

CALIFORNIA PUBLIC UTILITIES COMMISSION
REPORT MEMORANDUM

Date: September 30, 2020

To: Michelle Cooke, Acting Deputy Executive Director
Administrative Services Division
Assistant Chief Administrative Law Judge

From: Ginny Veneracion-Alunan, CPA
Chief Internal Auditor
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Subject: Administrative Services Division, Accounts Payable (AP) Unit -
Compliance Review of Travel Advances – Final Report (2019-02)

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.

The Office of Internal Audit Services (IAS) conducted an audit of the CPUC's compliance with the State Administrative Manual (SAM) over travel advances during the audit period, calendar year 2019. Our report of this audit is attached.

We appreciate the cooperation and assistance of the Administrative Services Division management and staff during our audit. If you have any questions regarding this report, please contact me at (916) 823-4793, or Juan Gonzalez at (916) 894-5667.

Attachment

cc: Marybel Batjer, CPUC President
Audit Committee

Genevieve Shiroma, CPUC Commissioner
Audit Committee

Rachel Peterson, Acting Executive Director
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Angie Williams, Director
Utility Audits, Risk and Compliance Division



COMPLIANCE REVIEW

CALIFORNIA PUBLIC UTILITIES COMMISSION ADMINISTRATIVE SERVICES DIVISION COMPLIANCE REVIEW OF TRAVEL ADVANCES CALENDAR YEAR 2019

PREPARED BY:
CALIFORNIA PUBLIC UTILITIES COMMISSION
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TABLE OF CONTENTS

Executive Summary	1
EXECUTIVE SUMMARY	1
Background, Objectives, Scope and Methodology	3
BACKGROUND	3
OBJECTIVES	4
SCOPE AND METHODOLOGY	4
Results	5
FINDINGS & RECOMMENDATIONS	5
Appendix A.....	16
Finding Ratings.....	16
Rating Definitions.....	16
Management Response	17
MANAGEMENT RESPONSE	17
Evaluation of Response	22
EVALUATION OF RESPONSE	22

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Office of Internal Audit Services (IAS) conducted an audit of the Accounts Payable (AP) Unit’s compliance over travel advances (TA) during the audit period, calendar year 2019. Our objective was to determine whether the administration of TAs materially conforms to applicable federal and state rules and regulations.

Audit Findings

Based on our audit, there was significant non-compliance with the State Administrative Manual (SAM) and the Government Code over the reviewed areas of travel advances. We noted matters of non-compliance that we consider to be reportable under the *International Standards for the Professional Practice of Internal Auditing (ISPPIA)*. Those reportable conditions are identified below (by corresponding risk rating) and are detailed in the Results section with our recommendations on the following pages.

Finding	Priority*	High	Medium	Low	Implemented
1: Travel Advance Amounts were not Always Compliant nor Justified – 88% of sampled TAs did not have sufficient support for the requested amount. Not all TAs were issued within the appropriate timeframe.					
2: Recovery of Travel Advances Does Not Comply with State Administrative Manual – TA recoveries were not timely nor were additional appropriate measures taken to recover overdue advances					

*Priority Rating – Immediate and on-going threat to the achievement of division or CPUC strategic goals and objectives (See Appendix A).

Separately, IAS recognizes the efforts of the management of the AP Unit in addressing SAM 8116 non-compliance issues IAS had identified in the TA intranet site, which serves as TA guidance to CPUC employees. At the time of the audit fieldwork, the TA intranet site stated an incorrect, non-compliant TA submittal and clearance timeframe. In addition, there was neither a policy nor instructions on the TA reasonableness requirement. Upon IAS notification, the AP management promptly updated the TA intranet guidance on December 5, 2019. Details of this particular TA intranet update, with IAS’ follow-up review to ensure full compliance, are discussed further in the Results section.

Reportable conditions involve matters relating to significant non-compliance that, in our judgement, could adversely affect the CPUC’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Because of inherent limitations, misstatements due to error or fraud may still occur and not be detected. Also, projections to future periods are subject to the risk

of becoming inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our review 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 minimizing 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 quarterly updates. 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

BACKGROUND

The Administrative Services Division (ASD) is responsible for CPUC's finance, facilities, contracts, and other administrative functions. The Accounts Payable (AP) Unit, as one of the units under ASD, provides financial information and services to all CPUC employees and ensures the financial accountability of the CPUC's fiscal resources. The AP Unit is responsible for:

- Performing Cashiering, Accounts Receivable/Collections, and Reporting functions for the CPUC in accordance with Generally Accepted Accounting Principles and Federal and State requirements.
- Developing and enforcing internal controls to ensure fiscal responsibility throughout the CPUC.
- Preparing the CPUC's annual financial reports.
- Developing and maintaining the CPUC's Travel Advance Policy and issuing travel advances to employees.

