Internal Audit Unit
Deaf and Disabled Telephone Program (DDTP)
Fiscal Year End June 30, 2016

May 30, 2018

May 30, 2018

Finance and Administration Committee
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Final Report – California Public Utilities Commission Internal Audit Report on the Telecommunications Public Purpose Program – Deaf and Disabled Telephone Program (DDTP)

Dear President Picker:

The Internal Audit Unit (IA) of the California Public Utilities Commission (CPUC) has completed its audit of the CPUC's management and oversight of the telecommunications public purpose program Deaf and Disabled Telephone Program as of the fiscal year end June 30, 2016.

The enclosed report is for your information and use. The findings and recommendations in our report are intended to assist management in improving the effectiveness and efficiency of management operations. Management responded to our findings and provided comments that were helpful to the refinement of our analysis. Management's response is attached at the end of the report. Please note also a scope limitation described at Page v.

We appreciated the assistance and cooperation of agency management in the conduct of this audit. If you have any questions regarding this report, please feel free to contact me at 415-703-1823 or CRD@cpuc.ca.gov.

Sincerely,

Carl Danner
Chief Internal Auditor, California Public Utilities Commission

Enclosure

cc: Commissioners
Alice Stebbins, Executive Director
Arocles Aguilar, General Counsel
Cynthia Walker, Director, Communications Division
Ellen Moratti, Director, Administrative Services
DDTP Administrative Committee Members (EPAC and TADDAC)

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EXECUTIVE SUMMARY

Introduction

The Internal Audit Unit (IA) performed an audit of the California Public Utilities Commission's (CPUC) management and oversight of the telecommunications public purpose program, Deaf and Disabled Telephone Program (DDTP) for fiscal year end June 30, 2016.

Our audit sought to document an understanding of the CPUC's fiscal and managerial oversight of the funds collected from ratepayers for the stated purpose of the program. Our audit included an examination of the collection of the funds, how the funds are managed while under the agency's custodianship, and whether distributions are made strictly in accordance with the rules set forth by the governing documents of the program.

Our summary finding is that the program operated in compliance with most applicable requirements of the Public Utilities Code (PU Code) and Commission decisions and rules, and was managed in a fiscally sound and responsible manner. Exceptions to this summary finding are reflected in the following specific findings:

- PU Code §274 requires a periodic financial and compliance audit of this program, which has not been performed.
- The Fiscal Office brought to our attention that due to a clerical error, the DDTP expenditures in the Governor's Budget (DF-303) form for the fiscal year 2015/16 are overstated by $8.6 million. The error was corrected in the agency's books at the beginning of the audit, and disclosed as a prior period adjustment in the subsequent year's budget.
- The inability of the Fiscal Office to produce a trial balance for the program indicated a weakness in program financial management. In addition, expense coding for this program in the agency's financial systems is being performed in an inconsistent manner, further reflecting a control weakness that impairs the ability to accurately track program expenditures.
- Variances in the compliance system for accounting for surcharges paid by carriers to support the program (both between our records and the Department of Finance's DF-303 form, and between surcharges owed versus surcharges due) could be mitigated by better coordination between the Fiscal Office and the CPUC's Information Technology department.
- Financial controls for amounts billed by contractors to the program appear sufficient with the exception of assurance regarding the accuracy of invoices billed by contractors vis a vis actual expenditures by them. A periodic contractor audit requirement is recommended.

Note that a scope limitation, discussed below, limited our ability to examine the operations of the Contracts Office, and so we provide no assurance or findings with regard to Contracts and DDTP.

Finally, this program shares some financial and accounting support systems with the California High Cost Funds, and some other CPUC programs and functions. These concern the utility contact information database, the surcharge reporting software, and the accounting control process for submitting requests to the Fiscal Office. Our internal audit reports on the High Cost Funds provided analysis and some findings and recommendations in this regard; whose resolution will also benefit the other public programs. We do not reiterate those discussions here.

We submitted an initial draft copy of this report to the Communications and Administrative Services divisional management on March 29, 2018. Management's responses to our findings and recommendations are at the end of the report (Page 7). We benefitted also from informal comments provided by agency management, while retaining our own independent responsibility for the contents of this report.

Beyond a corrective action plan, we also ask that management provide a summary of actions taken in response to this audit by December 31, 2018.

