California Public Utilities Commission Committee on Finance and Administration

Strategic Directive 15 – Risk Management
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Strategic Directive 15 – Risk Management

The CPUC maintains a continuously improving enterprise risk management system and internal audit function. Within its jurisdictional authority, the CPUC will:

1. Identify and characterize substantial risks to the achievement of the Commission's goals and strategic directives, including risks the public faces with respect to entities the CPUC regulates;

2. Prioritize risks of greatest concern, in light of their likelihood, severity, and available options for their mitigation;

3. Consider risk priorities in allocating the CPUC's resources, including budgetary funding and the time and attention of commissioners and CPUC staff;

4. Test and verify the effectiveness of the CPUC's managerial controls and operations.

1. Identify and characterize substantial risks to the achievement of the Commission's goals and strategic directives, including risks the public faces with respect to the entities CPUC Regulates
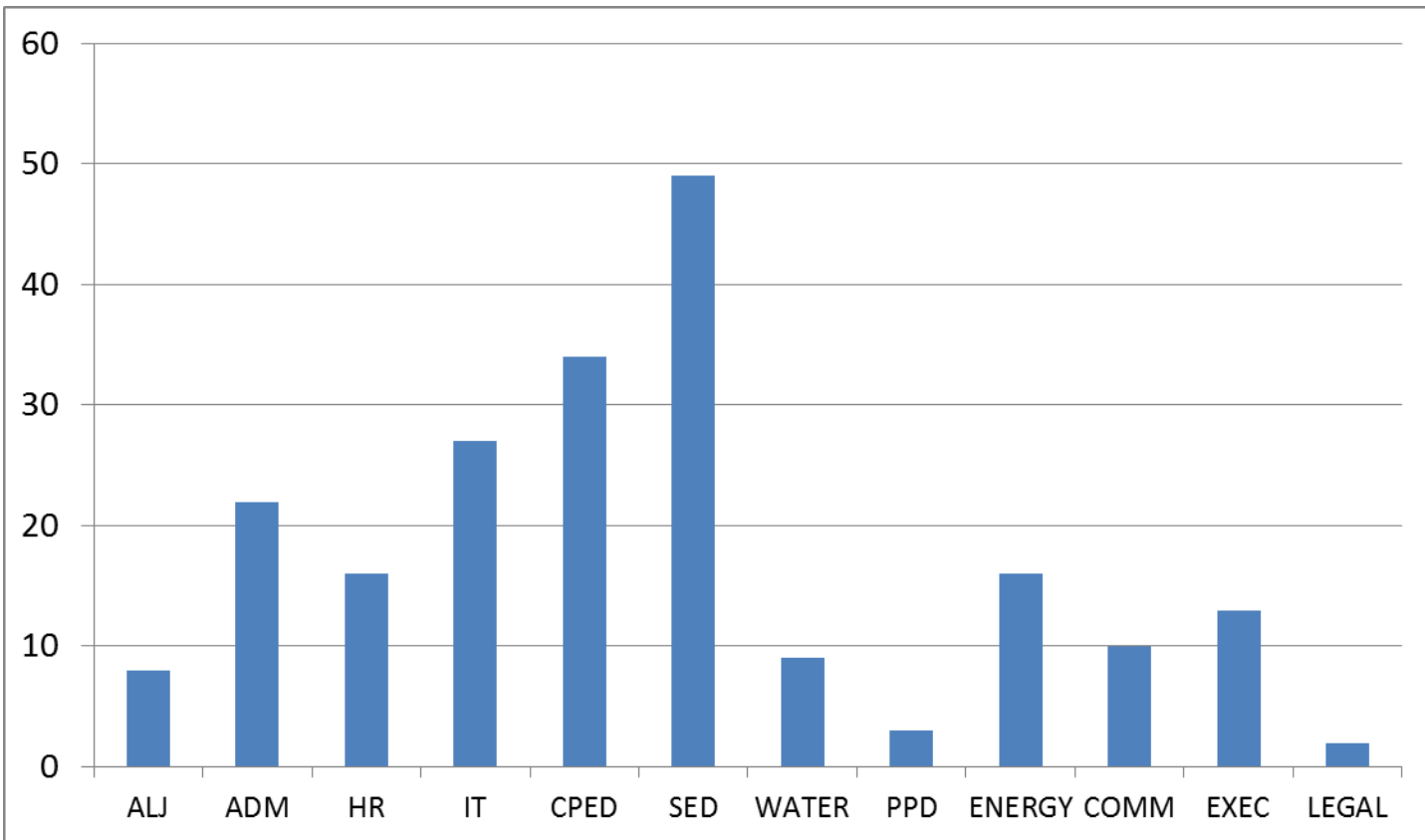
Enterprise Risk Assessment Process

