

December 17, 2021

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

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, 2021.

Should you have any questions please contact
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GOVERNANCE

Mission and Strategic Plan

The California Public Utilities Commission (CPUC) regulates privately owned electric, natural gas, telecommunications, water, railroad, passenger transportation companies and authorizing video franchises. 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. At the CPUC, there is also an independent Public Advocates 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 recognized leadership innovative communications, energy, transportation, water policies and regulations using the core values of Accountability, Excellence, Integrity, Open Communication and Stewardship. These values apply to all CPUC employees, volunteers, and Commissioners.

The CPUC's Strategic Directives, Governance Process Policies, and Commission-Staff Linkage Policies, updated in February 2020, contains a body of statements that collectively define the universe of objectives the Commission expects to focus on to achieve the CPUC's vision of success. The CPUC Commissioners, appointed by the Governor and led by President of the Commission, Marybel Batjer, are responsible for monitoring the CPUC's progress in meeting the expectations laid out in each directive through annual reports and staff presentations. Similarly, the Public Advocates Office's Acting Director, Amy C. Yip-Kikugawa, designated by the Governor, is responsible for monitoring the office's progress with achieving its risk assessment and mitigation goals and directives.

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, and enforcing regulation of the state's public 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 exemplifies integrity and ethical values amongst its rank and file, by disclosing personal financial interests by completing the Statement of Economic Interests (Form 700) annually, the Employee Recognition Award program, and establishing a nepotism policy. Additionally, the CPUC's core values are emphasized through the annual Ethics and Risk Management training and the Onboarding Intro Series Program for new employees that provides a foundational overview of the various 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 from utilities, investigative and audit reports, and memos and other materials provided to Commissioners and Division Directors. These reports inform the Commission 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 staff meetings, from the Commissioner's through Strategic Directives segments, 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 its 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, emails, and the CPUC daily news clips. In 2021, the CPUC released a new and improved SharePoint site with a focus on employee experience, redesigned with new features and organized to better provide the resources staff need.

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 seeking participation 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 special accommodations and interpreter services. The News and Outreach section in the Public Advisor's Office prepares news releases, consumer advisories, brochures and other informational pieces, edits reports, oversees a speaker bureau and informational exchange program for visitors from other nations, provides graphical services, conducts and arranges interviews with reporters and Commissioners, Directors, and staff experts. The Business and Community Outreach Office concentrates on outreach to stakeholders, the Supplier Diversity Program, and the Small Business program at the CPUC. The Consumer Affairs Branch assists consumers of regulated gas, electric, water, and telecommunications utilities with billing and service matters. Additionally, the CPUC website serves as a resource for the public; current events are noted in the News and Updates section. The Public Advocates Office separately communicates with the public to learn about their needs and challenges, then represents them at the CPUC and in other forums.

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: Amy C. Yip-Kikugawa, Acting Director, Public Advocates Office; Angie Williams, Director, Utility Audits, Risk and Compliance Division; and Rachel Peterson, Executive Director.

The IAS provides independent, objective assurance, and consulting services designed to add value and improve the CPUC's operations. The IAS assists the 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 works with the RCB and executive management in validating 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 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.

The RCB manages the enterprise risk system by identifying, measuring, reporting, and monitoring risks that affects the CPUC's objectives. 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 the Finance and Administrative Committee meetings to improve operational effectiveness. The CPUC has implemented and documented the following ongoing processes as outlined 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. In addition, as part of the risk management system, the CPUC monitors the status of action plans identified during the risk assessment to continuously monitor results and ensure corrective measures are implemented.

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, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, consideration of potential fraud, performance metrics, and other.

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

During the year, the RCB met with the Executive Director and Commissioners to discuss risks and challenges facing the CPUC; how they anticipate the risks changing, their expectation for monitoring the risks and effective ways of mitigating them. Additionally, the RCB reviewed the CPUC's Strategic Directives, the President of the Commission's priorities, Executive Director's priorities, and Administration's priorities to determine the CPUC wide risks and then captured and collated into one database. Furthermore, the CPUC performed a priority setting exercise, in which all divisions participated to better align our risks with our enterprise-wide goals. During this exercise, goals, strategies, action plans, performance measures, and risk owners were identified. The Public Advocates Office also identified its risks and steps to mitigate them.

RISKS AND CONTROLS

Risk: Staff-Recruitment, Retention, and Staffing Levels

The challenge to find and/or retain viable candidates in specific classifications due to pay, location, experience and/or promotional advancement has been difficult, and affects the CPUC's ability to carry out its mission.

Control: Update and Implement Recruitment Plan

As workplace expectations change, the CPUC must adapt its plan to cater to current trends in the job market. Updating the Recruitment Plan to reach and attract better job candidates will help CPUC find viable candidates to fill positions that will assist in carrying out its mission.

Control: Support Activities Developed by the Wellness Advisory Committee

The Wellness Advisory Committee focuses on employee health both mentally and physically. It showcases resources available to staff for both work and personal issues. This helps to retain staff and reduce loss of workdays from illness by keeping staff healthy, happy, and supported.

Control: Update and Implement Workforce and Succession Plan

The demographics of current employees at the CPUC is aging and reaching retirement eligibility. The CPUC can carry out its mission by having a plan to retain key institutional knowledge. A succession plan will also help retain capable staff who are able to see their advancement within the Department.

Control: Change Remaining in Person Job Exams to On-Line

Changing all job exams to on-line will speed up the job application process for candidates. They are able to take the exam as needed instead of waiting for a written exam to be given and having to attend in person. This will also help increase the number of applicants we receive for job postings, helping the CPUC reach and hire more qualified candidates.

Control: Revise the Telework Policy

The CPUC is currently working under a temporary telework policy and will develop a permanent hybrid telework policy to attract more applicants.

Control: Support Activities Developed by the Diversity, Equity, and Inclusion Workgroup

The CPUC employs a diverse workforce. In an effort to educate staff and make all groups welcome, the Diversity, Equity, and Inclusion Workgroup hosts monthly activities that showcase different ethnicities and backgrounds that creates an environment of equality and inclusion to help the CPUC retain staff.

Risk: Staff-Key Person Key Dependence, Workforce

The risk from recruitment and retention are primarily attributable to staff leaving the CPUC for other opportunities, staff leaving lower paying classifications for higher paying classifications, and loss of key staff with institutional knowledge due to retirement. The increased reliance on key management and other key persons imposes an additional workload on staff, resulting in burnout from long hours and increased turnover in key positions.

Control: Finalize and Distribute the Technical Advice on Knowledge Management Guide

The Technical Advice on Knowledge Management Guide will capture the principles and actions to nurture a culture of continuous learning, leverage experience, and sustain critical capabilities. This will reduce the reliance on key management and other key persons.

Control: Provide Liaison Bootcamp Opportunities to Division Liaisons

The liaison bootcamp is intended to equip the liaisons with the necessary training and support so we can fully utilize them in their role working with program management and staff. Specifically, as it relates to recruitment, hiring and career development, we expect their role to add value to the process by providing guidance on things like duty statements, reclass justifications/allocations, selection methods and criteria, and basic career development information for staff. The bootcamp will create an environment of continual learning, including a deeper understanding of processes, and best practices.

Control: Update and Implement Workforce and Succession Plan

The demographics of current employees at the CPUC is aging and reaching retirement eligibility. The CPUC can carry out its mission by having a plan to retain key institutional knowledge. Implementing the Workforce and Succession Plan strategies will reduce the risk of relying on key staff with institutional knowledge.

Control: Relaunch a Strategic Mentoring Program

The CPUC will relaunch a strategic mentoring program to help retain employees with institutional knowledge who are seeking advancement and reduce the loss of key staff by providing guidance and a plan for internal career development.

Risk: Technology—Support, Tools, Design or Maintenance

The CPUC has multiple business applications without consistent overall architecture preventing the CPUC from identifying the resources necessary to adequately monitor and maintain mission critical software programs and systems hardware. Without adequate technology solutions, the CPUC will lose efficiencies.

Control: Create an Information Technology (IT) Project Prioritization Portfolio

Management will finalize scoring criteria and create an initial IT project prioritization portfolio utilized by the IT Governance Committee. Once the IT project prioritization portfolio is created, the CPUC will be able to identify the available resources to prioritize the risks and business needs and determine which IT projects will be implemented based on the scoring criteria.

Control: Develop Business Impact Analysis

The CPUC is in the process of developing and distributing a Business Impact Analysis within the Business Continuity Plan to identify Mission Essential Functions. This analysis will help the CPUC better support and maintain their systems.

Control: Address Findings from Audits

Implementing these audit recommendations will significantly strengthen the CPUC's internal controls over our IT systems, improve security, and improve process efficiencies.

Control: Ensure Data Retention Policies are Updated and Followed

The CPUC will ensure each division has a detailed data retention plan that staff are following to reduce the electronic data stored on our systems and increase available storage capacity for the Commission.

Risk: Oversight, Monitoring, Internal Control Systems

The risk that staff are unable to access updated versions of internal policies and procedures in a timely manner is attributed to the lack of a formal central repository and improvements are needed to ensure the safety of our workforce.

Control: Complete an Enterprise-wide Safety Program Assessment

The CPUC will complete an Enterprise-Wide Safety Program Assessment of its organizational and business safety system to ensure a safe workforce utilizing the best safety practices to conduct business in response to the COVID-19 pandemic. The Health and Safety Unit is implementing a procedure to prioritize global strategies and tasks to ensure safety of CPUC's workforce.

Control: Maintain Policies and Procedures in a Central Repository

The CPUC is aiming to maintain existing workplace policies and procedures in a central repository that can be accessed by all employees and require uniform submittal by all divisions. Additionally, management will be able to track policy revisions and ensure all employees have access to the most up-to-date documents.

Control: Initiate Health and Safety Policies and Programs

Once the Enterprise-Wide Safety Program Assessment is complete, the Health and Safety Unit will initiate health and safety policies and programs that respond to the findings of the assessment in accordance with the Occupational Safety and Health Administration (OSHA) and Cal/OSHA requirements.

Risk: Oversight of Investor Owned Utilities

If the CPUC does not adequately provide oversight of the investor owned utilities (IOUs), the risk that IOUs are not in compliance with Public Utility Codes, program's rules, regulations, and requirements can result in preventing the accomplishment of CPUC's mission or objectives.

Control: Establish and Develop Citation Program

In pursuant to Resolution M-4846 requiring that industry divisions establish citation programs for violations of the PU Code, Commission Orders, and General Orders, the Water Division will develop new water citation procedures to provide better oversight and enforcement of the water utilities.

Control: Improve Fiscal and Safety Oversight

The CPUC will implement audit recommendations that improve fiscal and safety oversight of the utilities' fiscal accountability and natural gas infrastructure safety to continue to strengthen our internal controls.

Control: Refine Requirements for Utilities' Risk Spending Accountability

The CPUC is refining the utilities' reporting requirements through Rulemaking (R.)20-07-013. The CPUC will further develop and strengthen a Risk-Based Decision-Making Framework for Electric and Gas Utilities by requiring Utility Risk Spending Accountability Reports.

Control: Conduct Audits of Telecommunication Carriers

The Utility Audit Branch will conduct and complete performance audits of telecommunication carriers under the newly established Communications Section to ensure telecommunication carriers are in compliance with PU Codes, Program's rules, regulations, and requirements.

Control: Implement Enforcement Committee Activities

The Commission is implementing a policy to promote a consistent approach amongst commission staff and divisions, where applicable, to make enforcement a high priority and strengthen the CPUC enforcement culture. The goals are to promote maximum compliance with Commission rules and requirements through the adoption and application of consistent enforcement practices and to develop a sufficient record that ensures that regulated entities subject to an enforcement action receive due process.

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