The audit period tested was the fiscal year July 1, 2015 to June 30, 2016. The issues in this report are based on fieldwork performed during 2016 and 2017. We took opportunities to discuss our findings and recommendations with the related divisions, units, and management throughout our fieldwork, and are pleased to credit their full cooperation with our effort.

This report is intended for the information and use of the Commission and is not intended for use by anyone other than the specified parties. However, this limitation is not intended to restrict the distribution of this report as a matter of public record.

Finally, the IAU follows the Institute of Internal Auditors International Professional Standards for the Practice of Internal Auditing, although as a unit operating for less than five years we have yet to undertake the external quality assurance review required before we can cite to those standards.

Background and Criteria

California Public Utilities Code Sections 270(a)(4), 274, 278(a)(1-2), and 2881(a-l) require the creation and administration of the DDTP program. The CPUC is directed to ensure all eligible California residents with medically verified disabilities have access to the equipment and services available from the DDTP program.

The program is funded by a surcharge on all telephone bills in the state. The surcharge usually appears on bills as "Relay," "DDTP," or "CA Relay Service and Communications Devices Fund." The surcharge percentage on intrastate billing base at the time of the audit was 0.50%.

The intent of this audit was to evaluate the internal risks and controls related to the CPUC staff's management of the DDTP Program. We also conducted a detailed financial and managerial audit of the program, with an eye towards accuracy, compliance with legal requirements (both internal and external to the agency), as well as an evaluation of the transparency and efficiency of the program's management.

The majority of expenditures for the program are for third party contracts. CCAF is the overall third party administrator and oversees the management of the other contracts (Marketing, Equipment Processing, Relay Service, etc.).

Objectives

1. To provide reasonable assurance that the DDTP program is in compliance with all State legislative requirements. These include:
    a. Senate and Assembly Bills
    b. Public Utilities Code Sections
    c. Prior audit findings and recommendations

d. Commission Decisions
e. Commission Resolutions
f. State Administrative Manual (SAM)
g. State Contracting Manual (SCM)

2. To provide reasonable assurance that funds collected for the DDTP Program by the Commission were conducted in a manner consistent with applicable rules and regulations.
3. To provide reasonable assurance that the Governor's Budget information (Form DF-303) for DDTP (created by the agency's Fiscal Office based on accounting records) is accurate and incorporates all material transactions of the program for the 2015/16 fiscal year.
4. To provide reasonable assurance that the program is being run in a financially responsible manner, and that all expenditures made by the program for the 2015/16 fiscal year were accounted for, and consistent with the rules governing the program. Also that all such expenditures furthered the purpose and function of the DDTP program.
5. To provide reasonable assurance that the program is being managed in a transparent and efficient manner through testing of the information available on the program, and means by which it can receive feedback from stakeholders and the public.

Scope

Our audit covered compliance requirements and financial transactions for fiscal year 2015/16. In addition, we examined the program with an eye towards making recommendations for improvements in effective and efficient management.

At the time of our fieldwork, CPUC executive management strongly requested that we refrain from testing the Contracts Office due to its need to expedite mission-critical contracting for the agency. IA acceded to this request. For this reason, we were unable to test the procurement process for the DDTP third party contracts (which make up the majority of program expenditures). We therefore cannot provide assurance as to accuracy or compliance of the process by which the third party contracts for the program were awarded by the CPUC under delegated authority of the Department of General Services.

Methodology

We performed a risk analysis of the compliance requirements of the program based on the governing documents of the program as a means to focus our testing procedures. We interviewed program management, Business Services, and Fiscal Office representatives and reviewed financial records and operational documents they provided.

We performed an analysis of compliance requirements based on applicable legislation and Commission Decisions and Resolutions. A list of the sources is in Appendix A.

We reviewed all aspects of cash flows in and out of the Fund, including the relevant policies and practices of the Fiscal Office and the Fund's overall budgeting process (per §275.6 c (7)). We reviewed aspects of revenue collection, including the surcharge remittance system. This included a review of the TUFFS system, as well as variance testing of both Surcharges Due versus Surcharges Paid, as well as testing of the Revenue reported in the Governor's Budget for the Fund.