A Travel Advance (TA) is an advance given to an employee prior to departing on state business to cover business-related travel expenses. The AP Unit posts CPUC's travel advance policy on the intranet to guide staff in requesting and clearing travel advances. For each issued travel advance, upon completion of the business trip, the employee is required to submit an expense reimbursement claim (ER) to clear that travel advance. Employees submit an ER for preapproved, business-related expenses via the California Automated Travel Expense Reimbursement System (CalATERS). CalATERS' standardized forms are used for expense reimbursements and CalATERS calls the claim a Travel Expense Claim (TEC). A TEC is synonymous with an ER.

IAS' preliminary review of the TA process noted an email directive on May 20, 2019 to CPUC directors informing them of an updated TA blanket approval policy. This email update to the TA policy involved issuing differing flat amounts per month for different levels of CPUC management and staff as follows:

- \$3,000 per month for Commissioners, Executive Director, Deputy Executive Directors, and much traveled Directors
- \$2,000 per month for less traveled Directors and Assistant Directors
- \$1,500 per month for all other staff

These flat TA amounts were based on the employee's position, which did not comply with SAM requirements that the TA amount must be reasonably calculated not to exceed the estimated expenses to be paid or incurred on the trip. Subsequently, a policy rescission email to the TA blanket approval was sent on September 11, 2019 and was distributed to CPUC directors. It stated, "CPUC will no longer issue travel advances for multiple trips. Each travel advance will only be issued for less than any single trip."

OBJECTIVES

The specific objectives of this audit engagement were to determine:

- If CPUC's travel advance policy conforms to SAM 8116.
- Whether the AP Unit issued travel advances in compliance with SAM 8116.
- Whether the AP Unit recovered travel advances by following SAM 8116.1.

SCOPE AND METHODOLOGY

The scope of our risk-based audit work was limited to a review of the travel advance policy and travel advance issuance and recovery. Our audit covered the period of calendar year 2019.

To determine if the CPUC's travel advance policy conforms to SAM 8116, we reviewed the travel advance policy posted on CPUC's intranet and the pertinent SAM rules and regulations. To determine whether the AP Unit issued and recovered travel advances in compliance with SAM, we interviewed AP Unit staff, we obtained a general understanding of the process to issue and recover travel advances, and we performed sample testing and data analysis to verify compliance.

The Institute of Internal Auditors (IIA) Standard 2220 – Engagement Scope, states, “The established scope must be sufficient to achieve the objectives of the engagement,” and IIA Standard 2220.A1, states in part, “The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties.” Accordingly, the Travel Advance Compliance audit scope is calendar year 2019 (expanded from the initial March to November 2019 scope) to sufficiently achieve the objectives of compliance and requirements of SAM Section 8116. Specifically, as outlined in SAM Section 8116.1 on recovery of outstanding travel advances, employees with outstanding advances must submit “an expense reimbursement to substantiate the travel expenses” within prescribed collection procedures and timelines. Activity of travel advances and expense reimbursements beyond the initial audit period was reviewed and deemed necessary. For the calendar year of 2019, the CPUC issued 377 TAs for approximately \$361,000 to employees.

Items requiring further consideration

The IAS noted items needing further consideration that were excluded from the scope of this audit that was focused on the AP Unit's compliance over TAs during the audit period. Employees may need further guidance in complying with SAM requirements to correctly complete a TA or TEC, and submitting appropriate and complete supporting documentation, as well as adhering to required timeframes. Therefore, IAS has completed a limited-scope Independent Assessment of the existing direction to CPUC employees to comply with TA and TEC requirements. IAS has scheduled distribution of this Independent Assessment report, as a supplemental memo, to coincide with the distribution of the final audit reports for the Compliance Review of Travel Advances and the Internal Control over Expense Reimbursements.

RESULTS

FINDINGS & RECOMMENDATIONS

Finding #1 Travel Advance Amounts were not Always Compliant nor Justified

Finding Rating:	Priority	High	Medium	Low	Implemented
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The IAS found that travel advances (TAs):

- Were issued without a calculation or breakdown for reasonableness.
- Had significantly exceeded the claimed expenses for the trip and were applied towards Travel Expense Claims (TECs) for periods outside the TA approved travel dates.
- Were issued earlier than the required timeframes.

TA Reasonableness

Testing revealed 22 out of 25 TA samples (88%) did not have a breakdown to detail the calculation for the requested TA amount. All the samples, including the three samples which had a breakdown, did not have supporting documentation included (e.g. the reservation for the hotel, the transportation, or parking).

Neither the employee's supervisor nor the AP Unit staff can fully determine the reasonableness of the requested TA amount without supporting documentation submitted with the TA request. If the reasonableness cannot be determined, TA amounts issued may be excessive or include unallowable expenses resulting in improper use of state funds, improper gifts of state funds, or potential IRS penalties.

