



SUPPLIER DIVERSITY PROGRAM PERFORMANCE AUDIT

San Jose Water Company

January 1, 2021, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 3, 2023



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Transmitted via e-mail

October 3, 2023

John Tang, Vice President
Vice President, Regulatory Affairs and Government Relations
San Jose Water Company
110 West Taylor Street
San Jose, CA 95110

Dear John Tang:

Final Report Transmittal Letter—Audit of San Jose Water Company’s Supplier Diversity Program for the Period of January 1, 2021, through December 31, 2021

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of San Jose Water Company’s (SJWC) procurement expenditures reported for the Supplier Diversity Program for the period of January 1, 2021, through December 31, 2021, or Program Year 2021. The final audit report is enclosed.

UAB provided a draft report to SJWC for comments on September 8, 2023. SJWC submitted its comments on September 19, 2023. SJWC’s response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by November 17, 2023. The CAP should include specific steps SJWC will take to address UAB’s findings and recommendations and a target date for implementing each specific corrective action. Please submit the CAP to: UtilityAudits@cpuc.ca.gov with a copy to Stephanie Green, Program and Project Supervisor of Business and Community Outreach Office, at Stephanie.Green@cpuc.ca.gov.

We appreciate SJWC’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: see next page

John Tang
Vice President, Regulatory Affairs and Government Relations
San Jose Water Company
October 3, 2023
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cc: Timothy O. McLaughlin, Director of Supplier Diversity, SJWC
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the procurement expenditures reported for the Utility Supplier Diversity Program (SDP) by San Jose Water Company (SJWC) for the audit period of January 1, 2021, through December 31, 2021, or Program Year (PY) 2021.

Our audit objectives were to determine whether SJWC's SDP procurement expenditures for PY 2021 were reported accurately, supported by appropriate source documents, and in compliance with applicable Public Utilities (PU) Code sections, CPUC's General Order 156 (GO 156) and directives, and SJWC's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we determined that SJWC's SDP procurement expenditures in its 2021 Supplier Diversity Report titled "Women, Minority, Disabled Veteran, and Lesbian, Gay, Bisexual, and Transgendered Business Enterprise Procurement" (2021 SDP Annual Report) were generally reported accurately, properly supported, and in compliance with GO 156 requirements and guidance. However, we did identify instances of noncompliance as quantified in the Summary Schedules of Audit Results and described in the Findings and Recommendations section of this audit report. The audit findings are also summarized as follows:

- **Finding 1: SJWC Overstated its Direct Procurement Expenditures by \$1,628,735**

SJWC incorrectly included direct supplier expenditures totaling \$1,628,735 in its 2021 SDP Annual Report for payments made outside of PY 2021.

- **Finding 2: SJWC Overstated its Subcontractor Procurement Expenditures by \$112,838**

SJWC incorrectly included \$112,838 of expenditures incurred by its parent company, SJW Group, in the SPD procurement expenditures in its 2021 SDP Annual Report.

- **Finding 3: Misclassification of Procurement Expenditures**

SJWC misclassified \$734,054 of direct procurement expenditures into the incorrect diverse categories in its 2021 SDP Annual Report.

- **Finding 4: Misclassified Expenditures Among Diverse Categories**

SJWC misclassified a total of \$464,498 of SDP procurement expenditures among diversity categories in the Direct and Subcontractor Procurement Schedules.

Table 2 in the Summary Schedules of Audit Results section of this report presents the reported and audited procurement expenditures, SJWC's aspirational SDP goals, and the impact of our audit adjustments for specific categories of the SDP. The audited data shows that SJWC has met or exceeded its goals in all categories of the SDP for PY 2021, except for Minority Women and Women-Owned Business Enterprises (WBE) categories.

UAB provided a draft audit report to SJWC for comments on September 8, 2023. SJWC responded on September 19, 2023, agreeing with UAB's audit findings and recommendations. In its response to UAB's Finding 1, SJWC suggested a few modifications to Table 2 in the Summary Schedules of Audit Results section of this report for additional clarification. We considered SJWC's comments and updated Table 2 for clarification purposes. Our findings and recommendations are not modified with respect to this matter, and they remain unchanged. SJWC's response is included in Appendix A of this report. UAB's evaluation of SJWC's response is included in Appendix B of this report.

