

December 30, 2019

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Public Utilities Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Angie Williams, Director, Utility Audits, Risk and Compliance Division, at (916) 327-0578, angie.williams@cpuc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Public Utilities Commission (CPUC) regulates privately owned electric, natural gas, telecommunications, water, railroad, and passenger transportation companies. The mission of the CPUC is to empower California through access to safe, clean, and affordable utility services and infrastructure. CPUC staff are dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy. At the CPUC there is also an independent Public Advocates Office, with a statutory mission to advocate for the lowest possible rates for customers of California's regulated utilities consistent with safe and reliable service levels.

The CPUC's vision is to better the lives of all Californians through recognized leadership, and innovative communications, energy, transportation, and water policies, using the core values of Accountability, Excellence, Integrity, Open Communication and Stewardship. These values apply to all CPUC employees, volunteers, and Commissioners.

The CPUC adopted revised Strategic Directives, Governance Process Policies, and Commission-Staff Linkage Policies in February 2019, which included combining overlapping directives and revising language to better articulate specific goals and outcomes. The CPUC Commissioners, appointed by the Governor, and led by President Commissioner Marybel Batjer, are responsible for monitoring the CPUC's progress in meeting the expectations laid out in each directive through annual reports and staff presentations. Similarly, the Public Advocates Office's Director, Elizabeth Echols, also appointed by the Governor, is responsible for monitoring the office's progress with achieving its risk assessment and mitigation goals and directives. As the Strategic Directive process is an ongoing process, the Commissioners, the CPUC and the Public Advocates Office will respectively continue to review and revise the directives as necessary.

Control Environment

Oversight of the CPUC as noted above, (except for the Public Advocates Office), is the responsibility of the Commissioners, who are responsible for making all policy decisions, and enforcing regulation of the state's public utilities.

The CPUC has established an appropriate organizational structure to ensure the proper levels of responsibility and authority. For example, the Director of the Risk and Compliance Branch (RCB) reports to the Executive Director, and the Chief of the Office of Internal Audit Services (IAS) reports to the Audit Committee, led by Commissioners.

Risks associated with regulatory policies and programs are monitored through formal proceedings in which CPUC staff, regulated entities and interested parties report on associated risks and issues, and recommend controls and improvements for formal Commission adoption.

As mentioned previously, CPUC management establishes and demonstrates integrity and ethical values in several ways. One method is through CPUC's Core Values - Accountability, Excellence, Integrity, Open Communication and Stewardship, and the establishment of Strategic Directives. The Strategic Directives are a body of statements that collectively define the universe of results the Commissioners expect the CPUC to achieve. CPUC has twelve Strategic Directives, monitored annually with responsibility distributed amongst its Divisions.

Integrity and ethical values are also demonstrated by the Commissioner Code of Conduct, which requires that all Commissioners adhere to legal and ethical requirements to avoid situations where prejudice, bias, or opportunity for personal gain could influence Commissioner decisions. The CPUC also exemplifies integrity and ethical values through its Code of Conduct and its interest in EthicsPoint, an internal reporting hotline, or helpline. Although in draft, the CPUC Code of Conduct will identify statements to guide and form CPUC staff behavior and will work to prevent behavior that does not fall in line with the CPUC's mission, vision, and values. EthicsPoint is a hotline and incident management platform that will capture possible ethical, compliance, and safety violation incidents from across the organization in a centralized database. EthicsPoint management software has been purchased, and the CPUC is currently in the implementation and configuration stage. CPUC management hopes to have this reporting tool in place and functioning by December 2020. In addition, anyone working at the CPUC has the ability to report ethical concerns via email to either the Risk and Compliance Branch, Legal Department, Human Resources Division, or to the Equal Employment Officer. All reported ethical concerns are then investigated to ensure appropriate accountability.