- Performed a Bi-Annual enterprise wide risk process as mandated by DOF.

- Top Down and Bottom Up approach

- Met with Managers and Supervisors from all divisions

- Management completed risk assessment

- Management prioritized risks
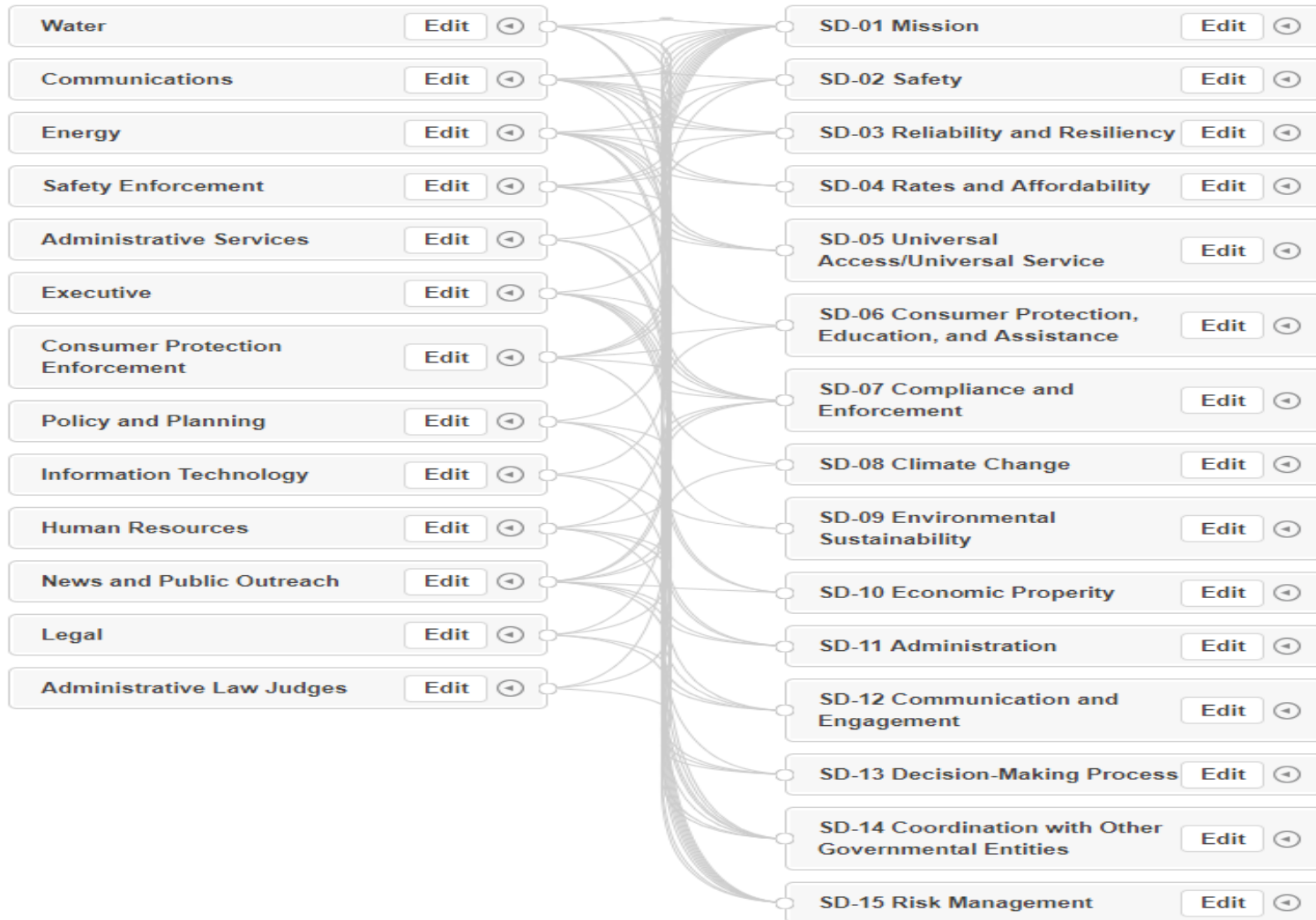
- Utilized COSO Risk Framework