AUDIT REPORT

Background

Utility Supplier Diversity Program

In the mid-1980s, the California Legislature passed Assembly Bill (AB) 3678 to encourage the award of a fair proportion of total utility contracts to women-owned business enterprises (WBE) and minority-owned business enterprises (MBE). This bill created the foundation for CPUC's Supplier Diversity Program (SDP) that was developed to implement the statutes enacted by the California Legislature and codified in PU Code sections 8281-8285. CPUC established and adopted GO 156 in 1986, which outlined the specific guidelines and framework of SDP. On June 3, 1992, CPUC's Decision (D.) 92-06-030 amended GO 156 to add disabled veteran-owned business enterprises (DVBE) into the program. On June 11, 2015, D.15-06-007 further amended GO 156 to include lesbian, gay, bisexual, and/or transgender-owned business enterprises (LGBTBE) into the program by implementing AB 1678 that amended PU Code sections 8281-8285 and added PU Code section 8286 to expand the provisions of the program.

GO 156

CPUC's SDP encourages energy, telephone, and water utility companies under CPUC's jurisdiction to procure goods and services from WBEs, MBEs, DVBEs, and LGBTBEs (collectively known as WMDVLGBTBE). GO 156 consists of various rules and guidelines governing SDP to increase participation of WMDVLGBTBE in procurement of contracts from utilities as required by PU Code sections 8281-8286. These rules apply to all electric, gas, water, wireless telecommunications service providers, and telephone corporations and their regulated subsidiaries and affiliates with gross annual revenues exceeding 25 million dollars (\$25,000,000).

The main purposes of the program are to:

1. Encourage greater economic opportunity for WMDVLGBTBE;
2. Promote competition among regulated public utility suppliers to enhance economic efficiency in the procurement of electrical, gas, and telephone corporations' contracts; and
3. Clarify and expand the program for the utilities' procurement of products and services from diverse enterprises.

SDP is a voluntary program that promotes and monitors utilities' procurement from WMDVLGBTBE. The Supplier Clearinghouse¹ (Clearinghouse) is a CPUC-supervised entity whose primary purpose is to audit and verify the status of WMDVLGBTBEs on behalf of the individual utility companies. The Clearinghouse maintains an accurate and reliable database of WMDVLGBTBE-certified firms that is accessible to CPUC and participating utilities for procurement-related outreach and opportunities.

¹ www.thesupplierclearinghouse.com

GO 156 Section 8.2 established aspirational procurement goals for each major procurement category as follows:

<u>Diversity Category</u>	<u>Goal</u>
MBEs	15%
WBEs	5%
DVBEs	1.50%
LGBTBEs	No Goal ²

PU Code section 8283 (d) requires each participating utility to report annually to CPUC on its WMDVLGBTBE procurement performance and its plans for future improvements. This requirement is further reiterated in GO 156, Section 9. The intent of the Annual Report is to provide CPUC with information on the utilities' diversity procurement performance, progress in meeting their short-, mid-, and long-term supplier diversity goals, and future program enhancement plans.

SJWC filed its 2021 SDP Annual Report with CPUC on March 1, 2021, pursuant to GO 156, Section 9. In its 2021 SDP Annual Report, SJWC reported over \$40 million of WMDVLGBTBE purchases, comprising of direct and subcontracted procurement, out of approximately \$119 million in net procurement. The following table summarizes SJWC's SDP annual results by business enterprise:

2021 WMDVLGBTBE Annual Results (As Reported) ³

		<u>Direct (\$)</u>	<u>Sub (\$)</u>	<u>Grand Total</u>
Minority Male	Asian Pacific American	\$319,563	\$75,031	\$394,594
	African American	24,800	112,838	137,638
	Hispanic American	24,782,404	744,769	25,527,173
	Native American	339,285	0	339,285
	Total Minority Male	25,466,052	932,638	26,398,690
Minority Female	Asian Pacific American	1,065,884	1,498,090	2,563,974
	African American	0	28433	28433
	Hispanic American	715,560	70,520	786,080
	Native American	0	0	0
	Total Minority Female	1,781,444	1,597,043	3,378,487
Total MBE	27,247,496	2,529,681	29,777,177	
WBE	4,312,083	1,716,787	6,028,870	
LGBTBE	0	0	0	
DVBE	93,880	4,596,941	4,690,821	
TOTAL WMDVLGBTBE	\$31,653,459	\$8,843,409	\$40,496,868	
Net Procurement	<u>\$119,821,872</u>			

² There was no aspirational goal set for the LGBTBE category applicable to PY 2021. In D.22-04-035, dated April 7, 2022, CPUC established a voluntary goal for the LGBTBE category, effective April 8, 2022.

³ As reported in Schedule WMDVLGBTBE Annual Results by Ethnicity Schedule in SJWC's 2021 SDP Annual Report, Page 18.

Audit Authority

UAB conducted this audit under the general authority outlined in the PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, GO 156, section 9.1.10 directs UAB to perform audits to ensure that the utilities' WMDVLGBTBE procurement expenditures reported in their annual reports are accurate.