Activity of travel advances and expense reimbursements beyond the initial audit period was reviewed and deemed necessary. Thus, the IAS tested TA amounts to verify if requested travel advances were excessive compared to the actual travel costs and the results were:

- Forty percent (8 out of 20 samples) of the TAs in the subsequent sample exceeded the claimed expenses for the travel period by an average of 37%, as noted in the table below.
 - The auditors determined excess amounts by comparing the TA amount and dates requested to the corresponding expense claims in the same date range. In all cases, the remaining TA amounts were cleared with subsequent expense claims.

Travel Advances Exceed Claimed Expenses

Travel Advance (TA) ID	TA Approved Date Range	TA Amount (whole dollar)	TEC IDs Submitted for Same Period	TEC Travel Dates	TEC Amount	Difference Between TA and TEC	% Over
TAF00239XXXX	1/7-1/18/19	\$2,500	TEA00241XXXX	1/7-1/11/19	\$1,120.37		
			TEA00242XXXX	1/17-1/18/19	\$431.31	\$948.32	37.9%
TAF00251XXXX	4/22-4/26/19	\$500	TEA00255XXXX	4/22-4/23/19	181.05		
			TEA00255XXXX	4/25-4/26/19	163.00	\$155.95	31.2%
TAF00250XXXX	5/12-5/18/19	\$1,397	TEA00261XXXX	5/12-5/17/19	1156.86	\$240.14	17.2%
TAF00254XXXX	5/6-5/31/19	\$1,600	TEA00257XXXX	5/7-5/16/19	\$1,407.56	\$192.44	12.0%
TAF00256XXXX	6/17-6/19/19	\$600	TEA00261XXXX	6/17-6/19/19	\$87.00	\$513.00	86.5%
TAF00269XXXX	8/26-9/13/19	\$1600	TEA00271XXXX	8/27-8/30/19	\$667.94		
			TEA00272XXXX	9/6-9/11/19	\$204.74	\$727.32	45.5%
TAF00270XXXX	9/1-9/30/19	\$1500	TEA00273XXXX	9/8-9/20/19	\$700.00	\$800.00	53.3%
TAF00276XXXX	10/22-10/23/19	\$184	TEA00278XXXX	10/22-10/23/19	\$181.59	\$2.41	13.1%

- Further, 60% (12 out of 20 samples) of the tested TAs in the added sample for testing were applied towards TECs for periods outside the TA approved travel dates, as shown in the table below.
 - In most cases, the TAs were applied to TECs subsequent to the travel dates, but unlike the samples which were found to be excessive above, they were also applied to TECs prior to the travel dates.

Travel Advance Applied Towards Date Outside Approved Dates

Travel Advance (TA) ID	TA Approved Date Range	TA Amount (whole dollar)	TEC ID for Different Period	TEC Dates of Travel Outside TA Approved Period	TEC Amount Covered by TA
TAF00239XXXX	1/7/19-1/18/19	\$2500	TEA00244XXXX	2/4-2/9/19	\$844.70
			TEA00246XXXX	2/19-2/20/19	\$103.62
TAF00241XXXX	5/12-5/17/19	\$1,125	TEA00255XXXX	5/2/19	\$49.89
TAF00251XXXX	4/22-4/26/19	\$500	TEA00255XXXX	4/29-5/1/2019	\$155.95
TAF00250XXXX	5/12-5/18/19	\$1,397	TEA00259XXXX	5/22-5/31/19	\$107.85
			TEA00267XXXX	6/12/2019	\$132.29
TAF00254XXXX	5/6-5/31/19	\$1,600	TEA00255XXXX	5/1-5/3/19	\$1,107.00
TAF00256XXXX	6/17-6/19/19	\$600	TEA00261XXXX	5/17/19	\$78.75

			TEA00261XXXX	6/3-6/4/19	\$161.25
			TEA00261XXXX	5/23/19	\$116.27
			TEA00261XXXX	6/5-6/7/19	\$71.01
			TEA00262XXXX	6/12-6/13/19	\$78.72
			TEA00269XXXX	7/29/2019	\$7.00
TAF00269XXXX	8/26-9/13/19	\$1,600	TEA00275XXXX	10/2-10/3/2019	\$44.37
TAF00270XXXX	9/1-9/30/19	\$1,500	TEA00265XXXX	7/7-7/19/19	\$800
TAF00274XXXX	9/30-10/9/19	\$700	TEA00274XXXX	9/18-9/21/19	\$201.16
TAF00276XXXX	10/22-10/23/19	\$184	TEA00283XXXX	11/21-11/22/219	\$2.41
TAS00273XXXX	10/13-10/18/19	\$850	SCI00276XXXX	10/2-10/4/19	\$565.18
TAF00281XXXX	12/3-12/5/19	\$1,000	TEA00282XXXX	11/18-11/21/19	\$1,100.42

The IAS observed that the AP Unit had not provided sufficient guidance to employees regarding the SAM requirement that TAs must be reasonably calculated not to exceed the estimated expenses to be paid or incurred on the trip. At the time of the audit fieldwork, neither a policy nor instructions were posted on the intranet. The AP Unit staff did state they perform a rough calculation to determine the reasonableness of the requested TA amounts. However, this calculation is based on the AP Unit staff's judgment and is not based on actual supported information or documentation to substantiate the anticipated expenses.