Risks Reported by Division

Alignment of Risks with Strategic Directives

Water	Edit	◄
Communications	Edit	◄
Energy	Edit	◄
Safety Enforcement	Edit	◄
Administrative Services	Edit	◄
Executive	Edit	◄
Consumer Protection Enforcement	Edit	◄
Policy and Planning	Edit	◄
Information Technology	Edit	◄
Human Resources	Edit	◄
News and Public Outreach	Edit	◄
Legal	Edit	◄
Administrative Law Judges	Edit	◄

SD-01 Mission	Edit	◄
SD-02 Safety	Edit	◄
SD-03 Reliability and Resiliency	Edit	◄
SD-04 Rates and Affordability	Edit	◄
SD-05 Universal Access/Universal Service	Edit	◄
SD-06 Consumer Protection, Education, and Assistance	Edit	◄
SD-07 Compliance and Enforcement	Edit	◄
SD-08 Climate Change	Edit	◄
SD-09 Environmental Sustainability	Edit	◄
SD-10 Economic Property	Edit	◄
SD-11 Administration	Edit	◄
SD-12 Communication and Engagement	Edit	◄
SD-13 Decision-Making Process	Edit	◄
SD-14 Coordination with Other Governmental Entities	Edit	◄
SD-15 Risk Management	Edit	◄

Alignment of Risks with Strategic Directives

Water — Edit ▾

SD-01 Mission × | SD-03 Reliability and Resiliency × | SD-04 Rates and Affordability ×
SD-05 Universal Access/Universal Service × | SD-14 Coordination with Other Governmental Entities ×
SD-15 Risk Management ×

Communications — Edit ▾

SD-01 Mission × | SD-02 Safety × | SD-03 Reliability and Resiliency × | SD-04 Rates and Affordability ×
SD-05 Universal Access/Universal Service × | SD-06 Consumer Protection, Education, and Assistance ×
SD-07 Compliance and Enforcement × | SD-10 Economic Property × | SD-15 Risk Management ×

Energy — Edit ▾

SD-01 Mission × | SD-03 Reliability and Resiliency × | SD-04 Rates and Affordability ×
SD-05 Universal Access/Universal Service × | SD-07 Compliance and Enforcement ×
SD-08 Climate Change × | SD-09 Environmental Sustainability × | SD-10 Economic Property ×
SD-14 Coordination with Other Governmental Entities × | SD-15 Risk Management ×

2. Prioritize risks of greatest concern, in light of their likelihood, severity, and available options for their mitigation

LIKELIHOOD OF RISK

| SCORE		LIKELIHOOD
1	LOW	Nearly unlikely to happened in the near or immediate future
2	LOW-MEDIUM	Moderately unlikely to happen in the near future and minimal action needed
3	MEDIUM	Likely to occur and actions should be taken to reduce or control risk
4	MEDIUM-HIGH	More than likely to occur and management or organizers should begin to mitigate
5	HIGH	High probability the risk will occur and immediate action plans required