Objective and Scope

Our audit objectives were to determine whether SJWC's SDP procurement expenditures for PY 2021 were reported accurately, supported by appropriate source documents, and in compliance with applicable PU Code sections, GO 156, CPUC directives, and SJWC's policies and procedures.

The scope of our audit covered SJWC's SDP procurement expenditures reported in its 2021 SDP Annual Report.

Methodology

In planning our audit, we gained an understanding of the SDP and SJWC's program operations, and identified relevant criteria, by reviewing applicable PU Code sections, GO 156, CPUC directives, SJWC's policies and procedures, and interviewing SJWC's personnel.

We conducted a risk assessment, including evaluating whether SJWC's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from SJWC's accounting system for direct diverse supplier procurement and other data maintained in Microsoft Excel, such as SJWC's Subcontractor Reporting Forms. Our assessment also included examining and analyzing SDP data extracted by SJWC in various levels of schedules, comparing the extracted SDP data in those schedules for consistency, and tracing extracted data to source documents to verify accuracy and completeness. We ensured that the data we used for this audit are sufficiently reliable and adequate to address our audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address our audit objectives. To achieve our audit objectives, we:

- Reviewed SJWC's accounts payable system and accounts payable policies for making payments to vendors including diverse suppliers.
- Reviewed the processes and procedures for reporting SJWC's WMDVLGBTBE procurement expenditures in its 2021 SDP Annual Report.
- Assessed whether SJWC's policies, procedures, and practices comply with CPUC's SDP requirements and guidance.
- Reconciled SJWC's schedule of suppliers and SDP procurement expenditures to the balances reported in SJWC's 2021 SDP Annual Report for accuracy and completeness.

- Assessed significance by performing analysis of procurement expenditure data and evaluating program requirements and guidance.
- Obtained an understanding of SJWC’s internal controls relevant to the SDP, such as direct diverse supplier procurement payment approval, SDP Annual Report preparation, and reporting and monitoring subcontractor procurement expenditure data; and assessed the design, implementation, and/or operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing and performing walk-throughs of key processes and systems with SJWC’s key personnel and completing an internal control questionnaire;
 - performing walkthroughs of selected transactions;
 - tracing selected transactions to source documents;
 - reviewing SJWC’s policies and procedures and performing a walkthrough for prime suppliers’ reporting of diverse subcontractor expenditure data.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed transaction testing by judgmentally selecting non-statistical samples of significant transactions for the following categories:
 - Direct Procurement: We tested \$5,844,833, or 18.5 percent, out of \$31,653,459 of total direct procurement expenditures as itemized in the table below:

Diverse Category	Total Direct Procurement Expenditures Reported	Expenditures Tested	Percent Tested
Minority Male	\$25,466,052	\$2,458,615	9.7%
Minority Female	1,781,444	877,687	49.3%
WBE	4,312,083	2,463,531	57.1%
DVBE	93,880	45,000	47.9%
TOTAL WMDVLGBTBE	\$31,653,459	\$5,844,833	18.5%

- Subcontractor Procurement: We tested \$3,044,951, or 34.4 percent, out of \$8,843,409 of total subcontractor procurement expenditures as itemized in the table below:

Diversity Category	Total Subcontractor Procurement Expenditures Reported	Expenditures Tested	Percent Tested
Minority Male	\$932,638	\$112,838	12.1%
Minority Female	1,597,043	998,026	62.5%
WBE	1,716,787	494,951	28.8%
DVBE	4,596,941	1,439,136	31.3%
TOTAL WMDVLGBTBE	\$8,843,409	\$3,044,951	34.4%

For the selected samples, errors found, if any, reflect the actual results of sample testing and were not projected to the total procurement population.

- For the selected samples, we verified whether the diverse procurement expenditures paid during the audit period were properly supported by appropriate source documents, in addition to determining whether the procurement expenditures were accurate, relevant to the SDP, and incurred in compliance with applicable PU Code sections, GO 156, CPUC directives, and SJWC's policies and procedures by:
 - tracing expenditures to invoices to ensure expenditures (1) were paid within the audit period; (2) agreed to the invoice amounts; and (3) were calculated accurately.
 - verifying payments were made to the eligible suppliers.

We did not audit SJWC's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SJWC properly incurred, adequately supported, and accurately reported its SDP procurement expenditures in accordance with applicable criteria. We considered SJWC's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements. GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we determined that SJWC's SDP procurement expenditures in its 2021 SDP Annual Report were generally reported accurately, properly supported, and in compliance with GO 156 requirements and guidance. However, we did identify instances of noncompliance as quantified in the Summary

Schedules of Audit Results and described in the Findings and Recommendations section of this audit report.