We reviewed all manners in which money leaves the Fund. This includes administrative costs such as salaries and benefits, overhead costs both internal and external to the agency, contract allocation costs, and monthly carrier claims against the Fund. We did not test the internal controls of the reporting carriers, as this would be outside the scope of the audit. Carrier surcharge remittance auditing was conducted by Crowe Horwath, whose contract costs were part of our scope of testing.

We also performed an operational assessment of internal controls, including the documentation of program policies, practices, and controls.

We reviewed all aspects of the claims review process, and payments made to third parties under applicable contracts.

Results

In general, we find that the DDTP program is functioning as required according to the established criteria. Based on our review of program materials, interviews with DDTP staff, as well as an assessment of the legal requirements for the program (see a listing at Appendix B) and a review of its general control environment, we conclude with an overall positive finding regarding the program, with the exception of the specific items identified in this audit report.

For each of the findings below, the IA unit concludes that the application of certain additional controls would help the program function more effectively and reduce related risks to the CPUC. While we believe that these recommendations will help the CPUC perform better with regard to its statutory obligations, in our view none of the findings (other than PU Code §274) rise to the level of non-compliance with any law or rule to which the program is subject.

Conclusion / Next Steps

While it is the conclusion of the IA unit that the Communications Division, Business Services, and the Fiscal Office appropriately manages the DDTP program within the existing regulatory framework and resource allocation, we also note that with some improvements to the control structure the program could function more effectively and present less risk to the CPUC and ratepayers of California.

INTERNAL AUDIT FINDINGS

The following section presents our audit findings along with the supporting information on which they are based. For each finding, the topic is identified, followed by the evaluation criteria used as a review standard, the existing situation related to the DDTP Program, why the criteria are not being met, and the resulting risk. In addition, recommendations are provided to promote compliance, strengthen controls, and/or mitigate associated risks.

FINDING 1 – Noncompliance with PU Code §274

1-A Standard/Criteria - PU Code §274 requires that the CPUC conduct financial and compliance audits of the public purpose programs every three years.

Best Practice Criteria - requires solid internal controls over management of the telecommunications public programs and use of the Public Purpose Program funds. In addition, there should be regular and pertinent review of program finances, with supporting documentation, and regular oversight and fund balance reconciliation.

1-B Existing Situation – Each of our communications public purpose program audits has made the same finding with regard to required §274 audits. Communications Division (CD) contracted one outside audit to date, of the California Advanced Services Fund (CASF), although it is not clear if the audit was declared to be §274 compliant. Total program finances are not prepared or analyzed.

1-C Why criteria not met? – The verification of program finances was not identified as a priority by CD that administers the telecommunications public programs (among other duties).

1-D Effects/Potential Risk – Without some form of regular control or assurance regarding the accuracy of the financial transactions of the Fund, the CPUC and its staff are at risk of errors in reported account numbers and/or inaccuracies in the level of public purpose program funds collected by the utilities to support the program. Inaccurate program budget entries also present a risk to the CPUC for competent full disclosure, such as in annual reports that address the program. Analogous risks apply to compliance with applicable statutory or decisional requirements.

1-E Recommendations – IA views the Commission, and hence agency management as having the responsibility to define the characteristics of program audits that will satisfy §274. We recommend that management either accept the IA unit's engagements as being §274 compliant, provide an explanation to allow future IA audits to meet their standards, or pursue third party audits every three years, beginning in 2018.

FINDING No. 2 – Material Overstatement in the Governor's Budget DF-303 Form

2-A Standard/Criteria – Compliance with the Department of Finance Balance Reconciliation Manual, which requires that all reports be accurate and supported by underlying data.

Best Practice Criteria – requires that all accounting records be accurate, and that reports derived from them be accurate as well.

2-B Existing Situation – In preparing the Governor's Budget form (DF-303) for DDTP, Fiscal Office staff made a typographical error in inputting the encumbrance for the Equipment Processing contract. This resulted in a double-posting of an $8.6 million encumbrance to the program. The error was recognized and reversed by Fiscal Office management at the start of the audit, but not before inaccurate information was forwarded for the Governor's budget. The current financial information for the agency reflects the correct amount.

2-C Why criteria not met? – The normal review process in Fiscal and CD did not catch the error in a timely manner.

2-D Effects/Potential Risk – The result of the error is the program has a material error in its financial reporting of the program for the fiscal year audited.