IMPACT OF RISK

Score		IMPACT
1	Low	insignificant impact on operations, reputation, financial, safety, strategic objectives
2	Low-Medium	Minimal impact on operations, reputation, financial, safety, strategic objectives
3	Medium	Could delay operations, effect short term programs, require moderate management effort, may draw publicity, minor to moderate, safety hazards present, negative impact to achieving strategic objectives
4	Medium-High	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
5	High	Long-term or serious effect on organization

Risk Scores
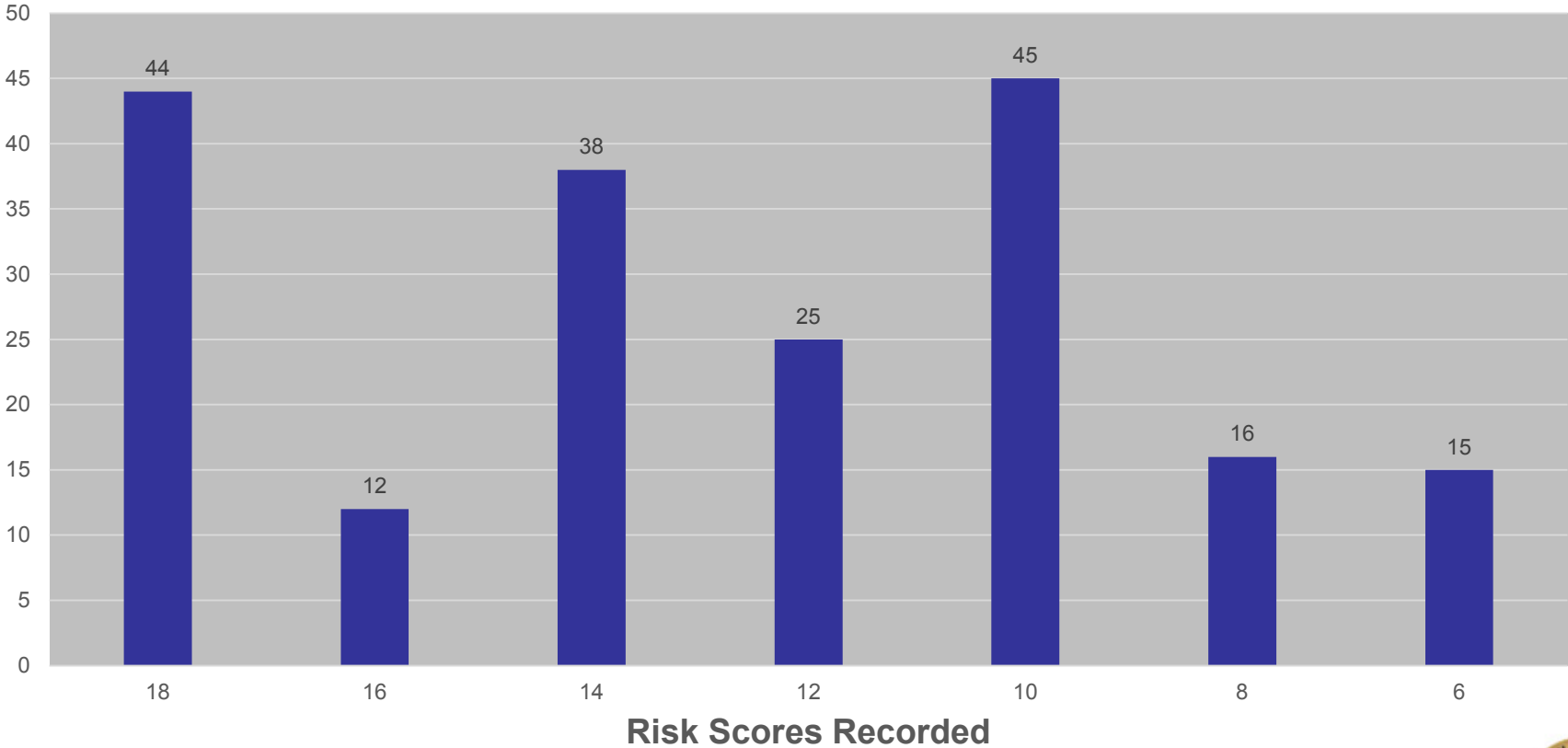
44	12	38	25	45	16	15
18	16	14	12	10	8	6

