

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## REPORT MEMORANDUM

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Date: March 24, 2020

To: Bernard Azevedo, Deputy Executive Director  
Administrative Services and Information Technology Services

Fredrick Gomez, Chief Information Officer  
Information Technology Services Division

Cris Rojas, Deputy Executive Director  
Human Resources Division

From: Ginny Veneracion-Alunan, CPA  
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Subject: Review of Internal Control over the Employee Separation Process – Final Report (2018-05)

In accordance with the *Government Code*, Section 13400 et seq. and State Administrative Manual, Section 20060, all levels of management are responsible for establishing and maintaining a system or systems of internal control to provide reasonable assurance that the state agency's objectives will be achieved and to minimize fraud, errors, abuse, and waste of government resources.

To provide reasonable assurance of the existence and strength of the California Public Utilities Commission's (CPUC) internal controls, the Office of Internal Audit Services (IAS) conducted an audit of the CPUC's internal controls over the employee separation process during the audit period January 2018 through February 2019. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Human Resources Division, Information Technology Services Division, and Administrative Services Division management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 823-4793.

Attachment

cc: Marybel Batjer, CPUC President  
Audit Committee

Genevieve Shiroma, CPUC Commissioner  
Audit Committee

Alice Stebbins, Executive Director  
California Public Utilities Commission

Angie Williams, Director  
Utility Audits, Risk and Compliance Division



# REVIEW OF INTERNAL CONTROLS

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## CALIFORNIA PUBLIC UTILITIES COMMISSION REVIEW OF INTERNAL CONTROL OVER THE EMPLOYEE SEPARATION PROCESS JANUARY 2018 – FEBRUARY 2019

PREPARED BY:  
CALIFORNIA PUBLIC UTILITIES COMMISSION  
OFFICE OF INTERNAL AUDIT SERVICES

AUDIT TEAM

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# EXECUTIVE SUMMARY

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## EXECUTIVE SUMMARY

The Office of Internal Audit Services (IAS) conducted an audit of the California Public Utilities Commission's (CPUC) internal controls over the employee separation process during the audit period of January 2018 through February 2019. Our objective was to determine whether internal controls over the CPUC's employee separation process related to assets, security controls and disabling system user accounts are in place and operating as designed, and that the processes are administered in accordance with the applicable federal, state and department rules, regulations, and statutes.

Based on our audit, there is a significant lack of internal controls over the reviewed areas of employee separation processes. Our audit identified the lack of awareness of the October 2018 established policies and procedures and the related internal control weaknesses. We noted matters involving the internal controls and its operation that we consider to be reportable under the *International Standards for the Professional Practice of Internal Auditing (ISPPIA)*. Those reportable conditions are summarized below and detailed in the Results section with our recommendations on the following pages.

1. The separated employees' user accounts are not timely disabled.
  - Our testing concluded among the 20 samples, two accounts were not disabled until IAS identified this issue. The two accounts were active for over 180 days.
  - The remaining 18 sampled accounts were not disabled timely from the separation effective date. The delay varied from four to 90 days.
2. Information Technology (IT) equipment retrieval is delayed and not always ensured.
  - Our testing showed 12 out of 20 samples, or 60%, do not have the required service tickets as evidence to demonstrate the prior employees' IT equipment was retrieved.
  - Currently, the collection of the IT equipment is delayed after the employee separates as a result of the significant lag in submitting the System Action Request Form (SARF) by the divisions. Additionally, there is a required notification layer from the Enterprise Service Unit (ESU) to IT Service Desk who is responsible for retrieving IT equipment based on ESU's notices. The IT equipment retrieval delay varied from four to 96 days after the employee separated.
3. There are significant internal control weaknesses over badge retrieval and deactivation.
  - The Facilities Unit within Administrative Services Division (ASD) has not established procedures to deactivate and retrieve badges or confirm the deactivation at multiple CPUC locations.

- There is no advanced notification to the Facilities Unit to deactivate the badges upon employee separation, either from Human Resources Division (HRD) or from division supervisors.
  - There is no supporting documentation to verify or confirm the badges have been deactivated.
4. HRD did not fully enforce the systematic rollout and implementation of Employee Separation Clearance Policy and Procedure.
- Our testing showed among the 20 sampled clearance forms, nine or 45% of the samples did not use the new clearance form. Among the 11 samples that used the new form, none was completely signed off by the divisions as required by the HRD's policy and procedure. HRD did not sign off on any of these new clearance forms.
5. The October 2018 implemented Employee Separation Clearance Policy and Procedure needs refinement and enhancement to strengthen internal controls and guide CPUC management and staff in processing employee separations.
- For retrieving the IT assets and work badges, HRD has not clearly defined the roles and responsibilities of the line supervisors, Information Technology Services Division (ITSD) and Business Services (renamed as Facilities Unit after reorganization) within ASD.
  - Division HR liaison's roles are not defined in the policy. However, they are essential in implementing and maintaining this policy and procedure.

Our review of internal controls was conducted in accordance with *Government Code (GC)*, Section 13400 et seq., also referred to as the State Leadership Accountability Act (SLAA). All levels of management are responsible for the establishment and maintenance of a system or systems of internal control to minimize fraud, errors, abuse, and waste of government resources. We conducted our review under the authority of the Internal Audit Charter.

SLAA specifies that agency heads are responsible for the establishment and maintenance of a system or systems of internal control, and effective and objective ongoing monitoring of the internal controls within their state agencies. This responsibility includes documenting the system, communicating system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

#### **Planned Follow-up by IAS and Management:**

IAS will follow up with management on their progress of completion for their corrective action plans, including required targeted completion dates, and report accordingly through the Audit Committee. A follow-up audit may be performed to determine the completion and adequacy of the corrective action plans.