2-E Recommendations – None. The DF-303 form has already been submitted, and the agency's financial records were corrected at the beginning of our audit. Fiscal believes the amount is not large enough to warrant an official correction. And given the time passed, and that the amount was disclosed as a prior period adjustment in the 2016/17 budget information, no further action is necessary. A recommendation for addressing the control weakness is provided below under Finding No. 3.

FINDING No. 3 – Fiscal Office Reporting and Expense Coding Inconsistencies

3-A Review Standard/Criteria – Compliance with general accounting standards, which requires consistent coding of accounting transactions. The SAM section 20050 provides that internal accounting and administrative controls include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures. Further, the State Leadership Accountability Act (formerly the Financial Integrity and State Manager's Accountability Act) Government Code section 13400 et seq., requires state agencies to maintain effective systems of internal control as an integral part of its management practices to ensure the reliability of financial information.

Best Practice Criteria – Transactions should be recorded in a consistent manner to allow for accurate reporting of outputs such as financial summaries and reconciliations.

3-B Existing Situation – Currently there does not appear to be consistent use of Unit/Object/PCA codes used to record expenses for the DDTP program. There are eighteen object codes under "Admin – Indirect" not including salaries and wages. Many of these line items are duplicative (four are for DDTP staff travel), and some contain total costs of less than $30. Another three object codes are listed under "Admin – CPUC" and are mostly for travel and late fees. The Relay Service and Marketing are recorded using a different PCA code than the rest of the third party contracts, In addition, one month of service center leases payments was recorded using a different object code. As a result, it took IA over a dozen hours to manually adjust the accounting entries in order to create a working trial balance for the program.

In response, management observed that they should have latitude in determining the number and types of coding categories that they deem useful for their purposes. IA concurs in principle, while noting the current state of DDTP accounts are fragmented in a manner that does not appear to serve a managerial purpose.

Observation 4 of the January 2013 Department of Finance audit noted that "Incorrect fund classifications and lack of recording transactions caused CPUC's accounting records to misrepresent the true financial condition of the funds and did not support the amounts reported in the Governor's Budget." Observation 7 noted inadequate fund balance reconciliations

3-C Why Criteria Not Met? – There appears to be a lack of guidance or active collaboration between the Fiscal Office and CD in recording transactions. According to the Fiscal Office, transactions are recorded as they are received from the line divisions; unless there is an obvious error (for example, if CD were to use an expense code reserved for the Office of Ratepayer Advocates), the mistake might not be caught by Fiscal. It is the Fiscal Office's position that accurate coding is the responsibility of the divisions' Budget Control Officers (BCOs).

3-D Effects/Potential Risk – The control weaknesses reflected here, in Finding No. 2, and some of our other audit work highlight an inability to create, track and review an accurate and complete accounting of program expenditures on an ongoing basis. The auditor effort required to create a working trial balance illustrated this limitation since a trial balance is just a snapshot in time of all recorded expenditures over a period. The periodic creation and review of such an accounting is an important control that would permit multiple types of errors to become evident, including inconsistent or incomplete coding of expenses. The absence of this control leaves this and other programs at risk for financial misstatements and errors in accounting for expenditures. Finding #2 would have been discovered promptly had such financial monitoring taken place with proper coding and reporting capabilities. The Department of Finance audit of the Fiscal Office (March 2009) noted (Issue 5) that monthly reconciliations of the Funds were not being conducted. Furthermore, SAM Section 7940 requires quarterly reconciliations, including a Trial Balance. Fiscal noted their understanding that SAM Section 7940 applies at an agency-wide level only, and that they produce trial balances accordingly. We note that this requirement can also serve as a benchmark for the effective financial management of a program as well.

3-E Recommendations – Fiscal should work to correct/reorganize the DDTP accounting inconsistencies and errors to allow for the easy ability to create a working trial balance. This report should include an organization of expenditure data organized by specific services (Marketing, Relay, Equipment Processing, etc.), along with Overhead, Labor, Travel Costs, etc. To aid in this process going forward, IA recommends that Fiscal Office work with CD (and any other willing Division) to create "Cheat Sheets" for BCOs and contract managers. These cheat sheets would have a list of each accepted accounting codes for each type of transaction. This will not only help the program achieve greater financial transparency, but will assist CD management in the creation of "Budget to Actual" analysis for budgeting purposes. IA noted that CD had not complied with the DoF recommendation that this analysis be done for the programs during the period under audit. However, the analysis is now being conducted on a going-forward basis.

