

Internal Audit Results

Dan Washburn, CIA

Office of Internal Audit Services

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California Public
Utilities Commission

Background

- Employees may incur business-related expenses on behalf of the CPUC
- Reimbursable Expenses are claimed on a Travel Expense Claim (TEC)
- Travel Advances may be requested to cover business-related travel expenses
- Travel Advances must be cleared with a TEC upon completion of the travel
- Travel and reimbursement rules and procedures are provided on the CPUC Intranet

Background

The Office of Internal Audit Services (IAS) conducted three engagements:

- Compliance Review of Travel Advances
- Internal Control over Expense Reimbursements
- Independent Assessment of the Travel Policy and Guide

What are Internal Controls?

Systems, policies, procedures, and processes are designed to provide reasonable assurance regarding the achievement of agency objectives in the following categories:

- **Reporting** – Reliability of reporting for internal and external use
- **Operations** – Effectiveness and efficiency of operations
- **Compliance** – Compliance with applicable laws and objectives

Source: The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations (COSO) is the recognized standard for establishing internal controls.



Internal Controls help management achieve the agency's mission, safeguard assets, and prevent and detect improper activities.

Compliance Review of Travel Advances

Audit Team

Ginny Veneracion-Alunan, CPA, Chief Internal Auditor

Juan Gonzalez, Senior Management Auditor

Cindy Chen, Senior Management Auditor

Audit Objective

Determine whether the administration of travel advances materially conforms to applicable state rules and regulations.

Audit Period

Calendar Year 2019

Audit Scope

Limited to a review of the travel advance policy and travel advance issuance and recovery.

Audit Methodology

- Review travel advance policy posted on CPUC's Intranet
- Interviewed pertinent staff
- Obtained an understanding of the travel advance process
- Performed sample testing and data analysis

Key Audit Results

➤ **Travel Advance Amounts were not Always Compliant nor Justified**

- ✓ 88% of sampled travel advances did not have sufficient support for the requested amount.
- ✓ Not all travel advances were issued within the appropriate timeframe.

Finding Rating:	Priority	High	Medium	Low	Implemented
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➤ **Recovery of Travel Advances Does Not Comply with State Administrative Manual**

- ✓ Travel advance recoveries were not timely nor were additional appropriate measure taken to recover overdue advances.

Finding Rating:	Priority	High	Medium	Low	Implemented
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Effect of Key Audit Results on CPUC

- ✓ Reasonableness of travel advances requests cannot be determined
- ✓ Excessive travel advance amounts may be issued
- ✓ Non-compliance with State Administrative Manual and CPUC policy
- ✓ IRS tax implications of unreturned or excessive advances
- ✓ Increased risk of financial loss to CPUC

Recommendations and Management Response

Travel Advance Amounts were not Always Compliant nor Justified

Recommendation	Management Response	Targeted Completion
Update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to travel advance processes and procedures for reasonableness and issuance timeframes.	Agreed with Recommendation: The Accounts Payable Unit will update the CPUC travel advance policy as recommended.	12/31/20

Recommendations and Management Response

Recovery of Travel Advances Does Not Comply with State Admin. Manual

Recommendation	Management Response	Targeted Completion
Update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to recovery of travel advances.	Agreed with Recommendation: The Accounts Payable Unit will update the CPUC travel advance policy as recommended.	12/31/20

Internal Control over Expense Reimbursements

Audit Team

Ginny Veneracion-Alunan, CPA, Chief Internal Auditor

Dan Washburn, CIA, Senior Management Auditor

Audit Objective

To obtain reasonable assurance that internal controls over expense reimbursements are in place and operating as designed and that the process is administered in accordance with the applicable federal, state, and department rules, regulations, and statutes.

Audit Period

Calendar Year 2019

Audit Scope

Limited to planning and performing procedures to obtain reasonable assurance that internal controls over the expense reimbursements are in place and operating as designed.

Audit Methodology

- Gain an understanding of expense reimbursement processes
- Test the internal controls over expense reimbursements
- Perform sample testing and data analysis

Key Audit Results

➤ **Lack of Comprehensive Documented Accounts Payable (AP) Policies and Procedures for the Expense Reimbursement Process**

- ✓ Inconsistencies and inefficiencies were identified in the AP Unit's review of expense reimbursement claims.

Finding Rating:	Priority	High	Medium	Low	Implemented
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➤ **AP Unit and Supervisory Review of Expense Claims is not adequate**

- ✓ Tests identified various errors and inconsistencies when reviewing travel approvals, expenses, supporting documentation, and payment types.