*This report is intended for the information and use of the CPUC management and is not intended to be, and should not be, used by anyone other than the specified parties.*

# BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

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## **BACKGROUND**

The CPUC has over 1,200 employees. In October 2018, CPUC's HRD released a Commission-wide policy and procedure for processing employee separations. The CPUC requires supervisors and/or managers to complete a Separation Clearance Form for all separating employees to ensure the CPUC appropriately secures CPUC-owned equipment and business records and updates various administrative business systems and databases timely. HRD is primarily responsible for the design, dissemination and implementation of the policy. Upon employee separation, ITSD retrieves any CPUC-owned IT equipment and disables user accounts from the network systems; the Facilities Unit (formerly called Business Services) within ASD deactivates employee badges for the Sacramento office. The deactivation of employee badges for the San Francisco and Los Angeles offices is handled by the Department of General Services (DGS). Currently, badges are not retrieved by the Facilities Unit.

In May 2019, IAS issued the final report for the Review of Internal Control over Inventory. The return of IT assets upon employee separation was excluded from that audit. This employee separation audit specifically addresses the return of assets as well as badge security control and the disabling of user accounts upon employee separation.

## **OBJECTIVES**

The specific objectives of this audit engagement were:

- To determine if the Employee Separation Clearance Policy and Procedure is adequate and complies with SAM Section 8580.4 recommendation.
- To determine whether the policy and procedure was timely and appropriately disseminated to each division to ensure Commission-wide awareness.
- To determine whether HRD fully enforced the implementation of the policy and procedure.
- To determine if ITSD retrieved IT equipment and disabled user accounts upon employee separation.
- To determine if ASD retrieved and deactivated badges upon employee separation.

## **SCOPE AND METHODOLOGY**

The scope of our risk-based audit work was limited to retrieval of IT equipment and badges, badge deactivation, and the disabling of user accounts from the Exchange Management Console and the Active Directory. Our audit covered the period from January 2018 through February 2019.

To determine if the recently implemented Employee Separation Clearance Policy and Procedure is adequate and follows SAM Section 8580.4 recommendation, we reviewed the policy and procedure and SAM Section 8580.4 recommendation. To determine whether the policy and procedure was timely communicated and appropriately disseminated to each division to ensure Commission-wide awareness, we reviewed and verified HRD's dissemination email to division liaisons. To determine if HRD, ITSD and ASD fully enforced the policy and procedures, we interviewed management and staff to gain an understanding of the processes of IT equipment retrieval, badge retrieval, and deactivation and disabling of user accounts; we performed sample testing to validate the controls including signing off on the required forms, retrieval of IT equipment and disabling the employee user account. The lack of controls within ASD limited auditors' testing over retrieval of badges and keys as well as badge deactivation.

We did not review the fiscal transactions such as liquidation of advances prior to the employee separation, which will be covered in a separate review. In addition, this audit focused on the process for employee separation from the CPUC, not internal transfers within the CPUC.

# RESULTS

## FINDINGS & RECOMMENDATIONS

### **Finding #1 The separated employees' user accounts are not timely disabled**

Finding Rating:	<b>Priority</b>	High	Medium	Low	Implemented
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The separated employees' user accounts are not timely disabled. ESU within ITSD disables the user accounts from the Active Directory and the Exchange Management Console upon receiving the System Action Request Form (SARF) submitted by division liaisons or supervisors. IAS' sample testing revealed two accounts out of 20 were not disabled. None of the remaining 18 sampled accounts were disabled timely upon the separation effective date. The delay varied from four to 90 days. See the table below for a detailed breakdown:

Accounts not disabled	2
Delayed > 60 days <= 90 days	3
Delayed > 30 days <= 60 days	4
Delayed <= 30 days	11
<b>Total</b>	<b>20</b>

An employee user account is disabled upon receipt of the SARF. ESU did not receive the SARF for the two employees whose accounts were not disabled although both employees retired in December 2018. After IAS identified this issue, the two accounts were disabled in July 2019. For the remaining 18 samples, the delay is primarily due to the late submission of the SARF. IAS also noted the SARF instructions only specify the timeframe to submit the SARF for new employees, but not for separating employees. Further, there is no process in place to ensure the completeness and timeliness of SARF submission against the official HRD employee separation records. In addition, ESU does not have a periodic reconciliation process to confirm all of the submitted SARFs to disable user accounts are processed immediately. Poor access control can expose the CPUC to unauthorized access of data and programs, information and computer resources. This may cause the loss of confidentiality, integrity, and availability of the information technology assets.

#### Criteria

CPUC's Information Security's Access Control Policy, states, in part, "access to non-active personnel should be deactivated prior to or immediately after termination."

SAM Section 5360 – Identity and Access Management, states, in part, "each state entity shall safeguard access to information assets by managing the

identities of users and devices and controlling access to resources and data bases on a need to know basis throughout the identity lifecycle. Each state entity shall establish processes and procedures to ensure maintenance of user identities, including both provisioning and de-provisioning.”

SAM Section 5305.4 – Personnel Management, states, in part, “each state entity must identify security and privacy roles and responsibilities for all personnel. This will ensure personnel are informed of their roles and responsibilities for using state entity information assets, to reduce the risk of inappropriate use, and a documented process to remove access when changes occur. Personnel practices related to security management must include termination procedures that ensure state entity information assets are not accessible to separated personnel.”

Strategic Directive 11, states, in part, that “the CPUC will protect confidential, sensitive, or personally identifiable information.”

#### Recommendation 1A

HRD should work with ITSD to develop a procedure, including SARF submission timeframe, for removing a separating employee as well as adding a new employee and updating an existing employee.

#### Recommendation 1B

HRD should work with division liaisons to implement and maintain a regular reconciliation to ensure timely and complete SARF submission against HRD official separation records. This process should prevent significant delays from happening. It is also particularly useful when a SARF cannot be submitted prior to the employee’s last working day, such as in the case of an involuntary separation.