CPUC Management has made tremendous efforts to document the processes and responsible parties of the internal control system and to ensure the information is communicated to staff. The CPUC has purchased PolicyTech, a software solution, to implement policies and identify responsible parties. This software allows for all policies to be maintained in one location and allows staff to attest to reading and understanding the policy. Staff are notified via email if a policy has been added or revised. As explained below, IAS and RCB work together to help Divisions establish and ensure processes are properly documented, responsible parties are identified and staff receive proper communication. As part of the Onboarding Training Program, RCB and IAS educate staff about internal control systems and how they can contribute to its effectiveness.

The CPUC's greatest asset are its employees, who are instrumental in achieving its strategic goals, fulfilling its mission, and serving the people of California by fostering a culture that supports the development of staff, high performing results, and proactively preparing for future challenges.

Consequently, the CPUC continues to encourage qualified candidates to join the CPUC's diverse team as a leading regulatory agency in the US, recognized for its innovative policy initiatives, talented staff, and Commissioner leadership. The CPUC's Workforce Plan includes the following initiatives: recruitment, retention, professional development, knowledge transfer, succession planning, and executive career counseling. In addition, the Workforce and Succession Plan is CPUC's focused effort to retain a valued workforce, attract highly skilled employees, and provide meaningful tools for leadership growth. The CPUC continues to implement these initiatives to ensure a competent workforce with the creation of the CPUC Learning Academy, an onboarding training program, training for specific job related responsibilities (i.e. general rate case training), staff competency survey queries, and the establishment of the Executive Career Counseling Program for Executive Leadership. Also, within the Human Resources Division, there are assigned staff devoted to our recruitment and retention efforts and providing career counseling to all levels. Together, these work to contribute to, and enrich the opportunities for, all CPUC employees.

Management at CPUC evaluate staff performance and enforce employee accountability through the performance appraisal process. The Human Resources Divisions' Performance Management (PM) Unit provides advice to management on all aspects of performance management and discipline in accordance with the California Department of Human Resources policies, from the analysis of employee performance to investigations and recommendations involved in disciplinary options. At the CPUC, performance appraisals are conducted yearly to evaluate the job performance of its employees, while probationary employees are evaluated periodically at intervals established by the respective bargaining units. Factors considered for performance include employee's skill, knowledge, work habits, relationship with people, learning ability, attitude, communication, and administrative ability, rated as unacceptable, improvement needed, standard, or outstanding.

Equally important, the CPUC also enforces accountability by recognizing, celebrating and rewarding deserving staff through recognition awards in the areas of leadership, outstanding achievement, quality improvement, collaboration, innovation, customer service, core values, and building morale. Although these are individual awards, the behaviors work together to strengthen the CPUC as an organization.

Information and Communication

Through internal and external mechanisms, the CPUC has an effective process for communicating relevant and reliable information needed for operational, programmatic, and financial decision making.

Internal Communication: CPUC staff prepare and generate a variety of analyses, including field testimony and monitoring reports from utilities, investigative and audit reports, and memos and other materials provided to Commissioners and Division Directors. These reports inform the Commission and executive management of relevant risks, effective monitoring practices conducted, necessary improvements, required oversight and best practices in order to meet our mission and objectives.

Information is communicated within the CPUC from the Executive Director via regular all staff meetings, from the Commissioner's through Strategic Directives segments, and regular division, branch, section, and unit meetings. The Public Advocates Office separately performs its statutorily-required work as embodied in Public Utilities Code (PUC) Section 309.5, to obtain the lowest possible

rate for service consistent with reliable and safe service levels. Staff also receive regular updates through the CPUC intranet. Employees are encouraged to report inefficiencies and inappropriate acts to the Equal Employment Opportunity Office, the IAS Chief, the Director of RCB, and/or union representatives.

External Communication: As mandated by PUC Code Section 321, the Public Advisor's Office provides procedural information to individuals and groups who want to participate in formal proceedings at the CPUC. The Public Advisor's Office also answers questions, locate information, refer questions to appropriate CPUC staff, and provide programs and services to educate and assist the public, including special accommodations and interpreter services. Additionally, the CPUC website serves as a resource for the public; current events are noted in the News and Updates section. The Public Advocates Office separately communicates with the public to learn about their needs and challenges in order to advocate for them in all significant proceedings.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Public Utilities Commission monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Alice Stebbins, Executive Director; Elizabeth Echols, Director, Public Advocates Office; and Angie Williams, Director, Utility Audits, Risk and Compliance Division.