The IAS identified and discussed this non-compliance with management of the AP Unit. Subsequent to our discussion, the IAS noted that the AP Unit had updated their Travel Advance intranet site on December 5, 2019 to address the reasonableness issue. It is now updated to request that employees provide an itemized breakdown of the cost of the trip. However, this update only partly addresses the issue, since employees should substantiate those amounts on the itemization by providing documentation reflecting what those costs are expected to be.

TA Issuance Timeframe

SAM states that requested TAs should be issued no more than 10 calendar days of when the anticipated expenses are to be paid or incurred. The one exception being that they can be issued within 20 days if they must be mailed to the employee.

The IAS noted that 10% (2 out of 20 samples) of TAs in the added sample for testing were issued 25 and 101 days prior to the travel period identified on the TA request, as noted in the table below.

Travel Advances Issued 25 or More Days Prior to Travel

Travel Advance (TA) ID	Travel Advance Issue Date	TA Approved Date Range	TA Amount	# of Days Issued in Advance of Travel Start Date
TAF00241XXXX	1/31/19	5/12-5/17/19	\$1,125.00	101 days
TAF00256XXXX	5/23/19	6/17-6/19/19	\$600.00	25 days

At the time fieldwork was conducted, the AP Unit did not have sufficient policies and procedures in place to prevent TAs from being issued earlier than the timeframes required by SAM, which could cause the CPUC to be out of compliance. During the audit period, it was noted that the intranet site was updated on December 5, 2019 to state that TAs will be issued within 10 calendar days of when the anticipated expenses are to be paid or incurred, or 20 days if the TA must be mailed to the employee.

Criteria

Criteria include requirements of the State Administrative Manual (SAM) and the California Public Utilities Commission (CPUC) Travel Advance Policy as described below:

- SAM Section 8116 – Travel Advances and Travel Expenses, states “Requirements for issuance of travel advances and submission of travel expenses:
 1. The travel advance will be issued within 10 calendar days of when the anticipated expenses are to be paid or incurred. Departments may issue travel advances within 20 calendar days of when the anticipated expenses are to be paid or incurred when the travel advance is required to be mailed to the employee.
 2. The travel advance amount must be reasonably calculated not to exceed the estimated expenses to be paid or incurred on the trip. To ensure that the travel advance amount is not excessive, the travel advance request should be reviewed and approved by the same person who approved the trip.”
- SAM Section 8116.3 –states, “The intent of the travel expense policies and procedures is to avoid reporting travel advances as taxable wages or compensation by deducting it from an employee's payroll warrant if the submission requirement of the travel expense claim is not met. In state government, unlike in private industry, a travel advance is never provided as additional wages or compensation, which is a gift of state funds. The Constitution of California prohibits the gift of state funds.

If a department fails to satisfy these requirements, IRS penalties could occur. Any IRS assessed penalties and interest for non-compliance will be paid from the department's support appropriation(s).”

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.”

CPUC’s travel advance policy states the following:

“The travel advance amount must be reasonably calculated not to exceed the estimated expenses to be paid or incurred on the trip. To ensure that the travel advance amount is not excessive, the travel advance request should be reviewed and approved by the same person who approved the trip. Please provide an itemize breakdown cost of the trip to which the travel advance is applied for.

The travel advance will be issued within 10 calendar days of when the anticipated expenses are to be paid or incurred. The agency may issue travel advances within 20 calendar days of when the anticipated expenses are to be paid or incurred when the travel advance is required to be mailed to the employee.

Travel Advances should not be used to cover the below. The correct method to pay for the below is listed next to each bullet.

- Rental Car --- Statewide Travel Booking Systems
- Airfare --- Statewide Travel Booking Systems
- Conference Registration Fees --- ESSR/CPUC Direct Pay
- Membership Dues --- Employee Reimbursement
- Supplies or Other Expenditures --- ESSR/CPUC Direct Pay
- Professional License Fees --- Employee Reimbursement
- Apparel/Footwear reimbursements provided by BU contract --- Employee Reimbursement”

Recommendation 1

We recommend the AP Unit update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to TA processes and procedures. When updating the policy, the following specific attention should be given to the issuance of TAs:

TA Reasonableness

In addition to the updated policy requiring employees provide an itemized travel estimate with a detailed calculation with their TA, the AP Unit should also include:

- A requirement that employees provide supporting documentation of the travel expenses when submitting their requests.
- Consider the establishment of a reasonable maximum percentage of estimated expenses that can be requested as a TA, taking labor agreements into consideration.
- Fixing the broken link on their Travel Advances site that provides a sample for an itemized breakdown for employees to use as a reference.