#### Recommendation 1C

HRD should provide training to supervisors and division HR liaisons about SARF submission and reconciliation.

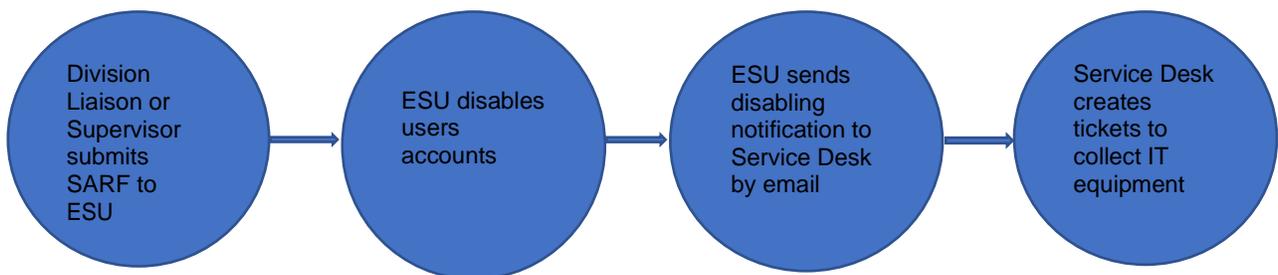
#### Recommendation 1D

ITSD should develop a separate periodic SARF review to confirm user accounts are disabled immediately upon employee separation.

## Finding #2 IT equipment retrieval is delayed and not always ensured

Finding Rating: **Priority** High Medium Low Implemented

IT equipment retrieval is delayed and not always ensured. The ITSD Service Desk started a process to retrieve separated employees' IT equipment at the beginning of 2019. Currently, ITSD Service Desk receives an email from ESU indicating that an employee's user account has been disabled. This notification email triggers the Service Desk to begin the process of retrieving the user's IT equipment. This process is illustrated by the flowchart below:



As noted in Finding #1, there is a significant delay of SARF submission by division liaisons or supervisors to ESU. By the time ESU disables the user accounts and sends a notification to the Service Desk to collect the user's IT equipment, there can be a significant delay from the separation effective date. According to the Service Desk, IT equipment is typically left at the separated employees' desk for a lengthy period of time until it is collected. IAS' testing revealed the delay from the SARF submission to the retrieval of equipment varied from four to 96 days. Untimely retrieval of IT equipment increases the likelihood of asset loss and/or misappropriation within the CPUC.

In addition, 12 out of 20 samples, or 60%, did not have service tickets as evidence to demonstrate the IT equipment has been retrieved. Per ITSD management, this is due to the new retrieval process recently launched by the Service Desk.

### Criteria

SAM Section 5365 – Information Security, states, in part, “Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Physical security and environmental controls shall include management and maintenance of equipment and media handling/destruction processes.”

SAM Section 5305 – Information Security Program, states, in part, “Each state entity is responsible for establishing an information security program. The program shall include planning, oversight, and coordination of its information security program activities to effectively manage risk, provide for the protection of information assets, and prevent illegal activity, fraud, waste, and abuse in the use of information assets.”

Each state entity shall:

1. Align the information security program, its activities, and staff with the requirements of this Chapter;
2. Establish a governance body to direct the development of state entity specific information security plans, policies, standards, and other authoritative documents;
3. Oversee the creation, maintenance, and enforcement of established information security policies, standards, procedures, and guidelines;
4. Ensure the state entity’s security policies and procedures are fully documented and state entity staff is aware of, has agreed to comply with, and understands the consequences of failure to comply with policies and procedures.”

SAM Section 5305.2 – Policy, Procedure and Standards Management, states, in part, “each state entity must provide for the protection of its information assets by establishing appropriate administrative, operational and technical policies, standards, and procedures to ensure its operations conform with business requirements, laws, and administrative policies, and personnel maintain a standard of due care to prevent misuse, loss, disruption or compromise of state entity information assets.”

## Recommendation 2

HRD should work with ITSD to establish controls for an improved process regarding timely IT equipment retrieval upon employees’ separation. The new process should consider improving or eliminating delays caused by the various separation notifications.

Additionally, as noted in Recommendation 5 below, separating employees’ supervisors’ and ITSD’s roles and responsibilities should be clearly defined in HRD’s overarching employee separation policy and procedure. Further, in concert with HRD’s policy, ITSD should establish its own procedures regarding when and how to timely retrieve IT equipment, as well as how to maintain the complete documentation for the retrieval as evidence.

**Finding #3 There are significant internal control weaknesses over badge retrieval and deactivation**

Finding Rating:	Priority	High	Medium	Low	Implemented
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Facilities Unit does not actively retrieve badges nor do they have a process to retrieve the badges from separating employees or the employees' supervisors. Currently HRD and Facilities Unit operate in silo. No separation notification is sent to Facilities Unit, either from the HRD or from the supervisors prior to the employees' last day with CPUC.

Specifically, we observed the following operating inefficiencies and internal control weaknesses:

- The Facilities Unit does not retrieve badges nor do they maintain written procedures to retrieve, deactivate, and confirm the badge retrieval and deactivation.
- For the Sacramento office, CPUC staff handles the badge deactivation. For the San Francisco and Los Angeles offices, DGS handles the badge deactivation. The trigger for the deactivation for all of the three offices is the monthly separation report received by the Facilities Unit in the beginning of next month after the employee is separated. In addition, according to the Facilities Unit manager, during the audit testing period, the last monthly separation report they received was for December 2018. Without the receipt of the current separation report, separating employees' badges were not deactivated.
- IAS requested the deactivation report to verify if the sampled separated employees' badges were deactivated for Sacramento office. Although the Facilities Unit has made an attempt by reaching out to the badge system vendor for the deactivation report, it could not provide the requested report for verification.
- In the Los Angeles and San Francisco offices, while the deactivation is handled by DGS, the Facilities Unit does not seek confirmation or follow up with DGS to ensure all the separating employees' badges were properly deactivated or retrieved.