Table 2 in the Summary Schedules of Audit Results section of this report presents the reported and audited procurement expenditures, SJWC's aspirational SDP goals, and the impact of our audit adjustments for specific categories of the SDP. The audited data shows that SJWC has met or exceeded its goals in all categories of the SDP for PY 2021, except for Minority Women and WBE categories.

Views of Responsible Officials

UAB provided a draft audit report to SJWC for comments on September 8, 2023. SJWC responded on September 19, 2023, agreeing with UAB's audit findings and recommendations. In its response to UAB's Finding 1, SJWC suggested a few modifications to Table 2 in the Summary Schedules of Audit Results section of this report for additional clarification. We considered SJWC's comments and updated Table 2 for clarification purposes. Our findings and recommendations are not modified with respect to this matter, and they remain unchanged. SJWC's response is included in Appendix A of this report. UAB's evaluation of SJWC's response is included in Appendix B of this report.

Submission of a Corrective Action Plan

SJWC's management should submit a Corrective Action Plan (CAP) to UAB at UtilityAudits@cpuc.ca.gov, with a copy to Stephanie Green, Program and Project Supervisor of Business and Community Outreach Office, at Stephanie.Green@cpuc.ca.gov by November 17, 2023. The CAP should include specific steps SJWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If SJWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations.

Restricted Use

This audit report is intended solely for the information and use of SJWC and CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on CPUC's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

October 3, 2023

SUMMARY SCHEDULES OF AUDIT RESULTS

Table 1: Schedule of SJWC's Supplier Diversity Program Procurement for PY 2021

WMDVLGBTBE Annual Results by Ethnicity		As Reported ⁴	As Audited	Audit Adjustment ⁵	Findings
Direct Procurement Expenditures					
Minority Male	Asian Pacific American	\$319,563	\$658,848	\$339,285	Finding 3
	African American	24,800	24,800	0	
	Hispanic American	24,782,404	24,093,358	(689,046)	Findings 1 & 3 ⁶
	Native American	339,285	0	(339,285)	Finding 3
	Total Minority Male	25,466,052	24,777,006	(689,046)	
Minority Female	Asian Pacific American	1,065,884	1,062,928	(2,956)	Finding 1
	African American	0	0	0	
	Hispanic American	715,560	361,275	(354,285)	Findings 1 & 3 ⁷
	Native American	0	0	0	
	Total Minority Female	1,781,444	1,424,203	(357,241)	
Total MBE		27,247,496	26,201,209	(1,046,287)	
WBE		4,312,083	3,729,635	(582,448)	Finding 1
LGBTBE		0	0	0	
DVBE		93,880	93,880	0	
Total Direct Expenditures		\$31,653,459	\$30,024,724	(\$1,628,735)	
Subcontractor Procurement Expenditures					
Minority Male	Asian Pacific American	\$75,031	\$75,031	\$0	
	African American	112,838	0	(112,838)	Finding 2
	Hispanic American	744,769	744,769	0	
	Native American	0	0	0	
	Total Minority Male	932,638	819,800	(112,838)	
Minority Female	Asian Pacific American	1,498,090	1,498,090	0	
	African American	28,433	28,433	0	
	Hispanic American	70,520	70,520	0	
	Native American	0	0	0	
	Total Minority Female	1,597,043	1,597,043	0	
Total MBE		2,529,681	2,416,843	(112,838)	
WBE		1,716,787	1,716,787	0	
LGBTBE		0	0	0	
DVBE		4,596,941	4,596,941	0	
Total Subcontractor Expenditures		\$8,843,409	\$8,730,571	(\$112,838)	
TOTAL WMDVLGBTBE		\$40,496,868	\$38,755,295	(\$1,741,573)	

⁴ As reported in the WMDVLGBTBE Annual Results by Ethnicity Schedule in SJWC's 2021 Supplier Diversity Report

⁵ Adjusted for reporting errors identified in Findings 1-4 in the Findings and Recommendations section of this report.

⁶ The \$689,046 consisted of a \$472,445 overstatement (Finding 1) and a \$216,601 overstatement (Finding 3).

⁷ The \$354,285 consisted of a \$570,886 overstatement (Finding 1) and a \$216,601 understatement (Finding 3).

Table 2: SJWC's WMDVLGBTBE Annual Goals for PY 2021 – Reported vs. Audited

Diverse Category	Procurement Amount As Reported⁸	Procurement Amount As Audited⁹	2021 Goals Established by SJWC¹⁰	2021 Results As Reported⁸	2021 Results As Audited⁹
Minority Men	\$26,398,690	\$25,596,806	7.5%	22.0%	21.7%
Minority Women	3,378,487	3,021,246	7.5%	2.8%	2.6%
MBE	29,777,177	28,618,052	15.0%	24.9%	24.2%
WBE	6,028,870	5,446,422	5.0%	5.0%	4.6%
LGBTBE	0	0	N/A ¹¹	0.0%	0.0%
DVBE	4,690,821	4,690,821	1.5%	3.9%	4.0%
Total WMDVLGBTBE	\$40,496,868	\$38,755,295	21.50%	33.8%	32.8%
Net Procurement	\$119,821,872	\$118,193,137			

⁸ As reported in SJWC's 2021 Supplier Diversity Report, page 18.