IAS performs, documents, and measures CPUC activities using risk-based, independent and objective reviews of management and operating controls to provide reasonable assurance regarding the achievement of management objectives through strategic directives, and established policies and procedures.

The IAS Annual Audit Plan, as approved by CPUC's Audit Committee, prioritizes internal control reviews and audits based on the audit risk assessment linked to CPUC's risk assessment results. IAS executes audits and internal control reviews by bringing a systematic, disciplined risk-based approach to evaluate the effectiveness of CPUC's risk management, governance and control activities. Further, the role of the executive monitoring sponsor includes facilitating and verifying the CPUC's monitoring practices are implemented and functioning as intended.

The Public Advocates Office is responsible for establishing its own processes to identify safety risks and methods to appropriately address them, except for the shared services provided to the office by the CPUC.

The CPUC has implemented and documented the following ongoing processes as outlined in the monitoring requirements of Government Code Sections 13400-13407. These processes include reviews, evaluations, audit follow up, and improvements to the CPUC systems of controls and monitoring. In addition, as part of the risk management system, CPUC monitors the status of action plans identified during the risk assessment to continuously monitor results and ensure corrective measures are implemented.

RISK ASSESSMENT PROCESS

The following personnel were involved in the CPUC risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

In June and July 2019, the RCB met with Commissioners and the Executive Director to discuss risks facing the CPUC; how they anticipate the risks changing, their expectation for monitoring the risks and effective ways of mitigating them.

Beginning in September, through November 2019, RCB met with each division and the Public Advocates Office to identify their risks and challenges that may prevent divisions from achieving their goals and objectives. After the risks were identified, RCB collaborated with divisions to rank them in accordance with the criteria noted above. CPUC wide risks were then captured and collated into one database. The Public Advocates Office also identified its risks and rated them accordingly.

RISKS AND CONTROLS

Risk: Staff-Recruitment, Retention, and Staffing Levels

The inability to find and/or retain viable candidates in specific classifications due to pay, location, experience and/or promotional advancement has been difficult, and affects the CPUC's ability to carry out its mission.

Control: A

The CPUC has engaged in certain preventive measures to reduce the likelihood of the risk from inadequate staffing due to noncompetitive state salaries and job classification. For instance, to reduce Legal Analysts and Legal Typists from migrating to other divisions from the Administrative Law Judge Division (ALJ), the ALJ created an ad-hoc group of senior Staff Services Managers' who meet with management every other month to discuss and address hiring and retention issues. The CPUC has also migrated administrative and support staff to classifications that are easier to recruit and retain and has requested additional staff through the Budget Change Proposal process. Furthermore, decentralization has allowed for the recruiting and hiring of some positions in locations other than Headquarters (San Francisco). Additionally, the risk has been further reduced, or will be mitigated by, the following activities:

- Establish working groups to discuss recruitment and hiring strategies
- Create and develop a formal recruitment plan
- Request additional positions to meet current workload demands
- Provide training opportunities to division liaisons to facilitate hiring

Risk: Staff-Key Person Key Dependence, Workforce

The risk from recruitment and retention are primarily attributable to staff leaving the CPUC for other opportunities, staff leaving lower paying classifications for higher paying classifications, and loss of key staff with institutional knowledge due to retirement. The increased reliance on key management and other key persons imposes an additional workload on staff, resulting in burnout from long hours and increased turnover in key positions.

Control: A

As a preventive measure, taken to reduce the likelihood of the recruitment and retention risks, the CPUC has been rotating staff to gain proficiency in other program areas and to assist in production gap areas. Recently, management worked to provide upward mobility opportunities for staff.

