budget figures.

CONTROL A

CPUC is currently restructuring both the Budget Office and the HR Office and the new management will ensure that a position control process and procedure is put into place. In addition, CPUC has hired a consultant who has developed a spreadsheet to track the status of positions and to determine where our positions are and what the status is of each position. The HR Office will be adopting this process to track positions and will be reconciling with Budgets on a go forward basis.

CONTROL B

An audit will be conducted to reconcile all discrepancies in positions.

RISK: OPERATIONS -INTERNAL-ORGANIZATIONAL STRUCTURE

Lack of communication between divisions leads to inefficiencies and unclear roles and responsibilities.

Example: CPUC has several different areas performing audits and divisions are contracting out audit work which can lead to duplicative work.

Lack of clearly defined roles and responsibilities and coordination between divisions.

This causes duplicative work at a cost to the commission both in dollars and resources.

CONTROL A

The Strategic Directives Implementation plans should define work that needs to be done by each division. This will establish a more collaborative approach with the divisions and lead to less duplicative efforts.

RISK: COMPLIANCE-INTERNAL-RESOURCE LIMITATIONS

Consumer Protection Enforcement Division has several branches that do not have adequate resources to successfully implement their program.

This includes inadequate staffing, insufficient IT systems and changes in structure of the division.

The consumer protection enforcement division lacks the needed resources to record complaints, process them to a successful completion and record accurate data. In addition, the timeliness of the reports are negatively affected because manual work arounds must be performed with the lack of adequate IT systems and backlogs must be cleared.

CONTROL A

The CPED does have policies and procedures in place to document their transactions with the public and they have implemented a quality review process. In addition, they have requested additional positions through the BCP process.

RISK: OPERATIONS -INTERNAL-FISCAL IMPLEMENTATION, MAINTENANCE, OR FUNCTIONALITY

Implementing the FISCAL system will put constraints on existing staffing.

The accounting staff has limited resources at this time and this is a large implementation process.

The resources in accounting will be directed to the implementation of the the system and the everyday tasks will not be performed timely.

CONTROL A

The staff has attended all the training classes for the new system and a new supervisor has been hired who has prior system experience.

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—COMPATIBILITY

A division needs a software tool to decrease processing time and increase efficiency to comply with a law or regulation but are unable to attain it based on IT infrastructure.

Example: Legal needs to process public records access (PRA) requests and were told they could not procure a tool because it didn't work with the current IT infrastructure. These PRA requests are not being processed timely with the tools they currently have in place.

The current IT infrastructure is not compatible with software tools needed by the CPUC.

The result is a lot of legal staff time to process one PRA. The CPUC has experienced a large workload and a backlog in this area and without good tools to assist this will not improve.

CONTROL A

The IT Governance Committee is now meeting monthly to try and establish a priority in addressing the divisions IT needs.

RISK: COMPLIANCE-INTERNAL-STAFF ADHERENCE TO POLICIES, PROCEDURES, OR STANDARDS

Staff not complying with policies and procedures.

Example: Staff attend conferences or training without obtaining all the approvals ahead of time.

Lack of clear and published policy and procedure for many administrative functions.

Noncompliance with State requirements for multiple administrative functions.

CONTROL A

Some of the procedures are published on the intranet but are not clearly communicated to staff. The completion of an administrative services manual will help HR, Contracts and Procurement, Facilities and Accounting.

RISK: OPERATIONS -INTERNAL-OVERSIGHT, MONITORING, INTERNAL CONTROL SYSTEMS

The risk is the CPUC has not had a document retention policy in place for several years and documents could have been or are being mishandled.

The lack of a document retention policy and oversight.

Disorganized and poorly managed document handling processes, retention and disposal resulting in lack of compliance with DGS documentation requirements.

CONTROL A

The CPUC has established a document retention policy and is meeting with divisions to bring everyone into compliance within the fiscal year.

RISK: OPERATIONS -INTERNAL-ORGANIZATIONAL STRUCTURE

CPUC has been staffing up their presence in both Los Angeles and Sacramento. The hiring that has been on going has run into problems such as: 1) Not enough room in offices located in Sacramento, 2) Insufficient allocation of support staff in these locations, and 3) Insufficient allocation of oversight of staff in these locations.

Lack of a full plan on how to establish regionalization in both Sacramento and Los Angeles with staff needed in all areas.

Result is we have filled all of the cubicles in Sacramento with little office space left. In addition, our San Francisco location has had to rent another building to house overflow. In addition, some of the tools being used to connect these different office spaces are not always available or don't work correctly.

CONTROL A

DGS has agreed to work on providing more room in the Sacramento location by reconfiguring the office space by late January. San Francisco is utilizing the new space and has managed to provide space for all employees. IT just implemented a VOIP telephone system which has helped with the integrity of conference calls.

CONTROL B

In addition, staff is conducting a space audit to track the location of each worker to ensure all space is accounted for and appropriately utilized.

RISK: OPERATIONS -INTERNAL-PROGRAM/ACTIVITY—CHANGES, COMPLEXITY

The contract office has not been able to keep up with the contract demand of the divisions.

Lack of sufficient knowledge, experience and staff to perform complicated contracting processes as well as a high volume of work and complexity.

The result is a backlog of contracts not processed impeding the CPUC's ability to achieve its objectives and goals.

CONTROL A

The contracts and procurement area has recently hired new staff and they have received DGS approved training. In addition, a consultant has been hired from DGS to assist in providing a going-forward plan to improve the efficiencies in the contract and procurement areas.

CONCLUSION

The Public Utilities Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify

and address current and potential risks facing the organization.

Timothy J. Sullivan, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency