

December 29, 2023

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Public Utilities Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact Angie Williams, Director, Utility Audits, Risk and Compliance Division, at (916) 327-0578, angie.williams@cpuc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Public Utilities Commission (CPUC) regulates privately owned electric, natural gas, telecommunications, water, railroad, and passenger transportation companies. The mission of the CPUC is to empower California through access to safe, clean, and affordable utility services and infrastructure. CPUC staff are dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy.

Within the CPUC, the Public Advocates Office is an independent office with a statutory mission to advocate for the lowest possible monthly bills for customers of California's energy, water, and communications regulated utilities consistent with safety, reliability, and the state's environmental goals.

The CPUC's vision is to better the lives of all Californians through setting policy and rules for the utility services—communications, energy, transportation, and water—that are essential to modern life. The CPUC conducts its work with the core values of Accountability, Excellence, Integrity, Open Communication and Stewardship. These values apply to all CPUC Commissioners and employees.

The CPUC's strategic plan is contained in the adopted Strategic Directives, Governance Process Policies, and Commission-Staff Linkage Policies. These collectively set out the goals and strategies the Commission focuses on to achieve the CPUC's vision of success. The CPUC Commissioners, appointed by the Governor and led by President of the Commission, Alice Busching Reynolds, are responsible for monitoring the CPUC's progress in meeting the expectations laid out in the Strategic Directives through annual reports and staff presentations.

Similarly, the Public Advocates Office's Director, Matt Baker, designated by the Governor, is responsible for monitoring the Office's progress with achieving its mission, vision, goals, and strategic plan.

Control Environment

Oversight of the CPUC (except for the Public Advocates Office), is the responsibility of the Commissioners, who are responsible for making all policy decisions to meet statutory mandates and enforcing regulation of California's utilities.

The CPUC has established an appropriate organizational structure to ensure the proper levels of responsibility and authority. For example, the Director of the Risk and Compliance Branch (RCB) reports to the Executive Director, and the Chief of the Office of Internal Audit Services (IAS) reports to the Audit Committee, led by Commissioners.

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.

The CPUC management demonstrates integrity and ethical values through the CPUC's Core Values - Accountability, Excellence, Integrity, Open Communication, and Stewardship. Integrity and ethical values are demonstrated through the Commissioner Code of Conduct, which requires that all Commissioners adhere to legal and ethical requirements to avoid situations where prejudice, bias, or opportunity for personal gain could influence Commissioner decisions.

The CPUC sets the expectation and how to comply with integrity and ethical values amongst its management and employees. Management and employees are required to disclose personal financial interests by completing the Statement of Economic Interests (Form 700) annually, completing annual Ethics and Risk Management trainings from the California Attorney General's Office, and reviewing and signing the CPUC's anti-nepotism policy and conflict of interest policy. Additionally, the CPUC's core values are communicated to new employees during the Onboarding Intro Series Program that provides a foundational overview of the functions, responsibilities, and role of the CPUC in serving the public interest.

Information and Communication

Through internal and external mechanisms, the CPUC has an effective process to communicate relevant and reliable information needed for operational, programmatic, and financial decision making.

Internal Communication: CPUC staff prepare and generate a variety of analyses, including field testimony and monitoring reports about utility services and infrastructure, investigative and audit reports, and policy, analytical and legal memos provided to Commissioners and senior management. These reports inform the Commissioners and executive management of relevant risks, effective monitoring practices, necessary improvements, required oversight and best practices to meet the CPUC's mission and objectives.

Information is communicated within the CPUC from the Executive Director via regular senior management meetings, from the Commissioners through regular internal meetings setting policy and implementation within specific proceedings, and regular division, branch, section, and unit meetings.

The Public Advocates Office separately performs statutorily required work as embodied in Public Utilities Code (PU Code) Section 309.5, to obtain the lowest possible rates for utility services consistent with reliable and safe service levels.

Utilizing a priority setting framework and weekly management meetings, the CPUC's Executive Director engages in a continual process of obtaining and sharing necessary information with staff, which flows across the entire agency. Staff also receive regular updates through the CPUC intranet, SharePoint site, emails, and the CPUC daily news clips.

Through the Whistleblower Complaint Program, an employee, contractor, or subcontractor of a company regulated by the Commission, may report suspected unsafe, unlawful, or dishonest activity.

The whistleblower may report confidentially if preferred to the hotline, by email or by filing a complaint. Additionally, employees are encouraged to report inefficiencies, unauthorized and inappropriate acts to the Equal Employment Opportunity Office, the IAS Chief, the Director of RCB, and/or union representatives.

External Communication: The CPUC's Public Advisor's Office provides procedural information to individuals and groups participating in formal proceedings at the CPUC. Pursuant to PU Code Section 321, the Public Advisor's Office answers questions, locates information, refers questions to appropriate CPUC staff, and provides programs and services to educate and assist the public, including reasonable accommodations and interpreter services.

The News and Outreach unit manages all aspects of the CPUC's social media, web, and media presence. The unit manages the CPUC's social media channels, prepares news releases, consumer advisories, brochures and other informational pieces, edits reports, sets unified graphic design for all CPUC publications, and manages relationships with reporters.

The Consumer Affairs Branch assists individual customers of regulated gas, electric, water, transportation, and telecommunications utilities with billing and service matters.

The CPUC website serves as a resource for the public, posting formal proceeding documents, notices and agendas for public events such as voting meetings and hearings, and access to the wide array of CPUC programs.

The Public Advocates Office separately determines its strategy for communicating with the public, consistent with its statutory mandate and role.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Public Utilities Commission monitoring practices are

implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Matthew Baker, Director, Public Advocates Office; Angie Williams, Director, Utility Audits, Risk and Compliance Division; and Rachel Peterson, Executive Director.

Risk identification, audit, and monitoring are also provided by the Internal Audit Services (IAS) team. IAS provides independent, objective assurance, and consulting services designed to add value and improve the CPUC's operations. The IAS assists CPUC's management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to assess and promote the systems of internal controls, including effective and efficient operations. To accomplish this, the IAS completes an annual risk assessment to develop IAS' annual internal audit plan. The IAS risk assessment considers risks at the functional level, while also considering the results of the enterprise risk assessment, emerging risks, results of external audits, Strategic Directives, and control issues identified by CPUC Commissioners and senior management. The CPUC Audit Committee reviews and approves the annual IAS audit plan.

Additionally, the IAS tests and validates the status of corrective actions that resulted from an internal audit finding through scheduled internal audit follow-up activities. These activities collectively support the accomplishment of CPUC objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

The Public Advocates Office is separately responsible for establishing its own processes to identify safety risks and methods to appropriately address them, except for the shared services provided to the office by the CPUC.

At the level of implementation, and reporting to the Executive Director, the Risk and Compliance Branch within Utility Audits, Risk and Compliance Division manages the enterprise risk system by identifying, measuring, reporting, and monitoring risks and corrective actions being implemented across the CPUC. The RCB conducts policy and technical research and analysis of risk and compliance issues facing the CPUC and communicates the results to the Executive Director every other week and to the Commissioners at Finance and Administrative Committee meetings to improve operational effectiveness. The CPUC has implemented and documented ongoing processes set out in the monitoring requirements of Government Code Sections 13400-13407. These processes include reviews, evaluations, audit follow-ups, and improvements to the CPUC's 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.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: potential impact to mission/goals/objectives, and timing of potential event.

RISKS AND CONTROLS

Risk: Technology—Support, Tools, Design, or Maintenance

There is a risk that information technology assets are not properly safeguarded and inventory records may not be accurate due to a lack of internal controls over asset management. This could result in a loss of state assets, inaccurate inventory records, and noncompliance with the State Administration Manual.

Control: Establish and implement policies and procedures over asset management

The Administrative Services Division (ASD) and Information Technology Services Division (ITSD) will work collaboratively to prepare and update the CPUC's policies and procedures over its information technology assets. Specifically, these updates will instruct staff on when and how to apply asset tags, how to add assets into inventory, how and where assets should be stored, and the responsibilities for inventorying assets.

Risk: Technology—Support, Tools, Design, or Maintenance

The CPUC does not have a complete Business Continuity Plan (BCP) that aligns with state requirements. Without the finalized BCP, the CPUC may not have the ability to identify and assess the threats to business operations, may not have a complete list of essential functions or be able to define the appropriate response mechanisms to minimize disruption in the event of an operational emergency. This could result in a greater risk of not being prepared for an operational emergency.

Control: Develop and implement a business continuity plan that complies with state administrative and continuity planning requirements

The Administrative Services Division continues to work with the Business Continuity Consulting Services vendor to prepare Division level reviews of Mission Essential Functions and final assessment related to revised continuity plan that is drafted and submitted for Director review. After Directors' review, the plan will be routed to Senior Activation Team members for final review and confirmation and routed for approval to California Governor's Office of Emergency Services (CalOES).

Control: Develop and update the Technology Recovery Plan (TRP) in tandem with the BCP

Work to align the developing TRP and efforts to finalize the revised business continuity plan are currently underway in ITSD. This focuses on developing, preparing, and delivering testing and training materials, along with creating procedures and policies to help the CPUC continue to maintain the continuity plan on an annual basis.

Control: Establish comprehensive BCP policies and procedures

The BCP is under development using CalOES and State Administrative Manual guidelines. It will be assessed and updated annually, or as needed, with the most current information. Necessary information will be communicated with CalOES.

Control: Update and develop TRP policies and procedures over the development, maintenance, training, and testing

ITSD will continue to update the TRP and develop IT System Recovery Plans (ISRP) for each of the five identified mission-critical systems (MCS). The ISRPs are a major part of the TRP, which is part of the business continuity plan. The ISRPs address the documented restoration process of each MCS, identifying key personnel, stakeholders, and roles and responsibilities.