⁹ Audited amounts reflect corrections for the reporting errors described in Findings 1-4 in the Findings and Recommendations section of this report.

¹⁰ SJWC establishes annual targeted goals to meet the goals described in Section 8.2 of GO 156. GO 156 does not have an established goal for Minority Male or Minority Women categories; however, SJWC has self-established goals for these categories for PY 2021 as reported in SJWC's 2020 Supplier Diversity Report, page 28.

¹¹ GO 156 applicable to the audit period did not establish any goals for this category; however, GO 156 that became effective April 8, 2022, establishes goals for LGBTBE.

FINDINGS AND RECOMMENDATIONS

Finding 1 – SJWC Overstated its Direct Procurement Expenditures by \$1,628,735

Condition:

SJWC incorrectly included direct supplier expenditures totaling \$1,628,735 paid outside of PY 2021 in its 2021 SDP Annual Report. SDP requires expenditures to be reported on a cash basis of accounting in the calendar year in which a payment was made. Our internal control assessment disclosed that one out of 15 transactions selected for review had a payment date outside of PY 2021. Further review of the payment dates for all direct procurement expenditures reported in SJWC’s SDP Annual Report revealed that SJWC incorrectly included six payments made in 2020 and 2022 totaling \$1,628,735 in its 2021 SDP Annual Report. Therefore, SJWC overstated its direct procurement expenditures in its 2021 SDP Annual Report as summarized in Table 1 in the Summary Schedules of Audit Results section of this report and illustrated in the table below:

WMDVLGBTBE	Procurement Amount
Minority Male - Hispanic American	\$472,445
Minority Female - Asian Pacific American	2,956
Minority Female - Hispanic American	570,886
WBE	582,448
Total WMDVLGBTBE	\$1,628,735

Criteria:

CPUC’s GO 156 Frequently Asked Questions (FAQs), Reporting Requirements, issued February 5, 2016, states, in part, that:

End of Year Invoicing – What is the Calendar Year for Reporting Purposes?

The audit standards require “cash basis” and counted in the calendar year (i.e., 2013) the invoice was paid.

Audit Areas For Utilities to be Aware of

The utilities should be aware of things such as...

3. Reporting expenditures on a cash (date of payment) basis.

Cause:

SJWC explained that the report it generated from its accounting system to prepare its 2021 SDP Annual Report was based on its General Ledger dates. SJWC’s accounting system generated data on accrual basis of accounting instead of cash basis of accounting. SJWC confirmed that its accounting system can generate reports using cash basis of accounting. SJWC lacks adequate monitoring and review procedures over its reporting process to ensure that its 2021 SDP Annual Report was prepared on cash basis of accounting.

Effect:

SJWC overstated its procurement expenditures by \$1,628,735 in its 2021 SDP Annual Report because it incorrectly included expenditures outside PY 2021. However, this overstatement did not impact the result of SJWC achieving its overall goal of the SDP for PY 2021 as shown in Table 2 of this report.

The intent of the SDP Annual Reports is to provide CPUC with information on the utilities' diversity procurement performance, progress in meeting their procurement goals, and future program enhancement plans. CPUC relies upon the program data reported in the SDP Annual Reports to monitor SJWC's and other participating utilities' program performance and progress in achieving the supplier diversity procurement goals. Reporting inaccurate SDP procurement expenditures impacts the reliability of the SDP data CPUC relies upon to gauge the performance of SJWC's SDP, while it also reduces the comparability of SDP program data among utilities.

Recommendation:

SJWC should strengthen its monitoring and review procedures over its reporting process to ensure that its SDP Annual Reports are properly prepared using cash basis of accounting, as stated in the SDP requirements and guidance.

Finding 2: SJWC Overstated its Subcontractor Procurement Expenditures by \$112,838**Condition:**

SJWC incorrectly included \$112,838 of expenditures incurred by its parent company, SJW Group, in the SDP procurement expenditures reported in its 2021 SDP Annual Report.