Finding Rating:	Priority	High	Medium	Low	Implemented
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➤ **No Reconciliation of CPUC-Paid Travel Expenses**

- ✓ Validity and legitimacy of travel expenses paid via Citibank are not assured.

Finding Rating:	Priority	High	Medium	Low	Implemented
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Effect of Key Audit Results on CPUC

- ✓ Inconsistencies and inefficiencies in how expense claims are reviewed
- ✓ Increased training time
- ✓ Potential reimbursement of unallowable expenses and overpayments to employees
- ✓ Non-compliance with Government Code, SAM, and CalHR requirements
- ✓ Increased risk of fraud and abuse in the travel program

Recommendations and Management Response

Lack of Comprehensive Documented Accounts Payable (AP) Policies and Procedures for Expense Reimbursement Process

Recommendation	Management Response	Targeted Completion
Develop comprehensive expense reimbursement policies and procedures to establish the necessary internal controls over the processing of expense reimbursement claims.	Agreed with Recommendation: The comprehensive CPUC Travel and Reimbursements Policy & Procedures will serve to guide and train CPUC staff on processing expense reimbursements.	12/31/20

Recommendations and Management Response

AP Unit and Supervisory Review of Expense Claims is not Adequate

Recommendation	Management Response	Targeted Completion
Develop written procedures for reviewing expense reimbursements, enforcement of travel rules, and the recovery of excess reimbursements.	Agreed with Recommendation: The comprehensive CPUC Travel and Reimbursements Policy & Procedures will serve to guide and train CPUC staff on processing expense reimbursements.	12/31/20
Train program supervisors and managers to provide the essential first line of approval.	Agreed with Recommendation: The AP Unit will prepare an Admin Memo detailing instructions and basic requirements for review and approval of expense claims.	11/15/20

Recommendations and Management Response

No Reconciliation of CPUC-Paid Travel Expenses

Recommendation	Management Response	Targeted Completion
Perform monthly reconciliations between the Citibank statement and claimed expenses.	Agreed with Recommendation: The AP Unit will start preparing reconciliations with Citibank statements and expenses claimed.	12/31/20
Implement a policy to provide a limited timeframe for employees to submit an expense reimbursement claim, as allowed by labor agreements.	Agreed with Recommendation: Administrative Services Division will initiate discussion with HR to determine whether to establish a policy.	12/31/20

Planned Follow-up by the Office of Internal Audit Services

- Monitor progress of corrective action plans (CAP), including targeted completion dates and milestones, as substantiated
- Periodic CAP updates required from management
 - ✓ 60 days after report release date and every 6 months thereafter
 - ✓ First report due from management in December 2020
- IAS will report CAPs status to the Audit Committee at least quarterly
- After CAPs are implemented, IAS will perform a follow-up audit

Independent Assessment of the Travel Policy and Guide

Audit Team

Ginny Veneracion-Alunan, CPA, Chief Internal Auditor

Juan Gonzalez, Senior Management Auditor

Review Objective

To determine if the:

- ✓ Guidance provides sufficient instructions and information to employees
- ✓ Guidance is in compliance with SAM and CalHR
- ✓ Guidance communicates the information effectively and is easy to use

Key Observations

The Guide is not always compliant with the state business travel requirements outlined in the State Administrative Manual (SAM) and CalHR Human Resources Manual.

Recommendation

The Guide would be improved if it informed employees of additional frequently used travel sections of SAM and CalHR Human Resources Manual, as well as removing language that is non-compliant with those reference sources.

Key Observations

The Instructions Provided to Employees in the Guide are Insufficient.

Recommendation

The Accounts Payable Unit would benefit from adding specific areas of instruction that define the Guide's purpose, provide a criteria overview, include a definition of terms, state the requirements and their exceptions, and provide clear instructions while also avoiding conflicting language.

Key Observations

The Format of the Guide is Difficult to Navigate and Use.

Recommendation

The Accounts Payable Unit would benefit from updating the format of the Guide to make it easily identifiable on the Intranet and user friendly. Specifically, IAS recommends including components that allow users to easily locate and search the Guide for information, removing features that create obstacles to obtaining information, and improving the Intranet site's framework so that the information is more accessible.

Summary

- Employees rely on the Guide for required travel information
- Ensure consistency and efficiency
- Reduce review times and allow quicker reimbursements

Follow-up

- ASD and AP Unit felt the review was beneficial and timely
- IAS will not require a formal response from management and will not require a follow-up by IAS.

Questions?





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