When badges are not retrieved or deactivated upon employees' separation, CPUC's security is vulnerable. The CPUC is at risk of fraud and abuse, and compromised security and improper access to government facilities as separated employees may be able to gain access to the CPUC building(s) using their old badge(s). Additionally, the CPUC's reputational risk may increase as these unretrieved badges may be used inappropriately by separated employees.

## Criteria

SAM Section 5365 – Information Security, states, in part, “Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Physical security and environmental controls shall include management and maintenance of facility entry controls and badging systems for personnel and visitors.”

GC Section 13403(b) states, in part, “The elements of a satisfactory system of internal control, shall include, but are not limited to, the following:

- 3) A system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.
- 4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.”

SAM Section 20060 – Systems of Control Deficiencies, states, in part, “Experience has indicated that the existence of one or more of the following situations are usually indicative of a poorly maintained or vulnerable control system. These situations may apply to the organization as a whole or to individual units or activities. Agency heads or managers must identify and make the necessary corrections if any of the situations listed below exist within their organization and/or a similar situation of equal gravity.

1. Policy and procedural or operational manuals are not current or are nonexistent.
2. Lines of organizational authority and responsibility are not clearly articulated or are nonexistent.
3. Financial and operational reporting is not timely and is not used as an effective management tool.
4. Management and line supervisors ignore or do not adequately monitor control compliance.
5. Operation controls are not regularly evaluated for effectiveness.
6. Identified internal control weaknesses are not corrected timely.
7. Controls and/or control evaluations bear little relationship to organizational exposure to loss.”

## Recommendation 3

The Facilities Unit should develop and implement a policy for accountability of the badges issued to employees. Additionally, internal controls should be strengthened by working with HRD to develop clear policies and procedures on when and how to timely deactivate and retrieve badges in all offices.

The procedures should include, but are not limited to, the following:

- Prior notification of employee separation for badge deactivation.

- Badge retrieval process, including those separating employees who have badges for multiple CPUC locations. The roles and responsibilities of separating employees' supervisors and the Facilities Unit should be clearly defined in HRD and Facilities Unit's policies, respectively.

For the San Francisco and Los Angeles offices, develop procedures for the reconciliation and confirmation process with DGS to ensure separating employees' badges are timely deactivated.

For the Sacramento office, the Facilities Unit should develop procedures for the reconciliation and confirmation process to ensure separating employees' badges are timely deactivated. This may include exploring feasible options with the badge vendor.

**Finding #4 HRD did not fully enforce the systematic rollout and implementation of the Employee Separation Clearance Policy and Procedure**

Finding Rating:	Priority	High	Medium	Low	Implemented
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HRD did not fully enforce the implementation of the newly developed Employee Separation Clearance Policy and Procedure which was effective October 22, 2018. Thereafter, during the period from November 2018 to February 2019, there were 37 employees who separated from CPUC. We sampled 20, or 54%, of separated employees to verify if the new clearance forms were implemented accordingly. Among the 20 samples:

- Nine samples, or 45%, did not implement the new clearance form, but rather used the old version, submitted an incomplete new form, or submitted no form.
- Among the 11 samples that used the new form, none was completely signed off by each division as required by the policy and procedure. Specifically, HRD did not sign off on any of the clearance forms; one sample was missing the required supervisor signature and 7 were missing the necessary ITSD and Business Services' signatures, respectively.

Without proper sign-offs from the authorized personnel of the responsible divisions, there is decreased accountability and an increased likelihood that IT equipment and badges are not retrieved.

IAS also learned there was lack of policy awareness among the CPUC supervisors and managers due to ineffective dissemination. For example, the HR liaison for ITSD did not send the new policy to the entire ITSD management team. The new policy was only sent to a few supervisors and managers. After HRD disseminated the new policy and procedure in October 2018 to division liaisons, there was no follow-up or training with division liaisons, nor was a post implementation review performed. Additionally, there was no formal rollout nor training provided to CPUC supervisors and managers.

## Criteria

GC Section 13403(b) states, in part, “The elements of a satisfactory system of internal control, shall include, but are not limited to, the following:

- 4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.”

SAM Section 20060 – System of Control Deficiencies, states, in part, “Experience has indicated that the existence of one or more of the following situations are usually indicative of a poorly maintained or vulnerable control system. These situations may apply to the organization as a whole or to individual units or activities. Agency heads or managers must identify and make the necessary corrections if any of the situations listed below exist within their organization and/or a similar situation of equal gravity.

4. Management and line supervisors ignore or do not adequately monitor control compliance.
5. Operation controls are not regularly evaluated for effectiveness.”

SAM Section 8580.4 states, “It is recommended that a check-out list acknowledging the return of state-owned items such as credit cards, keys, state records, and equipment be completed for separating employees prior to the release of the final warrant.”

The Employee Separation Policy and Procedure and the included Separation Clearance Form require signatures from the stakeholders.

### Recommendation 4A

Once the Employee Separation Policy and Procedure is refined as noted in the recommendations under Finding #5, HRD should immediately adopt and enforce the updated version of the policy and the accompanying form. The implementation should include proper dissemination to the management and follow up to ensure agency wide awareness. Additionally, proper review of the submitted forms should be ensured.

### Recommendation 4B

Strategic Directive 11 states, in part, that CPUC will provide relevant and practical training and mentoring to staff that supports the CPUC’s core values and staff’s job duties. HRD should provide agency wide training to stakeholders including division liaisons, management and the staff of relevant divisions regarding each stakeholder’s roles and responsibilities in the separation process.

