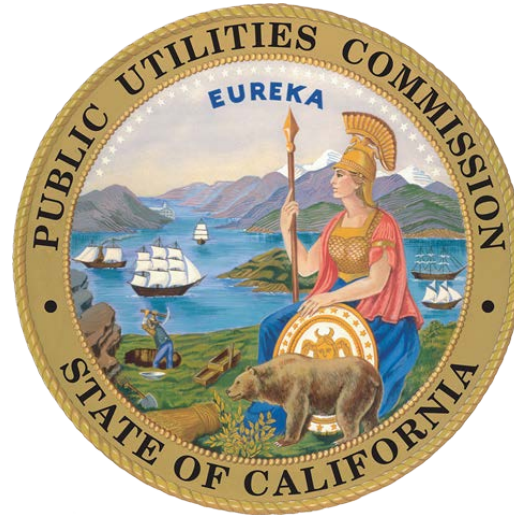




# Deaf and Disabled Telephone Program - Internal Audit Fiscal Year End June 30, 2016



**Carl Danner**  
*Chief Internal Auditor*

**Benjamin Schein, CPA**  
*Auditor in Charge*

**California Public Utilities Commission**

May 30, 2018





# Presentation Overview

- Background
- Scoping
- Audit Findings / Recommendations:
  - Compliance
  - Financial
- Next Steps





# Background

- Substantial public monies are involved in public purpose programs in energy and telecommunications, creating a risk justification and potential transparency benefit for conducting internal audits.
- IA obtained approval to conduct audits of the programs, and has begun and/or concluded engagements of the following programs:
  - California High Cost Fund A (CHCF-A) - Complete
  - California High Cost Fund B (CHCF-B) – Complete
  - Deaf and Disabled Telephone Program (DDTP) – Complete
  - LifeLine Telephone Program (LifeLine) – In Process
  - California Alternate Rates for Energy (CARE) – Complete
  - Energy Savings Assistance (ESA) Program – Complete
  - Energy Efficiency Evaluation, Measurement & Verification (EM&V) – Scoping
  - Research, Demonstration, and Development (RD&D) – Scoping





# Background – Deaf and Disabled Tel. Program

- The Deaf and Disabled Telephone Program (DDTP) provides specialized equipment and services to California residents with disabilities
- DDTP provides the California Relay Service (CRS) and the California Telephone Access Program (CTAP)
  - CRS includes Speech to Speech services
  - CTAP provides equipment, from large-button phones to customized equipment comparable to the chair used by Stephen Hawking





# Scoping

- IA conducted an audit engagement reviewing compliance elements (legislative and internal):
  - We reviewed requirements mandated by PU codes, Senate and Assembly bills, Commission Decisions and Resolutions, and prior audits
- IA also reviewed financial elements of the program:
  - Budgeting
  - Overhead charges, both statewide and internal
  - Salaries and benefits
  - Third party contracts (audits, IT, etc.)
  - Carrier claim payments
- In addition, IA reviewed policies and procedures with an eye towards recommending improvements and implementing best practices.





## Findings – Compliance

- We found that the Commission was in full compliance with nearly all applicable codes, Decisions, and Resolutions for the period under review for DDTP
  - The DDTP is not currently in compliance with PU Code Section 274, which requires a financial and compliance audit every three years, beginning July 1, 2002
  - Management has not accepted this internal audit engagement as fulfilling the requirement of Section 274
  - IA recommends that management address the requirement for a financial and compliance audit promptly, and then again within each subsequent three years.





## Findings – Financial

- Due to a typographical input error, the 2015/16 expenditures are overstated by \$8.6 million in the Governor’s Budget
  - The overstatement is a result of a double posting of an contract encumbrance
  - The Fiscal Office discovered the error after the Form DF-303 was submitted
  - The books were corrected before the audit began
  - The amount is under the threshold for required adjustment
- The Fiscal Office was unable to provide draft financials for the program
  - SAM requires state agencies be able to provide agency-wide draft Trial Balances on a quarterly basis, rather than program specific financials
  - Dept. of Finance audits (2009 and 2013) both noted this as a concern
  - Part of the difficulty is lack of consistency in posting of expenditure entries
  - IA recommends that coding be consistent, and that the Fiscal Office take whatever steps necessary to be able to provide draft financials.





## Findings – Financial (continued)

- We discovered surcharge revenue variances between our books and the Governor’s Budget, and Due versus Paid
  - This is consistent with the Dept. of Finance audit of the CASF program
  - Different revenue recognition methods are being used, and carrier errors continue to make our TUFFS system difficult to balance
  - IA recommends that the Fiscal Office coordinate with IT to allow for easier error corrections to be made
- Communications Division noted a concern about lack of transparency in third party contractor operations
  - Invoices and monthly reports are diligently reviewed, but the reports only present the contractor’s own information
  - IA recommends making contractor audits (consistent with D. 07-05-030, OP 16) a part of future RFPs







## Next Steps

- A copy of management's response is included in the report, with a brief response from IA noting our concerns about Section 274 and the lack of financial reporting on a program-level.
- We anticipate that management will complete corrective actions where needed (including addressing Section 274 compliance), and provide an update to IA through the follow-up process.
- No further testing is planned. Follow-up engagements by the IA unit are subject to Commission authorization.





**Thank you!**  
**For Additional Information:**  
**[www.cpuc.ca.gov](http://www.cpuc.ca.gov)**