Based on the information provided in the itemization and the documentation supporting those costs, the AP Unit staff can then determine the reasonableness and validity of the requested TA for approval.

TA Issuance Timeframe

The AP Unit has updated their policy to reflect the required timeframes for issuance but should also implement an updated process to improve their tracking of TAs and prevent them from being issued earlier than required. The AP Unit should use available CalATERS reports to:

- Better track TAs so they are not issued prior to the 10- or 20-day requirement.
- Determine if any TAs are outstanding so that they can contact the employee and determine if the TA must be paid back (e.g. the employee's trip was cancelled or delayed).

By doing the above, the AP Unit will be assisting the CPUC in its compliance with SAM and its own policy, will be lowering the risk of financial loss, and will assist in avoiding issues pertaining to withholding for additional taxable income per the IRS.

Finding #2 Recovery of Travel Advances Does Not Comply with State Administrative Manual

Finding Rating:	Priority	High	Medium	Low	Implemented
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The IAS found that:

- TECs were submitted over 10 calendar days from the date the trip ended when a TA was issued for that trip.
- TAs were not cleared within 10 days of the last date of travel.
- The AP Unit did not send a timely notification to employees when their TA was not cleared within the required timeframe.
- The AP Unit had allowed TAs to age past the required timeframes and did not attempt to deduct the payroll for recovery.

In order to understand the timeframes referenced in the exceptions below, the following table is provided as an illustration of the maximum allowable days for an agency to send out notifications after the trip ends and to take payroll deductions per SAM requirements.

Event/Requirement	Days
Trip ends	0
TEC should be submitted and/or return excess advance	10
Monthly notification to submit TEC and/or return excess advances	30
Maximum allowable days to send notification	40
TEC should be submitted and/or return excess advance after notification	15
Maximum allowable days before taking payroll deduction	55

Expense Claim Submission and TA Clearance

Per SAM Section 8116, "...A properly prepared Travel Expense Claim (TEC) to substantiate the travel expenses must be submitted no later than 10 calendar days after the trip(s)," when there is a TA issued for the travel.

We tested 44 TECs against 20 TAs (in some instances multiple expense claims are used against a single TA) to determine the timeliness of TEC submittals. The IAS noted that 34% (15) of the TECs were submitted over 10 calendar days from the date the trip ended, as shown in the table below. There were also an additional 9% (4) instances where the employee submitted the TEC within 10 days, but the supervisor's review exceeded 10 days.

TECs Submitted Over 10 Calendar Days from Trip End

TEC ID	TEC Travel End Date	Date Employee submitted TEC to Supervisor	# of Days Between Travel End Date & TEC Submittal to Supervisor
TEA002554151	4/23/19	5/6/2019	13
NCI002578808	5/17/19	8/2/2019	77
TEA002673453	6/12/2019	8/1/2019	50
TEA002616803	5/17/2019	6/14/2019	28
TEA002616945	5/23/2019	6/14/2019	22
TEA002616873	6/7/2019	6/21/2019	14
TEA002690761	7/29/2019	8/15/2019	17
TEA002628687	6/14/2019	6/25/2019	11
TEA002693831	8/14/2019	10/3/2019	50
TEA002659674	7/19/2019	9/25/2019	68
TEA002752835	9/20/2019	10/3/2019	13
TEA002781694	10/4/2019	11/6/2019	33
TEA002788697	10/23/2019	11/21/2019	29
TEA002832698	11/22/2019	12/10/2019	18
TEA002824214	11/21/2019	12/23/2019	32

Further, SAM Section 8116 states, "...TECs to substantiate the travel expenses must be submitted no later than 10 calendar days after the trip(s). If the travel advance exceeds the substantiated expenses, the employee must also submit a check or money order to return the excess travel advance amount..."

We tested the same 20 TAs to determine if the TA balance was cleared within 10 days of the last TEC submitted applicable to the approved TA dates and noted that 45% (9) of the TAs were not cleared within 10 days of the end of travel, as shown in the table below. Of those TA exceptions noted, the average number of days for them to clear was 41 days.

TA Not Cleared within 10 Days of Last Date of Travel

Travel Advance (TA) ID	TA Approved Date Range	Amt.	TEC Travel Dates	TEC Amt.	TA Balance	Date TA Balance Cleared	# of Days to Clear TA
TAF002397722	1/7-1/18/19	\$2500	1/7-1/11/19	\$1120.37	\$1379.63	2/26/19	39 days
			1/17-1/18/19	\$431.31	\$948.32 ¹		
TAF002506041	5/12-5/18/19	\$1397	5/12-5/17/19	\$1156.86	\$240.14 ¹	8/1/19	76 days
TAF002566657	6/17-6/19/19	\$600	6/17-6/19/19	\$87.00	\$7.00 ²	8/15/19	57 days
TAF002683120	8/13-8/14/19	\$324	8/13-8/14/19	\$324.00	\$0.00 ³	10/3/19	50 days
TAF002695666	8/26-9/13/19	\$1600	8/27-8/30/19	\$667.94	\$249.11	10/4/19	23 days
			9/6-9/11/19	\$204.74	\$44.37 ²		
TAF002722137	9/10-9/30/19	\$350	9/9-9/20/19	\$508.80	\$0.00 ³	10/3/19	13 days
TAF002742842	9/30-10/9/19	\$700	9/18-9/21/19	\$201.16	\$498.84	11/6/19	33 days
			9/30-10/4/19	\$718.04	\$0.00 ³		
TAF002760579	10/22-10/23/19	\$184	10/22-10/23/19	\$181.59	\$2.41 ¹	12/10/19	48 days
TAF002814875	12/3-12/5/19	\$1000	11/18-11/21/19	\$1100.42	\$0.00 ¹	12/23/19	32 days

When TAs are not substantiated or returned timely, it increases the risk that they may be subject to withholding as additional taxable income per the IRS. The CPUC should prevent the above from happening to avoid the appearance of gift of state funds and reporting of taxable wages.

The IAS noted that during the audit period, the CPUC's Travel Advance Policy did not indicate the correct dates that the TAs must be submitted and cleared when travel is completed. Initially, the AP Unit's policy instructed employees to submit a TEC to substantiate the TA within 30 calendar days, instead of within 10 days as required by SAM, after the trip ends. At the time, the AP Unit stated they were not aware of the SAM requirements. Subsequent to the IAS' communication

¹ TA balance cleared by subsequent TEC(s) outside of travel advance requested travel dates

² Employee received travel advance in advance of approved travel date range indicated on travel advance request, The AP Unit will start to clear an open travel advance with any subsequent TECs if they are submitted prior to the submittal date of the TEC pertaining to the approved travel advance dates, as was the situation in this case

³ TA cleared by TEC for the same period as the TA request

of the issue to the AP Unit, the IAS noted that they had updated the intranet site to reflect the required 10-day submittal and clearance timeframes per SAM.

Collection Notification

The AP Unit did not send timely notification to the employees to collect the outstanding TAs. SAM requires a properly prepared TEC to substantiate the travel expenses and that it must be submitted no later than 10 calendar days after the trip(s). Also, SAM states that a monthly notification must be sent to request employees who have TAs, but have not submitted a TEC, to substantiate the travel expenses and/or have not returned any excess TA amount.

The auditor, in a sample taken from the initial audit, tested 12 out of 29 advances that had been outstanding for over 40 days as of 11/5/19 to determine the timeliness of the AP Unit’s notifications.

Out of the 12 tested, 11 TAs (92%) were not sent based upon the timeline prescribed by SAM (one of the 11 had not had a notification sent as of 11/5/19). The number of days delayed varied from 3 to 153 (from the date the notification was due to be sent, to when it was actually sent).

Collection Notification Not Sent Per SAM Requirements

TA ID	TA Total	Outstanding TA Balance	Trip End Date	Email Notice Date	# of Days to Send Notice	Within 40 days?	Days Delayed
TAF002454807	\$1,200.00	\$351.60	03/08/2019	9/17/2019	193	N	153
TAF002652461	\$300.00	\$248.85	08/01/2019	9/20/2019	50	N	10
TAF002646533	\$496.00	\$496.00	07/18/2019	9/20/2019	64	N	24
TAF002655725	\$599.00	\$599.00	07/24/2019	9/20/2019	58	N	18
TAF002672161	\$534.00	\$534.00	08/08/2019	9/20/2019	43	N	3
TAF002552021	\$675.00	\$37.99	06/13/2019	10/17/2019	126	N	86
TAF002500098	\$950.00	\$950.00	04/19/2019	10/17/2019	181	N	141
TAF002527313	\$900.00	\$900.00	05/07/2019	10/17/2019	163	N	123
TAF002497192	\$2,000.00	\$10.00	04/30/2019	10/17/2019	170	N	130
TAF002545687	\$714.00	\$714.00	06/13/2019	11/14/2019	154	N	114
TAF002672191	\$534.00	\$2,564.00	08/29/2019	? ⁴	No Email	N	Unknown

The CPUC is in violation of SAM 8116 and 8116.1 and is increasing their risk of financial loss when a sufficient effort to notify and collect outstanding TAs is not made. The AP Unit explained the delays in their processes were due to being short staffed, that they have lots of deadlines in May, June, and July for SCO and DOF, and that the SCO system was closed down for one month. However, based on the IAS’ review, it was observed that the AP Unit had not established sufficient policies and procedures to ensure that timely notification was sent to the TA requested employees in order to collect the outstanding TAs as required by SAM.

⁴ A timely notification would have been sent by 10/8/2019, but an email notification had not been sent as of 11/5/19.

Payroll Deduction

An analysis of the TA outstanding report as of 11/5/19 reflected there were 19 out of 76 TAs (25% of a sample taken from the initial audit) which had been aged over the maximum allowable 55 days before taking a payroll deduction per SAM requirements. It was noted that the longest TA outstanding was 242 days.

When the auditor inquired how many warrant deductions have been processed for TA recovery, the AP Unit stated they have not attempted to deduct the payroll to recover TAs yet.

Criteria

SAM 8116 states, in part,

4. "A properly prepared Travel Expense Claim (TEC) to substantiate the travel expenses must be submitted no later than 10 calendar days after the trip(s). If the travel advance exceeds the substantiated expenses, the employee must also submit a check or money order to return the excess travel advance amount. For employees who are not required to travel on more than one trip per month, additional advances will not be issued for future travel unless the outstanding advances have been cleared. Departments may issue additional travel advances for employees who are required to travel on multiple trips within a month. Additional advances will not be allowed if the employee does not submit a TEC or return the excess advance amount within 10 days of each trip."

SAM 8116.1 states, in part,

1. "A monthly notification must be sent to request employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount.
2. If an employee does not submit a TEC to substantiate the travel expenses within 15 calendar days of the monthly notification date, the total amount of outstanding advances must be deducted from the employee's next regular payroll warrant(s).
3. If an employee does submit a TEC within 15 calendar days of the notification date, but does not return any excess travel advance amount within the same 15 calendar days, the excess travel advance amount must be deducted from the employee's next regular payroll warrant(s)."

SAM Section 8116.3 states, "The intent of the travel expense policies and procedures is to avoid reporting travel advances as taxable wages or compensation by deducting it from an employee's payroll warrant if the submission requirement of the travel expense claim is not met. In state

government, unlike in private industry, a travel advance is never provided as additional wages or compensation, which is a gift of state funds. The Constitution of California prohibits the gift of state funds.

If a department fails to satisfy these requirements, IRS penalties could occur. Any IRS assessed penalties and interest for non-compliance will be paid from the department's support appropriation(s)."

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."

Recommendation 2

The AP Unit should update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to TA processes and procedures. When updating the policy, the following specific attention should be given to the recovery of TAs:

The AP Unit should comply with SAM requirements and create and update their process to track uncleared TAs and to send out timely monthly notifications to the employees who requested those TAs. Furthermore, when employees do not substantiate the travel expenses or return the excess TAs within 15 calendar days of the monthly notification date, the AP Unit should work with HR to create an effective and efficient process to perform the required payroll deduction to cover the outstanding TAs. In addition, the AP Unit should clarify in their policies and procedures that TECs can only be applied to TAs for the period as requested on the TA. The AP Unit should also update their policies and procedures to ensure there are no uncleared TAs prior to issuing additional ones if multiple trips don't occur in the same month.

By doing the above, the AP Unit will be assisting the CPUC in its compliance with SAM, its own policy, will be lowering the risk of financial loss, and will assist in avoiding issues pertaining to withholding for additional taxable income per the IRS.

APPENDIX A

Finding Ratings

Finding	Priority	High	Medium	Low	Implemented
1: Travel Advance Amounts were not Always Compliant nor Justified					
2: Recovery of Travel Advances Does Not Comply with State Administrative Manual					

Rating Definitions

Priority	<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"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
High	<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"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	<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"> - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	<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>
Implemented	<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

MANAGEMENT RESPONSE

The management response can be found on the following pages.

**California Public Utilities Commission
Internal Audits
Audit Response/Corrective Action Plan**

Audit Report Number: 2019-02
 Audit Report Name: Compliance Review of Travel Advances
 Final Report Issue Date: 9/9/2020

Please complete the information next to the shaded cells.

<p>Finding 1:</p>	<p>The IAS found that travel advances (TAs):</p> <ul style="list-style-type: none"> • Were issued without a calculation or breakdown for reasonableness. • Had significantly exceeded the claimed expenses for the trip and were applied towards TECs for periods outside the TA approved travel dates. • Were issued earlier than the required timeframes.
<p>Recommendation 1:</p>	<p>We recommend the AP Unit update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to TA processes and procedures. When updating the policy, the following specific attention should be given to the issuance of TAs:</p> <p><u>TA Reasonableness</u> In addition to the updated policy requiring employees provide an itemized travel estimate with a detailed calculation with their TA, the AP Unit should also include:</p> <ul style="list-style-type: none"> • A requirement that employees provide supporting documentation of the travel expenses when submitting their requests. • Consider the establishment of a reasonable maximum percentage of estimated expenses that can be requested as a TA, taking labor agreements into consideration. • Fixing the broken link on their Travel Advances site that provides a sample for an itemized breakdown for employees to use as a reference. <p><u>TA Issuance Timeframe</u> The AP Unit has updated their policy to reflect the required timeframes for issuance but should also implement an updated process to improve their tracking of TAs and prevent them from being issued earlier than required. The AP Unit should use available CalATERS reports to:</p> <ul style="list-style-type: none"> • Better track TAs so they are not issued prior to the 10- or 20-day requirement.

Finding and Recommendation 1

	<ul style="list-style-type: none"> Determine if any TAs are outstanding so that they can contact the employee and determine if the TA must be paid back (e.g. the employee's trip was cancelled or delayed).
If the primary contact has changed since the last update, please make the necessary changes.	
Primary Contact:	Lalaine Semana
Division/Section/Unit:	Administrative Services/Fiscal Office
Phone Number:	(916) 210-1827
Email Address:	Lalaine.Semana@cpuc.ca.gov

Draft Audit Report Response

Date Due to Internal Audits:	9/23/2020
Date Submitted:	9/17/2020
Management Agreement:	Agree
Management Response/ Corrective Action	<p>The AP Unit will update the CPUC TA Policy to establish guidance for travel. The policy will focus on:</p> <p><u>TA Reasonableness:</u></p> <ul style="list-style-type: none"> The policy for claiming a Travel Advance now states that employees must provide an itemized travel estimate. The Travel Unit will require employees to submit supporting documentation (when applicable) to substantiate the estimated amounts. Submitting detailed and substantiated estimates should be adequate to support the requested advance amount without having to establishing a maximum percentage of estimated expenses. The link that provides a sample of an itemized breakdown has been fixed. <p><u>TA issuance Timeframe:</u></p> <ul style="list-style-type: none"> The AP Travel Unit has authority to hire two new staff. These new staff will be responsible for processing travel advances. New staff, and the use of CalATERS reports will ensure that Travel Unit staff will track and recover outstanding TA amounts. The AP Travel Unit currently uses CalATERS reports to track travel advances, and then import that information into a spreadsheet. AP Unit staff run these reports weekly.
Targeted Completion Date:	12/31/2020

**California Public Utilities Commission
Internal Audits
Audit Response/Corrective Action Plan**

Audit Report Number: 2019-02
 Audit Report Name: Compliance Review of Travel Advances
 Final Report Issue Date: 9/9/2020

Please complete the information next to the shaded cells.

Finding 2:	<p>The IAS found that:</p> <ul style="list-style-type: none"> • TECs were submitted over 10 calendar days from the date the trip ended when a TA was issued for that trip. • TAs were not cleared within 10 days of the last date of travel. • The AP Unit did not send a timely notification to employees when their TA was not cleared within the required timeframe. • The AP Unit had allowed TAs to age past the required timeframes and did not attempt to deduct the payroll for recovery.
Recommendation 2:	<p>The AP Unit should update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to TA processes and procedures. When updating the policy, the following specific attention should be given to the recovery of TAs:</p> <p>The AP Unit should comply with SAM requirements and create and update their process to track uncleared TAs and to send out timely monthly notifications to the employees who requested those TAs. Furthermore, when employees do not substantiate the travel expenses or return the excess TAs within 15 calendar days of the monthly notification date, the AP Unit should work with HR to create an effective and efficient process to perform the required payroll deduction to cover the outstanding TAs. In addition, the AP Unit should clarify in their policies and procedures that TECs can only be applied to TAs for the period as requested on the TA. The AP Unit should also update their policies and procedures to ensure there are no uncleared TAs prior to issuing additional ones if multiple trips do not occur in the same month.</p>
If the primary contact has changed since the last update, please make the necessary changes.	
Primary Contact:	Lalaine Semana
Division/Section/Unit:	Administrative Services/Fiscal Office
Phone Number:	(916) 210-1827
Email Address:	Lalaine.Semana@cpuc.ca.gov

Draft Audit Report Response

Date Due to Internal Audits:	9/23/2020
Date Submitted:	9/17/2020
Management Agreement:	Agree
Management Response/ Corrective Action	<p>The recommendations are acceptable. The AP Travel Unit will update the CPUC Travel Advance Policy to establish comprehensive guidance for travel, with specific attention to TA processes and procedures.</p> <p>Travel Unit staff will review outstanding TAs monthly to ensure that they follow up with staff in a timely manner. For staff that do not address their outstanding TAs within 15 days of the monthly notification, HR will be notified to process a payroll deduction. The Travel policy will be updated to clarify that TECs can only be applied to TAs for the period requested on the TA. Travel Unit staff will also ensure that there are no uncleared TAs prior to issuing additional TAs to staff if multiple trips do not occur in the same month.</p> <p>The revised CPUC Travel Advance Policy is currently being reviewed by Legal.</p>
Targeted Completion Date:	12/31/2020

EVALUATION OF RESPONSE

EVALUATION OF RESPONSE

The corrective action plans identified by the auditee to Recommendations 1 and 2, if implemented as described, should be sufficient to correct the reportable conditions noted. IAS will require management progress reports in 60 days, 6 months, and each 6 months thereafter until all recommendations have been addressed. IAS may request substantiation and conduct additional follow-ups to provide assurance that the corrective action plans have been implemented and are operating as designed. We thank the Administrative Services Division for their assistance and cooperation during this audit.