**Finding #5 The October 2018 implemented Employee Separation Clearance Policy and Procedure needs refinement and enhancement to strengthen internal controls and guide CPUC management and staff in processing employee separations**

Finding Rating:	Priority	High	Medium	Low	Implemented
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The October 2018 implemented Employee Separation Clearance Policy and Procedure needs refinement and improvement to strengthen internal controls and guide CPUC management and staff in processing employee separation. After collaboration with multiple divisions, including Fiscal Office, ITSD, Business Services (renamed as Facilities Unit after reorganization), Legal Office, and Enterprise Risk and Compliance Office (renamed as Risk and Compliance Branch), in October 2018, HRD developed and rolled out the Employee Separation Clearance Policy and Procedure which includes a Clearance Form. We reviewed the policy and procedure and noted the areas that need improvement:

- **Unclear roles and responsibilities**  
Per the Employee Separation Clearance Form, both the Facilities Unit and line supervisors are responsible for retrieving office/storage keys and building keys. Additionally, both ITSD and line supervisors are responsible for retrieving separating employees' laptops and cellphones. However, because the policy and the form do not specify the roles and responsibilities, it is unclear what specific responsibility the line supervisors, ITSD or Business Services (renamed as Facilities Unit after reorganization) should take in the process. HRD explained it was intentionally designed that way because certain items fall under dual divisions and supervisors are the first on the reporting line. If more than one division is assigned the shared responsibilities, the employee separation clearance policy should clearly and specifically define each division's responsibility. Otherwise, CPUC is at the risk of asset loss.
- **Undefined Division HR liaison's role**  
The policy does not clearly define the accountability of the division HR liaisons who play a key role in the employee separation process. Based on interviews with HRD, the division liaisons' roles included dissemination of the new Employee Separation Policy to the respective division management. HRD sent a dissemination email to the division liaisons who were expected to notify the management accordingly. Additionally, the division liaison may submit a SARF, but in HRD policy, this task is not clearly specified between the HR liaison and division supervisors. The SARF is critical in requesting ITSD to add, modify, or remove computer, network, and email access.

- On-boarding List

While the Employee Separation Clearance Form lists certain items to be returned by the separating employee, the CPUC does not have a corresponding on-boarding list that includes all the items issued to the employees. Without an existing on-boarding list, the accountability and the completeness of returned items are not ensured.

- Impact of Decentralization

The current employee separation clearance form only refers to the San Francisco office. This form instructs employees to visit specific division offices in San Francisco. Thus, employees from other locations have found this form not useful to them and very hard to follow. With the CPUC's decentralization, the employee separation policy and clearance form should take into consideration CPUC's multiple locations and capture the processes for each specific location.

HRD stated the October 2018 rolled-out policy is still in the development phase and needed more collaboration with other divisions. HRD was aware it would need improvement. The lack of clearly defined division liaisons' roles and responsibilities in the employee separation process has led to internal control weaknesses. The lack of policy awareness could result in inconsistent execution of the new policy and procedure. Specifically, confusion over who is responsible for submitting a SARF to ITSD could delay IT equipment retrievals and user account removals upon employee separation.

The lack of comprehensive policies and procedures that adequately establish the necessary asset accountability safeguards has resulted in operating inefficiencies, which increases the CPUC's risk of loss, misuse of assets, and a compromised system access and security. Comprehensive employee separation policies and procedures, in line with SAM requirements, are required to strengthen internal controls.

#### Criteria

GC Section 13403(b) states, in part, "The elements of a satisfactory system of internal control, shall include, but are not limited to, the following:

- 3) A system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.
- 4) An established system of practices to be followed in performance of duties and functions in each of the state agencies."

SAM Section 20060 states, in part, "Experience has indicated that the existence of one or more of the following situations are usually indicative of a poorly maintained or vulnerable control system. These situations may apply to the organization as a whole or to individual units or activities. Agency heads or

managers must identify and make the necessary corrections if any of the situations listed below exist within their organization and/or a similar situation of equal gravity.

1. Policy and procedural or operational manuals are not current or are nonexistent.
2. Lines of organizational authority and responsibility are not clearly articulated or are nonexistent.
3. Management and line supervisors ignore or do not adequately monitor control compliance.
4. Operation controls are not regularly evaluated for effectiveness.”

#### Recommendation 5A

HRD should continue to collaborate with other divisions and revisit each stakeholder’s roles and responsibilities in the separation process to ensure they are relevant, effective and efficient, then refine the Employee Separation Policy and Procedure as well as the Clearance Form. The policy should clearly define each stakeholder’s specific roles and responsibilities to meet the control objectives. Particularly, if certain responsibilities are shared between the line supervisors and other divisions, the specific responsibility of each party, the process flow and timeline should be clearly articulated in the policy. For example, to whom the separating employee should drop off their badges and IT equipment on the last day of work; then within how many business days and who should turn in the badges and other items to Facilities Unit and ITSD.

Management should also continuously revisit the policy and procedure for any changes or updates. Particularly in case of agency reorganization, the policy and procedure should be revised to reflect the updated roles and responsibilities after reorganization.

#### Recommendation 5B

HRD should establish an employee on-boarding procedure, developed in collaboration with stakeholder divisions, which includes a list of all items issued to new employees. This list should be updated timely for any changes during the employee’s tenure with CPUC.

#### Recommendation 5C

HRD should enhance the current Employee Separation Clearance Policy and Clearance Form by taking into consideration the specific situation of different locations. If different processes and forms for each location are required, such differences should be clearly articulated in the policy and reflected in the Exit Clearance Form.