SJWC's prime contractors submitted monthly Subcontractor Reporting Forms to SJWC to substantiate the diverse subcontractor procurement expenditures reported in SJWC's SDP Annual Report. While reconciling subcontractor expenditures reported in SJWC's SDP Annual Report, we found that SJWC did not have a Subcontractor Reporting Form to support the subcontractor procurement expenditures for one out of 23 subcontractors. In lieu of a Subcontractor Reporting Form, we requested SJWC's underlying accounting records, such as invoices, that substantiate the sampled SDP expenditure in question for that specific subcontractor. SJWC provided a letter from the subcontractor showing the expenditure was related to an investment for the SJW Group, not for SJWC. As a result, SJWC overstated its subcontractor procurement expenditures by \$112,838 in its 2021 SDP Annual Report.

Criteria:

PU Code sections 581, 582, and 584 require that the utility provide timely, complete, and accurate data to the CPUC.

Cause:

SJWC lacks adequate monitoring and review procedures over its SDP Annual Report reporting process to ensure that it only includes procurement expenditures incurred by SJWC in its 2021 SDP Annual Report.

Effect:

SJWC overstated its procurement expenditures by \$112,838 because it incorrectly included its parent company's expenditure in its 2021 SDP Annual Report. However, this overstatement did not

impact the result of SJWC achieving its overall goal of the SDP for PY 2021 as shown in Table 2 of this report.

The intent of the SDP Annual Reports is to provide CPUC with information on the utilities' diversity procurement performance, progress in meeting their procurement goals, and future program enhancement plans. CPUC relies upon the program data reported in the SDP Annual Reports to monitor SJWC's and other participating utilities' program performance and progress in achieving the supplier diversity procurement goals. Reporting inaccurate SDP procurement expenditures impacts the reliability of the SDP data CPUC relies upon to gauge the performance of SJWC's SDP, while it also reduces the comparability of SDP program data among utilities.

Recommendation:

SJWC should strengthen its monitoring and review procedures over its reporting process to ensure that only costs incurred for the SDP by SJWC are included in its SDP Annual Reports.

Finding 3 – Misclassification of Procurement Expenditures

Condition:

SJWC misclassified \$734,054 of direct procurement expenditures into the incorrect diverse categories in its 2021 SDP Annual Report. Our testing of SJWC's SDP direct procurement expenditure disclosed that SJWC misclassified expenditures for three out of 16 diverse suppliers we selected for review. These misclassifications are summarized below:

- For the first supplier, SJWC incorrectly reported \$339,285 of procurement expenditure as eligible spend in the Male Native American category; however, CPUC's Supplier Clearinghouse Certified Directory showed that this supplier is a Male Asian Pacific American.
- For the second supplier, SJWC incorrectly reported \$216,601 of procurement expenditure as eligible spend in the Male Hispanic American category; however, CPUC's Supplier Clearinghouse Certified Directory showed that this supplier is a Female Hispanic American.
- For the third supplier, SJWC incorrectly reported \$178,168 of procurement expenditure in the product category; however, the supplier's invoices showed that the supplier provided environmental planning and development services. Therefore, the expenditure should have been reported in the service category. This misclassification between product and service category does not affect SJWC's Annual Results by Ethnicity, as outlined in Table 1 in the Summary Schedules of Audit Results section of this report.

Although the above misclassifications resulted in inaccurate reporting of expenditures for specific diverse categories in the WMDVLGBTBE Annual Results by Ethnicity and WMDVLGBTBE Direct Procurement by Product and Service Categories schedules in SJWC's 2021 SDP Annual Report, they did not impact the total WMDVLGBTBE expenditure reported in these schedules.

Criteria:

GO 156 section 9.1.3 states, in part, that:

The Annual Report shall contain at least the following elements:
An itemization of WMDVLGBTBE program expenses provided in the format required by Attachment A to D.95-12-045 or in an approved updated format in compliance with D.15-06-007.

CPUC's GO 156 FAQs, Reporting Requirements, issued February 5, 2016, states, in part, that:

Audit Areas For Utilities to be Aware of

The utilities should be aware of things such as:

5. Making sure expenditures are applied to the correct diverse category (i.e., payments to DVBEs are not reported as MBE or WBE, and vice-versa).

Cause:

SJWC lacks adequate monitoring and review procedures over its SDP reporting process to ensure that procurement expenditures are recorded and reported in the correct diverse categories. SJWC does not have a procedure during its reporting process which requires its staff to perform a detailed review of its SDP Annual Reports for accuracy before filing them with CPUC.

Effect:

SJWC misclassified SDP procurement expenditures among diversity categories in its 2021 SDP Annual Report distorted the actual benefits received by the affected diverse categories.

The intent of the SDP Annual Reports is to provide CPUC with information on the utilities' diversity procurement performance, progress in meeting their procurement goals, and future program enhancement plans. CPUC relies upon the program data reported in the SDP Annual Reports to monitor SJWC's and other participating utilities' program performance and progress in achieving the supplier diversity procurement goals. Reporting inaccurate SDP procurement expenditures impacts the reliability of the SDP data CPUC relies upon to gauge the performance of SJWC's SDP, while it also reduces the comparability of SDP program data among utilities.