FINDING No. 4 – Surcharge Variances

4-A Review Standard/Criteria – Compliance with general accounting standards, which requires accurate reporting of financial transactions.

Best Practice Criteria – Transactions should be recorded in a consistent manner to allow for accurate reporting outputs.

4-B Existing Situation – Our testing showed a 3% variance between the surcharges reported in our internal revenue tracking system (TUFFS) and those reported as part of the Governor's Budget (about $1.6 million). One reason was the difference in revenue reporting methods between cash and accrual basis. The same finding was made by the State Controller's Office

(SCO) audit of the California Advanced Services Fund (CASF) dated March 2017. Management's response identified carrier input errors as the cause, and stated that daily reconciliations were being performed.

Fiscal noted that TUFFS is primary used as a compliance tool for carrier reporting of surcharges. Carriers submit the money electronically, then report the surcharges due and paid through TUFFS. Due to timing differences, input errors, interest owed and other issues, it is difficult to match the reported information in TUFFS against the money actually paid. Fiscal reconciles between the agency's books and the bank on a daily basis. However, any report from TUFFS represents only a snapshot on that given day, and would not reflect the constant changes and corrections involved between Fiscal Office staff and the carriers.

During our testing we did note numerous carrier input errors resulting in variances between Surcharges Due and Surcharges Paid (about 2%, or $1.2 million). Most of these variances had subsequently been reconciled/resolved, through manual corrections made by Fiscal Office staff.

4-C Why Criteria Not Met? – The agency uses a different method of recording revenue (cash versus accrual basis) when reporting revenue for the programs to the Governor's Budget. So Fiscal reports actual revenue received at the time of reporting, but due to subsequent corrections (like the sort we noted), there will be variances until all carrier errors are reconciled. This results in variances between surcharge revenue noted in a TUFFS report on a given day and those we report to the Governor. In addition, frequent input errors continue in the TUFFS system. System inflexibility is still a problem, as it was noted in our previous program audits; changes to erroneous inputs made by carriers require manual adjustments using staff time from both the Fiscal Office and IT.

4-D Effects/Potential Risk – Revenues for the telecommunications public programs are being reported accurately as part of our agency budgeting process, although there continue to be variances between what is actually paid versus what the carriers are reporting through TUFFS. The concern is our ability to trace the source and accuracy of the payments made by carriers, notwithstanding errors they may make in TUFFS entries or payments that are missed or delayed. The Fiscal Office reconciles agency books to the bank statements, so we know exactly how much cash has been received. The inability to readily modify or correct TUFFS entries thus impedes efforts to trace errors or slow/missing payments.

4-E Recommendations – IA recommends that the Fiscal Office work with IT to make whatever changes needed to the TUFFS program to allow easier corrections for manual adjustments to correct carrier input errors to permit our compliance system to become more consistent with our agency's books.

FINDING No. 5 – Third Party Contract Assurance

5-A Review Standard/Criteria – Compliance with the SCM, which requires monitoring of all third party contracts

Best Practice Criteria – The state should have a clear understanding of all work being performed by parties under contract, and to be able to provide assurance that state law and the scope of work requirements are being met.

5-B Existing Situation – Currently there is regular monitoring of third party contracts through invoice and report reviews. The program is generally fulfilling the SCM requirements and performing some oversight of the contractors through regular meetings, field visits, etc.

However, without an official verification of the work being performed on a regular basis, the program can only provide limited assurance that the contractors are performing the work their reports state that they are. In essence, the documentation that contractors provide to claim payment under their contracts is being reviewed and reconciled in an appropriate manner within the agency, but controls are not in place to help assure that the documentation reflects actual, permissible expenditures by the contractors. For example, we can test to provide assurance that the invoice is supporting with documentation consistent with the contract Scope of Work (SOW), and that the items being billed are allowed under the SOW. But we have limited ability to provide assurance that transactions being billed to the Fund (call center minutes, etc.) actually took place.

5-C Why Criteria Not Met? – Based on our testing, the SCM standards are being met by DDTP staff in every material way. There were a few instances of non-compliance (failure to maintain a correspondence folder, etc.) that did not rise to the level of an audit finding. These instances are detailed in a letter to management. However, we do note that the program has not yet explored options as to how it can monitor or check that invoices or reports provided by the contractors reflect actual work being performed on a day-to-day basis.