# APPENDIX A

## Finding Ratings

Finding	Priority	High	Medium	Low	Implemented
1. The separated employees' user accounts are not timely disabled					
2. IT equipment retrieval is delayed and not always ensured					
3. There are significant internal control weaknesses over badge retrieval and deactivation					
4. HRD did not fully enforce the systematic rollout and implementation of the Employee Separation Clearance Policy and Procedure					
5. The Policy and Procedure needs refinement and enhancement to strengthen internal controls and guide CPUC management and staff in processing employee separations					

## Rating Definitions

<b>Priority</b>	<p>Immediate and on-going threat to the achievement of division or CPUC strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> <li>- Significant adverse impact on reputation</li> <li>- Non-compliance with statutory requirements</li> <li>- Potential or known financial losses</li> <li>- Substantially raising the likelihood that risks will occur</li> </ul> <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
<b>High</b>	<p>High probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> <li>- High potential for adverse impact on reputation</li> <li>- Increase in the possibility of financial losses</li> <li>- Increase in the likelihood that risks may occur</li> </ul>
<b>Medium</b>	<p>Medium probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> <li>- Medium potential for adverse impact on reputation</li> <li>- Potential increase in the likelihood that risks may occur</li> </ul>
<b>Low</b>	<p>Low probability of adverse effects to the division or CPUC as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.</p>
<b>Implemented</b>	<p>Management action has been taken to address the risk(s) noted in the audit finding. Management must ensure that controls implemented as a result of the finding are documented, communicated to employees, and monitored to ensure they are functioning as intended.</p>

# MANAGEMENT RESPONSE

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STATE OF CALIFORNIA

GAVIN NEWSOM, Governor

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



February 24, 2020

Ms. Virginia Veneracion-Alunan, CPA  
Chief Internal Auditor  
California Public Utilities Commission  
300 Capitol Mall, Suite 418  
Sacramento, CA 95814

**CALIFORNIA PUBLIC UTILITIES COMMISSION RESPONSE TO THE  
INTERNAL AUDIT — REVIEW OF EMPLOYEE SEPARATION PROCESS -  
DRAFT REPORT (2018-05)**

Dear Ms. Veneracion-Alunan:

The California Public Utilities Commission (CPUC) hereby provides responses to the draft findings of Internal Audit Service's report entitled, *Review of Employee Separation Process - Draft Report (2018-05)*. Internal Audit Services has conducted this audit and issued five findings and 11 recommendations.

CPUC agrees with the findings and the recommendations. Accordingly, CPUC has either established corrective action plans and timelines towards implementing them or already taken steps to do so. Our response to the draft report is attached. CPUC is committed to continuous improvement of its operations.

CPUC appreciates the work performed by Internal Audit Services and the opportunity to respond to the audit findings. If you have further questions, please contact me at (415) 703-3808.

Sincerely,

A handwritten signature in blue ink that reads "Alice Stebbins".

Alice Stebbins  
Executive Director

Enclosure

Management responses and their intended corrective actions below have been transferred verbatim from the response template that was utilized by management to respond to the recommendations. The original response template that was completed by management is documented within the audit file and is available for viewing upon request.

<b>Finding 1 – The separated employees’ user accounts are not timely disabled</b>	
<u>Recommendation</u>	<u>Management Response</u>
<p>1A: HRD should work with ITSD to develop a procedure, including SARF submission timeframe, for removing a separating employee as well as adding a new employee and updating an existing employee.</p>	<p>The Human Resources Division (HR) will work with the division liaisons and the Information Technology Services Division (ITSD) to develop procedures to ensure timely notification of separating employees.</p> <p>Upon separation, termination, addition or change in an employee’s status with the California Public Utilities Commission (CPUC), their network user account must be updated.</p> <p>The process to update this user account is triggered by the filing of a Systems Action Request Form (SARF). The SARF is an online form, which can be found on ITSDs intranet site. Designated employees (liaisons) of the individual divisions in the CPUC use the SARF to request creation, removal, or revision to user accounts on our network.</p> <p>Completion of the SARF online triggers an email to be sent to the Exchange Administrators team, one of the various teams in ITSD’s Enterprise Services Unit (ESU). The Exchange Administrators use the information contained in the SARF to process the requested action on the user account in a timely manner. The Exchange administrators have a Service Level Agreement of 48 hours after receipt of the SARF to create a new user account.</p> <p>Normally, the Exchange Administrators can process the SARF immediately; however, there are circumstances in which this is not possible, such as when a request to remove has an effective date in the future or if the Exchange Administrators receive requests to delay the removal of the user</p>

	<p>account from the network from the Legal Division due to litigation holds or other legal cases.</p> <p>The Exchange Administrators will process the requests in a timely manner as soon as the SARFs are received.</p> <p>ITSD proposes to teach and refresh our process at the next HR &amp; division liaison meeting. Thereafter, ITSD will also train any new division liaisons as they are appointed.</p>
Target Completion Date	4/1/2020
Primary Contact	Raymond Radoc, ESU, ITSD
1B: HRD should work with division liaisons to implement and maintain a regular reconciliation to ensure timely and complete SARF submission against HRD official separation records. This process should prevent significant delays from happening. It is also particularly useful when a SARF cannot be submitted prior to the employee's last working day, such as in the case of an involuntary separation.	<p>Human Resources Division (HRD) will work with division liaisons to develop policies and procedures to implement and maintain a regular reconciliation to ensure timely and complete Systems Action Request Form submission against HRD official separation records to prevent significant delays.</p> <p>The process may include, but is not limited to:</p> <ol style="list-style-type: none"> <li>1) creating a workgroup of a cross-section of liaisons and HRD personnel to brainstorm and create/develop procedures.</li> <li>2) reconciling employee rosters against Management Information Retrieval System (MIRS) reports.</li> <li>3) creating a checklist for division use to assist in processing separating employee user accounts.</li> </ol>
Target Completion Date	6/30/2020
Primary Contact	Sabrina Blanco, HRD/Personnel/Payroll and Performance Unit
1C: HRD should provide training to supervisors and division HR liaisons about SARF submission and reconciliation.	<p>To ensure separated employees' user accounts are timely disabled, HRD will:</p> <ul style="list-style-type: none"> <li>• Consult with the Information Technology Services Division (ITSD) on the appropriate communication or training strategy to disseminate policies and procedures, along with reference materials, about Systems Action Request Form (SARF) submission and SARF reconciliations.</li> <li>• Communicate supervisors' roles and responsibilities</li> </ul>

	<ul style="list-style-type: none"> <li>Communicate division liaisons' roles and responsibilities</li> </ul>
Target Completion Date	6/30/2020
Primary Contact	Art Sederquist
1D: ITSD should develop a separate periodic SARF review to confirm user accounts are disabled immediately upon employee separation.	<p>ITSD will take the proper steps to ensure that these types of requests are treated with priority and processed in an expeditious, yet careful manner.</p> <p>ITSD will create a log that contains information about the Systems Action Request Form (SARF) and details of the processing of the request, which would be updated by the Exchange Administrators as the requests are received.</p> <p>ITSD will also establish a process for validating the timely processing of the SARFs.</p>
Target Completion Date	4/1/2020
Primary Contact	Raymond Radoc, ITSD/ESU
<b>Finding 2 – IT equipment retrieval is delayed and not always ensured</b>	
<u>Recommendation</u>	<u>Management Response</u>
<p>HRD should work with ITSD to establish controls for an improved process regarding timely IT equipment retrieval upon employees' separation. The new process should consider improving or eliminating delays caused by the various separation notifications.</p> <p>Additionally, as noted in Recommendation 5 below, separating employees' supervisors' and ITSD's roles and responsibilities should be clearly defined in HRD's overarching employee separation policy and procedure. Further, in concert with HRD's policy, ITSD should establish its own procedures regarding when and how to</p>	<p>The Human Resources Division (HRD) will work with the Information Technology Services Division (ITSD) to establish policies and procedures, or a checklist, to act as controls for timely retrieval of all assigned items upon separation. These procedures, along with the checklist, will be used during the onboarding process and upon separation.</p> <p>ITSD will also establish policies and procedures that will identify steps to ensure the timely physical retrieval of IT equipment upon employee separation. The policy will also address securing assets, and the consequences of failing to timely retrieve equipment, and will be created and enforced by ITSD's Client Solutions Section.</p>

timely retrieve IT equipment, as well as how to maintain the complete documentation for the retrieval as evidence.	
Target Completion Date	4/1/2020
Primary Contact	Larisa Lourenco, ITSD/Client Solutions
<b>Finding 3 – There are significant internal control weaknesses over badge retrieval and deactivation</b>	
<u>Recommendation</u>	<u>Management Response</u>
<p>The Facilities Unit should develop and implement a policy for accountability of the badges issued to employees. Additionally, internal controls should be strengthened by working with HRD to develop clear policies and procedures on when and how to timely deactivate and retrieve badges in all offices.</p> <p>The procedures should include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Prior notification of employee separation for badge deactivation</li> <li>• Badge retrieval process, including those separating employees who have badges for multiple CPUC locations. The roles and responsibilities of separating employees' supervisors and the Facilities Unit should be clearly defined in HRD and Facilities Unit's policies, respectively.</li> </ul> <p>For the San Francisco and Los Angeles offices, develop procedures for reconciliation and confirmation process with DGS to ensure separating</p>	<p>The Human Resources Division (HRD) will work on a separation notification procedure whereby HRD, Administrative Services Division (ASD) Facilities, and the Information Technology Services Division (ITSD) are notified simultaneously of an employee separation from the California Public Utilities Commission (CPUC). HRD will then work with supervisors and liaisons to ensure the final process is followed during an employee separation.</p> <p>Facilities will be consolidating badge requests to just one form, and will maintain a file of record for all new and incoming badge requests. The requests will include timeframes of entry with division approvals. Facilities is currently developing a policy to address the CPUC badging process.</p> <p>For all CPUC locations, Facilities will work with the division liaisons for notifications to Facilities on any pending or occurring separations. For overall reconciliation, Facilities will follow up with HRD for a monthly role file on staff leaving the CPUC and work with the Department of General Services and property managers for a monthly report on badge activities to include new/deactivated badges. Facilities will be creating policies and procedures for this process.</p> <p>For a longer-term solution, Facilities will consider developing an electronic check out process that would include HRD/ITSD and ASD. The timing of the electronic process will depend on staff resources; funding; and ITSD support and coordination between ASD/ITSD/HRD. Currently</p>

employees' badges are timely deactivated.  For the Sacramento Office, the Facilities Unit should develop procedures for reconciliation and confirmation process to ensure separating employees' badges are timely deactivated. This may include exploring feasible options with the badge vendor.	there is no targeted date of completion for this solution.
Target Completion Date	6/30/2020
Primary Contact	Yogeeta Sharma, ASD/MSB, Facilities Unit
<b>Finding 4 – HRD did not fully enforce the systematic rollout and implementation of the Employee Separation Clearance Policy and Procedure</b>	
<u>Recommendation</u>	<u>Management Response</u>
4A: Once the Employee Separation Policy and Procedure is refined as noted in the recommendations under Finding #5, HRD should immediately adopt and enforce the updated version of the policy and the accompanying form. The implementation should include proper dissemination to the management and follow up to ensure agency wide awareness. Additionally, proper review of the submitted forms should be ensured.	After the Employee Separation Policy and Procedure is refined and updated, the Human Resource Division (HRD) will immediately adopt and enforce the updated version by performing monthly reviews to ensure compliance with the new policy and the accurate completion of any new employee separation forms.  In order to properly disseminate the new policy, the HRD Executive Deputy Director will inform other division directors at the weekly division directors' meetings, and publish the new procedures and forms on the HRD intranet page or within PolicyTech.
Target Completion Date	6/30/2020
Primary Contact	Sabrina Blanco, HRD/Personnel/Payroll and Performance Unit
4B: Strategic Directive 11 states, in part, that CPUC will provide relevant and practical training and mentoring to staff that supports the CPUC's core values and staff's job duties. HRD should provide agency wide training to stakeholders	Once the process, policies, and procedures have been refined and collaboratively discussed with the various other responsible parties, the Human Resources Division (HRD) will ensure adequate communication, training and support are given to all current supervisors, managers and division liaisons. HRD will incorporate the new process, and policies and procedures, into the orientation

including division liaisons, management and the staff of relevant divisions regarding each stakeholder's roles and responsibilities in the separation process.	process for new supervisors, and will discuss them at the monthly HRD/division liaisons meeting.
Target Completion Date	6/30/2020
Primary Contact	Liza Dougherty and Jennifer Crockett, HRD/Personnel and HRD/Talent Management

**Finding 5 – The Employee Separation Clearance Policy and Procedure implemented in October 2018 needs refinement and enhancement to strengthen internal controls and guide CPUC management and staff in processing employee separations**

<u>Recommendation</u>	<u>Management Response</u>
5A: HRD should continue to collaborate with other divisions and revisit each stakeholder's roles and responsibilities in the separation process to ensure they are relevant, effective and efficient, then refine the Employee Separation Policy and Procedures as well as the Clearance Form. The policy should clearly define each stakeholder's specific roles and responsibilities to meet the control objectives. Particularly, if certain responsibilities are shared between the line supervisors and the other divisions, the specific responsibility of each party, the process flow and timeline should be clearly articulated in the policy. For example, to whom the separating employee should drop off their badges and IT equipment on the last day of work; then within how many business days and who should turn in the badges and other items to Facilities Unit and ITSD.	Once the Employee Separation Policy and Procedure, as well as the Clearance Form, is updated, and communicated to supervisors, managers, and division liaisons, the Human Resources Division (HRD) will revisit the policy on a consistent basis to reflect agency reorganizations and any other necessary refinements and/or procedural changes. This will be an interactive process between HRD, division liaisons, supervisors, and managers, and will occur at least once a year.

Management should also continuously revisit the policy and procedure for any changes or updates. Particularly in case of agency reorganization, the policy and procedure should be revised to reflect the updated roles and responsibilities after reorganization.	
Target Completion Date	6/30/2020
Primary Contact	Sabrina Blanco, HRD/Personnel/Payroll and Performance Unit
5B: HRD should establish an employee on-boarding procedure, developed in collaboration with stakeholder divisions, which includes a list of all items issued to new employees. The list should be updated timely for any changes during the employee's tenure with CPUC.	<p>The Human Resources Division (HRD) will collaborate with stakeholder divisions (Information Technology Services Division and Administrative Services Division, Facilities Unit) to develop an on-boarding policy and procedure that will include a list of all items that should be issued to new employees. Further the policies and procedures will dictate how and when the list should be updated. HRD will also collaborate with division liaisons for feedback and input in this process to ensure feasibility.</p> <p>HRD will reach out to stakeholder divisions by March 30, 2020, and incorporate division liaisons once the onboarding policy and procedure has been fully developed.</p>
Target Completion Date	6/30/2020
Primary Contact	Sabrina Blanco, HRD/Personnel/Payroll and Performance Unit
5C: HRD should enhance the current Employee Separation Clearance Policy and Procedure Form by taking into consideration of the specific situation of different locations. If different processes and forms for each location are required, such differences should be clearly articulated in the policy and reflected in the Exit Clearance Form.	As mentioned previously, the Human Resources Division will revise the current Employee Separation Clearance Policy and Procedure, and the Clearance Form. The policy, procedure, and form will take into consideration the various office locations to ensure internal controls are strengthened, and will serve as a guide for satellite staff in processing employee separations.

Target Completion Date	6/30/2020
Primary Contact	Sabrina Blanco, HRD/Personnel/Payroll and Performance Unit

# EVALUATION OF RESPONSE

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## EVALUATION OF RESPONSE

Management's responses to Recommendations 1B, 1C, 1D, 3, 4A, 4B, 5B, and 5C are commensurate with IAS' recommendations and the corrective action plans identified by the auditee, if implemented as described, should be sufficient to correct the reportable conditions noted.

IAS would like to emphasize besides the primary contact listed in the response, the directors of each respective divisions are ultimately responsible for the implementation of the corrective action plans.

IAS has the following additional comments for consideration pertaining to Recommendations 1A, 2, and 5A as follows:

- Management's response to Recommendation 1A states that HRD will work with division liaisons and ITSD to develop procedures to ensure timely notification of separating employees. As it was not specifically stated within the management response, IAS would like to emphasize the procedures should include the SARF submission timeframe for separating employees and for updating existing employees' user access.
- Management's response to Recommendation 2 states HRD will work with ITSD to establish policies and procedures, or a checklist for timely retrieval of assigned items upon separation. As well, the ITSD will establish policies and procedures that will identify steps to ensure the timely physical retrieval of IT equipment upon employee separation. The policy will include securing assets and the consequences of failing to timely retrieve equipment and will be enforced by ITSD Client Solutions Section. IAS would like to emphasize ITSD's policies and procedures should also include how to maintain the complete documentation for the retrieval as evidence.
- Management's response to Recommendation 5A states that once the Employee Separation Policy and Procedure and Clearance Form are updated and communicated to supervisors, managers, and division liaisons, HRD will revisit the policy on a consistent basis to reflect agency reorganizations and other necessary refinements and/or procedural changes. An interactive process between HRD, division liaisons, supervisors, and managers will occur at least once a year. IAS would like to emphasize the updated Employee Separation Policy and Procedure and Clearance Form should clearly define each stakeholder's specific roles and responsibilities. Particularly, if certain responsibilities are shared between the line supervisors and the other divisions, the specific responsibility of each party, the process flow, and timeline should be clearly articulated in the policy.