Recommendation:

SJWC should strengthen its monitoring and review procedures over its SDP reporting process by implementing a detailed review of its SDP Annual Reports before filing them with CPUC to ensure that the SDP procurement expenditures are properly classified and accurately reported in the correct diverse categories.

Finding 4: Misclassified Expenditures Among Diverse Categories**Condition:**

SJWC misclassified a total of \$464,498 of SDP procurement expenditures among diversity categories in the Direct and Subcontractor Procurement Schedules. Specifically, SJWC misclassified a total of \$393,978 expenditures for services as expenditures for products in the WMDVLGBTBE Direct Procurement by Product and Service Categories schedule, and \$70,520 of expenditures in the WMDVLGBTBE Subcontractor Procurement by Product and Service Categories schedule in its 2021 SDP Annual Report. These misclassifications are summarized below:

- SJWC misclassified direct expenditures for services rendered by diverse vendors in the product category in the WMDVLGBTBE Direct Procurement by Product and Service Categories schedule. These misclassifications are summarized below:

Supplier's Diverse Category	Products		
	As Reported	As Audited	Variance Overstated/ (Understated)
Minority Male - Asian Pacific American	\$285,963	\$0	\$285,963
Minority Male - Hispanic American	14,388	9,886	4,502
Minority Female - Asian Pacific American	721,776	718,305	3,471
WBE	3,080,131	3,051,089	29,042
DVBE	71,000	0	71,000
Sub-total - Products	\$4,173,258	\$3,779,280	\$393,978
Supplier's Diverse Category	Services		
	As Reported	As Audited	Variance Overstated/ (Understated)
Minority Male - Asian Pacific American	\$33,600	\$319,563	(\$285,963)
Minority Male - Hispanic American	24,768,016	24,772,518	(4,502)
Minority Female - Asian Pacific American	344,108	347,579	(3,471)
WBE	1,231,952	1,260,994	(29,042)
DVBE	22,880	93,880	(71,000)
Sub-total - Services	\$26,400,556	\$26,794,534	(\$393,978)
Total - Products and Services	\$30,573,814	\$30,573,814	(\$0)

- SJWC misclassified \$70,520 of subcontractor expenditures in the Minority Female – Native American category for procuring products in the WMDVLGBTBE Subcontractor Procurement by Product and Service Categories schedule due to transposition errors as summarized below:

Diverse Category	Reported	Audited	Overstated/ (Understated)
Minority Female - Asian Pacific American	\$0	\$431	(\$431)
Minority Female - African American	431	2,283	(1,852)
Minority Female - Hispanic American	2,283	70,520	(68,237)
Minority Female - Native American	70,520	0	70,520
Total	\$73,234	\$73,234	\$0

Although the above misclassifications resulted in inaccurate reporting of expenditures for specific diverse categories in the WMDVLGBTBE Direct Procurement by Product and Service Categories

and WMDVLGBTBE Subcontractor Procurement by Product and Service Categories schedules, they did not impact the total Direct and Subcontractor WMDVLGBTBE expenditures reported in these schedules. In addition, UAB did not note any misstatements or misclassifications in the WMDVLGBTBE Annual Results by Ethnicity schedule because of these classification errors. Therefore, results outlined in Finding 4 do not impact SJWC's Annual Results by Ethnicity, as summarized in Table 1 in the Summary Schedules of Audit Results section of this report.

Criteria:

GO 156 section 9.1.3 states, in part, that:

The Annual Report shall contain at least the following elements:
An itemization of WMDVLGBTBE program expenses provided in the format required by Attachment A to D.95-12-045 or in an approved updated format in compliance with D.15-06-007.

CPUC's GO 156 FAQs, Reporting Requirements, issued February 5, 2016, states, in part, that:

Audit Areas For Utilities to be Aware of

The utilities should be aware of things such as:

4. Making sure expenditures are correctly classified as prime contractors or subcontractors and vice-versa.

Cause:

SJWC lacks adequate monitoring and review procedures over its 2021 SDP Annual Report reporting process to ensure that procurement expenditures are properly classified to the correct diverse categories. SJWC does not require its staff to perform a detailed review of its SDP Annual Reports before filing them with CPUC.

Effect:

SJWC misclassified a total of \$464,498 of SDP procurement expenditures among diversity categories, and product and service categories, in its 2021 SDP Annual Report which distorted the actual benefits received by the affected categories.