5-D Effects/Potential Risk – The lack of a control such as a third party independent audit limits the assurance the program can provide as to the performance of the contractors vis a vis the expenditures for which they bill. Associated risks relate to any manner in which a submitted invoice might or might not actually represent the work or expense stated on its face.

5-E Recommendations – IA recommends that the DDTP program add an independent audit requirement (such as for one audit per contract cycle, i.e. every three years) into the Scope of Work for future contract procurements, at least those with significant dollar costs. As precedent, when the California LifeLine program moved from self-certification to implementing eligibility verification through a third party administrator, Decision 07-05-030 required an independent audit of the administrator (Ordering Paragraph 16). This audit was conducted by the CPUC's Audit Division (then called the Utility Audit, Finance, and Compliance Branch of the Division of Water and Audits). We believe that such audits (either conducted internally or through the contractor hiring an independent audit firm in a similar manner as the Energy Efficiency programs) will provide a useful assurance as to contractor performance with respect to about $50 million per year in DDTP costs billed to ratepayers.

MANAGEMENT RESPONSE TO THE IA UNIT'S

DDTP PROGRAM AUDIT

In addition to helpful informal comments, management provided the following response to the draft audit report:

State of California

M e m o r a n d u m

Date: May 3, 2018

To: Internal Audit Unit
California Public Utilities Commission

From: Alice Stebbins, Executive Director

Subject: DDTP AUDIT RESPONSE

The Communications Division and the Fiscal Office has reviewed the findings and recommendations from the draft audit of the Deaf and Disabled Telephone Program (DDTP) for Fiscal Year end June 30, 2016. We have provided our responses below.

1. **Recommendation:**
Internal Audit (IA) views the Commission, and hence agency management as having the responsibility to define the characteristics of program audits that will satisfy Section 274. IA recommends that management either accept IA unit's engagement as being Section 274 compliant, provide an explanation to allow future IA audits to meet their standards, or pursue third party audits every three years.

Response:

The Communications Division (CD) has already initiated efforts to contract with the State Controller to perform an audit of compliance with Section 274.The audit scope will include reviewing financial and internal controls for all of the Telecommunications Public Purpose Programs except California Advanced Services Fund. The State Controller recently completed an audit that included compliance with Section 274 for that program.

3. **Recommendation:**
The Fiscal Office should work to correct/reorganize the DDTP accounting inconsistencies and errors to allow for the easy ability to create a working trial balance. This report should include an organization of expenditure data organized by specific services (Marketing, Relay, Equipment Processing, etc.), along with Overhead, Labor, Travel Costs, etc. To aid in this process going forward, IA recommends that the Fiscal Office work with CD (and any other willing Division) to create "Cheat Sheets" for Budget Control Officers and contract managers. These cheat sheets would have a list of each accepted accounting codes for each type of transaction. This will not only help the program achieve greater financial transparency, but will assist CD management in the creation of "Budget to Actual" analysis for budgeting purposes. IA noted that CD had not complied with

the Department of Finance recommendation that this analysis be done for the programs during the period under audit. However, the analysis is now being conducted on a going-forward basis.

Response:

The Fiscal Office uses the CALSTARS (State Accounting System) system, which generates trial balances at the general ledger level, but not with program descriptors. There is no formal requirement of a certain type of trial balance to meet this requirement.

The Fiscal Office and Communications Division have worked together to generate a list of usable Program Cost Account (PCA) codes. Many examples of coding errors in this audit finding refer to instances where Internal Audit believes the coding structure could be simplified. With the transition to FI$CAL in FY 2018, the Communications Division will review its coding structure and simplify, as necessary, to better reflect ongoing program needs.

Coding errors found for this time period have been researched, and a review of the process will be performed to prevent future errors.

4. **Recommendation:**
IA recommends that the Fiscal Office work with IT to make whatever changes are needed to the TUFFS program to allow easier corrections for manual adjustments to correct carrier input errors to permit our compliance system to become more consistent with our agency's books.

Response:

There are no revenue discrepancies between Telecommunication User Filing Fee System (TUFFS) and CALSTARS (State Accounting System). The discrepancies noted in the IA report are a result of the different time periods for which the reports were requested. Surcharges paid in TUFFS are recorded in the reporting period (month) for which the reported carrier revenue was paid. Surcharges are tracked in CALSTARS by the date remittances are received. Daily reconciliations between TUFFS and CALSTARS are performed by the Fiscal Office. The Fiscal Office and the Communications Division agree that changes to TUFFS to allow easier corrections for manual adjustments are desirable. The Communications Division has initiated conversations with IT to make several enhancements to TUFFS including the ability to make manual adjustments.

5. **Recommendation:**
IA recommends that the DDTP add an independent audit requirement (such as for one audit per contract cycle, i.e., every three years) into the Scope of Work for future contract procurements, at least those with significant dollar costs. As precedent, when the California LifeLine program moved from self-certification to implementing eligibility verification through a third party administrator, Decision 07-05-030 required an independent audit of the administrator (Ordering Paragraph 16). This audit was conducted by the CPUC's Utility Audit, Finance, and Compliance Branch of the Division. We believe that such audits (either conducted internally or through the contractor hiring an independent audit firm in a similar manner as the Energy Efficiency programs) will provide a useful assurance as to contractor performance with respect to about $50 million per year in DDTP costs billed to ratepayers.

Response:

Communications Division agrees with the recommendation. All contracts the State enters into allow for an Audit by the State Auditor. While most of the monitoring of contract work should be performed by the contract managers, limited staff resources have prevented full compliance. Communications Division will include in subsequent contracts explicit requirements for independent audits in the scope of contracted activities.

The IA unit appreciates the comments provided by management. We would like to make the following observations:

1. The California Advanced Services Fund (CASF) audit conducted by the State Controller was limited in scope as compared to the audits performed by the IA unit to date. A memo detailing the particulars was shared with the Commissioners and the Executive Director. IA believes that public programs audits can be performed "in-house" more efficiently and with less time commitment from agency staff and financial impact on the programs. IA recommends that the Commission obtain an understanding of what management believes would meet PU Section 274 and make a determination as how best to meet the requirements with the least impact on staff time and program resources.

3. IA reemphasizes that the inability to produce a working trial balance represents a serious control risk to any financial system, be it a company or a publicly funded government program. Without some form of program-specific financial report, the agency has little ability to report financial status, perform accurate budgeting analysis, or detect misappropriation. We recommend CD work with Fiscal to address this lack before implementation of Fi$Cal and on a going-forward basis.

The IA unit also appreciates the complete cooperation and responsiveness of CPUC staff as well as the time required to review and comment on the audit report. In addition, we thank all others who have assisted in the preparation of this report.

APPENDIX A

Sources for Compliance Requirements for the DDTP Audit

State Legislation:
Senate Bill 597, Chapter 1142 (1979)
Senate Bill 244, Chapter 741 (1983)
Senate Bill 60, Chapter 585 (1985)
Senate Bill 669, Chapter 677 (1999)
Assembly Bill 1723, Chapter 654 (2001)
Senate Bill 168, Chapter 733 (2003)
Assembly Bill 136, Chapter 404 (2011)
Assembly Bill 1717, Chapter 885 (2014)
Assembly Bill 1709, Chapter 94 (2016)

Public Utilities Code Sections:
§270(a)(4)
§274
§275.6(c)(7)
278(a)(1)
278(a)(2)
2881(a-l)

State Standards:
State Administrative Manual
State Contracting Manual

Decisions (D):
D. 88-05-060
D. 89-05-064
D. 01-09-064
D. 02-01-018
D. 02-12-065
D. 03-06-070
D. 07-05-030
D. 08-06-020
D. 13-12-054

Resolutions:
T-16491
T-16516
T-16595
T-16740
T-16741
T-17089
T-17127

T-17249
T-17351
T-17451
T-17458
T-17504

Prior Audits:
California State Auditor
- Contracting Process (2000)
- DDTP (2002)
- Transparency and Accountability in Contracting (2016)

Department of Finance
- Fiscal Office Performance (2009)
- Budgeting and Performance (2013)
- Budgeting and Performance Follow-up (2014)

Department of General Services
- Business Management Policies (2016)

State Controller Office
- California Advanced Services Fund (2017)

Other
- Crowe Horwath Surcharge Audits (Various Dates)
- CCAF Inventory Audits (2015 and 2016)