ITSD will conduct table-top exercises to validate each of the ISRPs, and table-top exercises will also be conducted by the system and business owners of the respective MCS to validate each of the ISRPs. The ISRPs will be maintained by reviewing the ISRPs annually, updating any changes in procedures, and updating key personnel and stakeholders.

Risk: Oversight, Monitoring, Internal Control Systems

Deficient California Teleconnect Fund (CTF) applications have not been rejected in a timely manner because the CPUC lacks formal procedures, monitoring practices, and internal application processing timelines. This could result in ineligible participants continuing to receive the CTF discount for longer than they are entitled.

Control: Develop and utilize systems to automatically reject applications timely

The California Teleconnect Fund (CTF) Unit staff will continue to refine the Program Claims Management System (PCMS), Electronic Claims and Applications Portal (eCAP) to automatically reject applications of applicants who fail to respond to delinquency notices within 30 days. To enhance this process, the CTF Unit has created a desk guide for staff to establish the procedure for tracking and timely rejecting deficient applications.

Control: Establish procedures for staff to determine eligible CTF Applicants

The CTF Unit is documenting the 30-day and 60-day application processing timeframes and resolving the current bug that is affecting the aging of applications in the eCAP system. In addition, the CTF Unit is developing and documenting the following processes and procedures: Trigger escalation and notification review, Dashboard review, Aging Report review, Dashboard review, and Aging Report review.

Risk: Oversight, Monitoring, Internal Control Systems

The CPUC is not in full compliance with state requirements over the Passenger Carrier Licensing Program. The CPUC needs to increase oversight and monitoring, and establish internal procedures to document Licensing Section processes. This risk may result in potential risks to

passenger safety, if carriers fail to complete licensing and vehicle inspection and insurance requirements due to the CPUC's incomplete licensing and monitoring processes.

Control: Develop dropdown selection list in the electronic application form

The Transportation Licensing Section continues to work with the CPUC's ITSD, to develop a dropdown list in the electronic application form to limit the selections applicants can choose about their proposed services and how they will charge customers for the permit they are applying for.

Control: Establish procedures to validate commercial vehicle registration

The Transportation Licensing Section will continue to run periodic reports to identify non-commercially registered vehicles that are not otherwise exempted from the Transportation Carrier Portal (TC Portal) requirements, document internal staff protocols, and document procedures for management to regularly run reports of all carrier equipment to identify non-commercial vehicles.

Control: Reactivate phone line dedicated for carrier inquiries

The Transportation Licensing Section continues to work with the external vendor for the state's CalNet contract for telephone services, to verify the CPUC's telephone line for carrier inquiries and to manage and use the vendor's Contact Center. Transportation Licensing continues to provide online resources to carriers and external users concerning common questions or requests. Guiding external users to an appropriate online resource is essential for Transportation Licensing to assist external users by telephone with how to use the CPUC's TC Portal.

Control: Develop and implement procedures for reviewing and processing applications

The Licensing Section will create internal written procedures on reviewing and processing applications for operating authorities for Transportation Network Companies (TNCs), Vessel Common Carriers (VCCs), Autonomous Vehicle (AV) Companies, procedures on updating driver information in the TC Portal, and procedures on responding to carrier emails, and will update its internal policies and procedures regarding California Highway Patrol (CHP) terminal inspections and equipment updates.

Risk: Staff-Training, Knowledge, Competence

There is a risk that some CPUC staff are not completing required trainings or not completing them on time. This increases the risk of personnel and legal issues due to staff not being aware of applicable policies and compliance requirements. Notifications on required trainings and completion status are not being send to all CPUC staff and their supervisors, and supervisors who do not complete required trainings may not understand their own leadership role or the trainings that their staff are required to take.

Control: Finalize and implement an anti-nepotism annual notification process

The Human Resources Division (HRD) will finalize and implement an anti-nepotism process that will denote requirements for annual notifications to all CPUC staff. The CPUC has had an adopted anti-nepotism policy in place since 2021.

Control: Develop a process to ensure all CPUC employees take required Ethics Training

HRD will utilize the CPUC's Learning Management System (LMS) to obtain a list of employees who have not completed Ethics training on the required biannual compliance schedule. The list will be sent to each employee's supervisor to inform them that their staff have not completed the required Ethics training during the required compliance and reporting period. The initial notification and reminders will include a link to a job aide on how to download the Ethics training completion certification to the LMS for HRD to track completion status.

Control: Develop a process to ensure new supervisors and managers complete supervisory training

HRD management will develop a process to ensure that all new supervisors and managers are enrolled in and complete the required supervisory training.

Risk: Staff-Key Person Dependence, Workforce Planning

Like all employers at the State of California, the CPUC experiences staff attrition that leads to potential related risks, such as an occurrence of key person dependencies. Also like all State of California agencies, the CPUC is required to prepare a Workforce and Succession Plan to establish a plan to mitigate those risks.

Control: Update and Implement Workforce and Succession Plan

The CPUC will recruit and hire a staff person who is designated to lead the development of the CPUC's Workforce and Succession Plan. The completed Workforce and Succession Plan will be submitted to CalHR.

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 risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Rachel Peterson, Executive Director

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