Risk Scores Recorded

3. Consider risk priorities in allocating the CPUC's resources, including budgetary funding and the time and attention of commissioners and CPUC staff;

- All Directors were given a spreadsheet containing risks in their area and the SLAA Report.

- Risk Committee has been formed as well as an Enterprise Risk Framework to begin working on reducing the risk register and keeping it up to date.

- Beginning to meet with Divisions to discuss risks and actions that have been taken.

KRI's

A **Key Risk Indicator**, also known as a KRI, is a measure used in management to indicate how risky an activity is. **Key risk indicators** are metrics used by organizations to provide an early signal of increasing **risk** exposures in various areas of the enterprise. KRIs are a mainstay of operational **risk** analysis.

KPI'S

Key performance indicators, or **KPIs**, measure the effectiveness of a function within an organization. By tracking and comparing **KPIs**, analysts can spot long-term trends and short-term problems, and managers can take proactive measures to get the team back on course.

State Leadership Accountability Act (SLAA) Report

- Government Code sections 13400 through 13407
- SB 84 (2015) renamed the Financial Integrity and State Manager's Accountability Act of 1983 as the SLAA
- Each state agency must:
  - Maintain effective systems of internal control
  - Evaluate and monitor the effectiveness of the controls
  - Biennially (every odd-numbered year) report on the adequacy of the agency's systems of internal control
  - Submit an Implementation Plan when a component of Ongoing Monitoring or control has not been fully implemented. IP submitted every six months until the Ongoing Monitoring components or controls are fully implemented.

Risks Controlled

- No Update to the Implementation Plan is Required for:

  --5 Risks, 10 controls that met the criteria based on "yes" responses to both:

  - *The control is in place and working as intended.*
  - *The control is reducing the risk as expected.*

Getting to Yes:
SLAA Implementation Metrics

Is the Control Put into Practice?

| 64% |
December 31, 2017

| 85% |
June 30, 2018

Is the Control Reducing Risk as Expected?

| 62% |
December 31, 2017

| 80% |
June 30, 2018

Monitoring Risk

- Linking performance indicators to risk assists management in assessment of risk

- Linking activities such as KRIs and KPIs to risk can inform management the status of risks on an on-going basis.

- Regular risks assessments assist in monitoring all risks across the organization

- Gathering data across the organization

- Testing controls put into place or mitigation activities.

Audit Follow up

External Audits

External Audit Resolution

- State Auditor –

  - 63 Audit findings since 2012

  - 25 Partially or Unresolved Audit findings remaining

ALJ-	IT -
ENERGY-	CPED-
LEGAL-	ADMIN-

External Audit Resolution

- Other External Entities
  - DGS Audit Report
    - 4 Open Findings for ASD
  - SPB
    - 1 Open Findings for HR

4. Test and verify the effectiveness of the CPUC's managerial controls and operations.

Under SLAA, management is responsible for establishing and maintaining a system of internal control within their organizations.

Management is responsible for the design, implementation, communication, monitoring, and modification of internal control systems.

Collaboration Efforts between Internal Audits and ERCO

Plan for management self-certification on internal controls

Audit Role and Support

To assist management:

- Perform tests to ensure significant controls identified by management are functioning as intended

- Document the assessment and review processes

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Compliance with Strategic Directive 15

- CPUC staff believe the organization is substantially in compliance with Strategic Directive 15.

Questions?