The intent of the SDP Annual Reports is to provide CPUC with information on the utilities' diversity procurement performance, progress in meeting their procurement goals, and future program enhancement plans. CPUC relies upon the program data reported in the SDP Annual Reports to monitor SJWC's and other participating utilities' program performance and progress in achieving the supplier diversity procurement goals. Reporting inaccurate SDP procurement expenditures impacts the reliability of the SDP data CPUC relies upon to gauge the performance of SJWC's SDP, while it also reduces the comparability of SDP program data among utilities.

Recommendation:

SJWC should strengthen its monitoring and review procedures over its SDP reporting process by implementing a detailed review of its SDP Annual Reports before filing them with CPUC to ensure that the SDP procurement expenditures are properly classified and accurately reported in the correct diverse categories.

APPENDIX A—UTILITY'S RESPONSE

Supplier Diversity Program Performance Audit of San Jose Water Annual Report - January 1, 2021 through December 31, 2021

San Jose Water response to CPUC audit report draft dated September 8, 2023

Prepared by: Tim McLaughlin, Director of Supplier Diversity – San Jose Water on September 15, 2023

Finding 1: SJWC Overstated its Direct Procurement Expenditures by \$1,628,735

San Jose Water (SJW) agrees with the findings of the CPUC regarding the overstatement of \$1,628,735 within our 2021 Supplier Diversity Annual Report. We do suggest a modification to Table 2 – SJWC's WMDVLGBTBE Annual Goals for PY 2021 – Reported vs. Annual, page 9 of the CPUC draft report, as the overstatement also applies to our Addressable Spend.

The table reflects the adjustment of our reported diverse procurement spend from \$40,496,868 to \$38,755,295, which is accurate, however, we believe there should be a similar adjustment to the Addressable Spend. Making this adjustment would result in an Addressable Spend of \$118,080,299. This would also affect the overall 2021 Result as Audited column (diverse spend percentage) calculation to yield a result of 32.8% instead of 32.3%

On both, pages 1 and 7, the CPUC audit report states, "The audit data shows that SJWC has met or exceeded its goals in all categories of the SDP for PY 2021, except for Minority Women and WBE categories." It should be known that the goal for Minority Women is a SJWC self-imposed goal, while the goal of 5% for the WBE category is a CPUC goal. It should also be noted that SJWC has the ability to shift diverse spend from the Minority Women category to the WBE category. In this case, even with the audit recalculations there exists enough Minority Women spend (\$582,448), that when transferred to the WBE category, would enable SJWC to meet the WBE goal of 5%.

Finding 2: SJWC Overstated its Subcontracting Procurement Expenditures by \$112,838

San Jose Water (SJW) agrees with the findings of the CPUC regarding the overstatement of \$112,838 within our 2021 Supplier Diversity Annual Report.

Finding 3: Misclassification of Procurement Expenditures

San Jose Water (SJW) agrees with the findings of the CPUC regarding the misclassification of procurement expenditures.

Finding 4: Misclassified Expenditures Among Diverse Categories

San Jose Water (SJW) agrees with the findings of the CPUC regarding the misclassified expenditures among diverse categories.

Furthermore, and for all findings, SJWC agrees with the recommendation to strengthen our monitoring and review procedures to ensure accurate reporting of SDP data.

Should you have any questions or comments regarding this document please feel free to reach out to Tim McLaughlin, Director of Supplier Diversity – San Jose Water, timothy.mclaughlin@siwater.com or 408-512-4760

Regards,

Timothy McLaughlin

Copy:

John Tang, VP of Regulatory Affairs

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate SJWC's comments submitted on September 19, 2023. In its response, SJWC stated that it agreed with all findings and recommendations. In its response to Finding 1, SJWC suggested modifying Table 2 in the Summary Schedules of Audit Results section of this report to reflect adjustment to the Net Procurement amount shown in Table 2. In addition, SJWC stated that:

it should be known that the goal for Minority Women is a self-imposed goal, while the goal of 5% for the WBE category is a CPUC goal.... SJWC has the ability to shift diverse spend from the Minority Women category to the WBE category. In this case even with the audit recalculations there exists enough Minority Women spend (\$582,448), that when transferred to the WBE category would enable SJWC to meet the WBE goal of 5%.

We considered SJWC's comments and added the audited Net Procurement amount to Table 2 in the Summary Schedules of Audit Results section for clarification purposes. In addition, UAB clarified its Footnote 10 in Table 2 by adding the notation that GO 156 does not have an established goal for Minority Male or Minority Women categories; however, SJWC has self-established goals for these categories. While SDP provides utilities with the discretion of selecting the reporting category of multi-status businesses, we performed our audit procedures based on amounts and classifications reported in SJWC's 2021 Supplier Diversity Report. Our audit findings and recommendations remain unchanged.