Additional mitigation measures include managers and supervisors providing in-house training, and supervisors and leads mentoring new and junior staff. Additionally, the risk has been further reduced, or will be mitigated by, the following activities:

- Update Workforce Planning Strategy
- Update Succession Plan
- Prioritize workload, stagger tasks, and realign priorities
- Cross train staff within divisions and branches
- Prepare and document written policies and procedures

Risk: Technology-Support, Tools, Design or Maintenance

The lack of a data classification and data inventory system prevents the CPUC from identifying the resources necessary to adequately monitor and maintain mission critical software programs and systems hardware. Without adequate technology solutions, the CPUC loses processing efficiencies and increases the risks of errors in reporting.

The CPUC cannot fully assess some IT risks because of the difficulty in fully understanding the scope of existing IT software solutions. Aging IT software may no longer provide a solution to problems as originally intended if the scope of the solution has not been fully classified and documented. In some cases, software that has been classified as legacy may be difficult to support due to outdated software infrastructure or lack of knowledge in the subject matter. Without the understanding of technology solutions and documenting software processes, the CPUC cannot fully support their IT assets.

Control: A

The risks can be further reduced by effectively adopting the mitigating controls listed below to work as intended in identifying vulnerabilities in CPUC software and IT infrastructure. The risks can be reduced by utilizing control measures such as establishing milestones, applying the de-duplication process, and deleting data by executive decision. The development of policies and procedures and guidance from the California Department of Technology for data classification and framework are additional measures used to reduce the attendant risk of the lack of a data classification and data inventory system. Additionally, the risk has been further reduced, or will be mitigated by, the following activities:

- Create an inventory of sensitive data, software programs, and systems hardware
- Develop formalized data classification policies and procedures
- Conduct monitoring and maintenance of software programs and systems hardware
- Facilitate ongoing dialogue with division systems users to ensure business needs are met
- Analyze storage needs continuously to ensure adequate data capacity

Risk: Technology-Data Security

The CPUC follows state data security practices and remains proactive in implementing security technologies and organization and management practices to protect information assets. However, there is no way to completely eliminate all data security risks. Without effective data and cyber security support, the CPUC may not have adequate resources to recover data, and may be unable to mitigate additional data security breaches or investigate them, which, if occurs, would result in the loss of sensitive confidential information, or fiscal liability from ransomware.

Control: A

The CPUC will contract with a vendor to provide assistance in the event of a major cyber security incident, collaborate with the Department of Technology on best practices, and develop a security road map to reduce its data security risks. However, there is no way to completely eliminate all data security risk. Additionally, the risk has been further reduced, or will be mitigated by, the following activities:

- Migrate critical business applications to new technology
- Collaborate with the Department of Technology for support and best industry practices
- Contract with vendors to provide cyber security support
- Develop system security plans for mission critical systems
- Develop data security road maps

Risk: Oversight, Monitoring, Internal Control Systems

The CPUC lacks a formal policies and procedures repository, and strategic planning to prioritize global strategies and tasks, and lacks a short- and long-term facilities planning system to track space, adequately plan for growth and infrastructure needs, and ensure the safety of our workforce.

Control: A

The controls will help reduce risk by staff training and development. CPUC invested in PolicyTech, a web-based software that enables strong policy management by storing and tracking policy revisions using a central monitoring platform. This automated policy management tool allows for oversight and ensures policies are up-to-date and accurate, and will enable seamless, traceable collaboration to increase speed, quality and consistency. The CPUC is developing plans to decentralize, address emergencies, provide safety training, and create a plan for documenting key decisions to ensure the safety of CPUC's workforce. The CPUC is working with the Office of Emergency Services, and the Department of General Services (DGS) to determine short/long-term solutions to address its growth plan and system needs. Additionally, the risk has been reduced, or will be mitigated by, the following activities:

- Form a Policy and Procedure Workgroup
- Implement software solutions to house policies and procedures
- Create a Five-Year Strategic Infrastructure Plan
- Update the Business Operation/Continuity of Operations Plan
- Repair and Upgrade the Fire, Life, and Safety System
- Establish standing meetings with DGS Building Management

CONCLUSION

The California Public Utilities Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Alice Stebbins, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency