DGS
GENERAL SERVICES

MEMORANDUM

Date: June 29, 2016 File No.: 4125

To: Timothy J. Sullivan, Ph. D.
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

From: **Department of General Services**
Office of Audit Services

Subject: **AUDIT REPORT: COMPLIANCE WITH STATE BUSINESS MANAGEMENT POLICIES**

Attached is the final report on our compliance audit of the business management functions and services of the California Public Utilities Commission (CPUC). The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS).

CPUC's written response to a draft copy of this report is included in the report. The report also includes our evaluation of the response. We are pleased with the actions being taken to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit a status report on the implementation of the recommendations to us by December 29, 2016. The necessity of any further status reports will be determined at that time. Please transmit your status report to: DGS Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605.

We greatly appreciated the cooperation and assistance provided by CPUC's personnel.

If you have any questions, please call me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.

RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

Attachment

cc: Ryan Dulin, Acting Deputy Executive Director
Barbara Owens, Enterprise Risk and Compliance Officer

GOVERNMENT OPERATIONS AGENCY

DEPARTMENT OF GENERAL SERVICES

AUDIT OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION

FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 4125

OFFICE OF AUDIT SERVICES

SEPTEMBER 2015

CALIFORNIA PUBLIC UTILITIES COMMISSION
COMPLIANCE AUDIT
REPORT NO. 4125

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STATE OF CALIFORNIA

DEPARTMENT OF GENERAL SERVICES

AUDITOR'S REPORT

DATE: June 29, 2016

TO: **TIMOTHY J. SULLIVAN, Ph. D.**
Executive Director
California Public Utilities Commission

This report presents the results of our compliance audit of the business management functions and services of the California Public Utilities Commission (CPUC). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619. The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by DGS. As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing contracting, purchasing, fleet administration, small business (SB) and disabled veteran business enterprises (DVBE) usage, driver safety and insurance, records management, surplus property, real estate and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Our review disclosed the following areas of noncompliance with state requirements that should be addressed by CPUC's management. The implementation of the recommendations presented in this report will assist CPUC in addressing these areas.

- Contracting program policies and procedures are not ensuring full compliance with state contracting requirements. The types of exceptions noted during our audit included: (1) contracts not being processed in a timely manner; (2) funds not being retained and paid only upon the satisfactory completion of an agreement; (3) prime contractors not being required to report the actual percentage of SB/DVBE subcontractor participation; (4) documentation not being maintained that a contract was entered into the state's centralized database for contract and purchase transactions; (5) documentation not being prepared and/or maintained justifying the cost of contracts with a dollar value under $5,000; and, (6) a legal services contract not being signed (executed) by a party who had been delegated signature authority in writing by CPUC's executive director.

  Although most contracts with a dollar value of $5,000 or more are processed by the central Contracts Office, we noted that some contracts meeting this criteria were processed by the Business Services Office (BSO). In some instances, we found that required contracting documents were not readily available in the BSO's contract files. Further, the BSO is using a Purchasing Authority Purchase Order, STD. 65, form to procure small dollar value services. Due to the different state requirements between procuring goods and services, including different general terms and conditions, a STD. 65 should not be used to procure services.

- CPUC's delegated purchasing practices are not sufficient to provide reasonable assurance of compliance with the state's procurement statutes, policies, and procedures. Specifically, CPUC's policies and procedures were not always ensuring full compliance with state

requirements governing the: (1) referencing of the State's Bidder Instructions and General Provisions in all competitive solicitations; (2) obtaining of bidder declaration forms from SB/DVBEs that assist in verifying the performance of a commercially useful function; (3) obtaining of a copy of the supplier's sellers permit; (4) implementing of processes to ensure compliance with the Darfur Contracting Act; (5) entering of purchase transactions into the state's centralized database for contract and purchase transactions; (6) notification of the Department of Fair Employment and Housing of purchase awards in excess of $5,000; (7) completion of the state's non-competitively bid process for purchases made without competition; (8) establishment of fair and reasonable pricing for transactions of less than $5,000, including CAL-Card payment transactions; (9) maintenance of complete documentation for a small business option solicitation, including the certification status of businesses involved in the solicitation; and, (10) completion of a Purchasing Authority Purchase Order, STD. 65, that accurately references the procurement method and general provisions used to award the purchase order.

In addition, leveraged procurement agreement (LPA) transaction files did not always contain copies of the contract cover page and pricing page(s) and support that the SB/DVBE certification status of applicable LPA contractors was verified prior to issuing an order for an IT procurement.

At the time of our audit testing, CPUC also did not maintain central procurement files. In order for us to obtain necessary supporting documents for a transaction, CPUC procurement staff often had to search their individual email and procurement desk files to determine if the requested documents could be located and provided for audit purposes.

- CPUC's driver safety and insurance program is not ensuring that employees who use their own vehicle to conduct state business complete and annually update a vehicle certification form. Policies and procedures are also not ensuring that frequent drivers attend a defensive driver training course every four years. Further, CPUC has not been submitting an annual defensive driver training report to DGS.
- Records retention schedules are not being completed and updated in a timely manner.
- CPUC's fleet administration program is not ensuring compliance with a number of state policies and procedures including requirements for: (1) updating fleet asset information into DGS' Fleet Asset Management System on a monthly basis; (2) establishing controls that would help prevent abusive fleet card practices; and, (3) annually renewing a vehicle home storage permit for each state employee who frequently stores a state-owned vehicle at or in the vicinity of his/her home.
- Invoice processing policies and procedures are not ensuring the prompt payment of vendors.

During our review we also identified other matters requiring attention that we discussed with CPUC's management but are not included in this report.

Overall, we concluded that CPUC's policies and procedures are not sufficient to provide reasonable assurance of compliance with requirements governing the state's various business management programs. However, it should be noted that we are pleased with CPUC's commitment shown to improve compliance with state requirements. Recently, we met with the commission's executive management who readily accepted the results of our audit and provided information on steps taken or being taken to improve compliance. These actions included developing and implementing a detailed corrective action plan addressing our purchasing

delegation program findings, seeking additional training for contracting and purchasing staff and reaching out to other state departments regarding best business management practices.

We are pleased with the prompt actions taken by CPUC to address findings identified during our audit fieldwork. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. CPUC's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to each of our recommendations as well as our evaluation of the response is included in this report.

We greatly appreciated the cooperation and assistance provided by CPUC's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5058.

Rick Gillam

RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

Staff: Andy Won, Audit Supervisor
Dennis Miras, Audit Supervisor
Christopher Harris
Michael Rossow

cc: Ryan Dulin, Acting Deputy Executive Director
Barbara Owens, Enterprise Risk and Compliance Officer

CALIFORNIA PUBLIC UTILITIES COMMISSION
COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our review of the business management functions and services of the California Public Utilities Commission (CPUC) for compliance with policies set forth in the State Administrative Manual (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS). This report presents information on areas of noncompliance with policies governing the: contracting for services; conduct of delegated purchases; completion of vehicle certification forms by employees; attendance of a defensive driver training course by frequent drivers; maintenance of up-to-date records retention schedules; updating of fleet asset information; control of state fleet cards; annual renewal of vehicle home storage permits; and, prompt payment of vendors.

This information was developed based on our fieldwork conducted over the period May 28, 2014 through September 23, 2015. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, CPUC's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our September 2015 audit exit conference, CPUC was provided a detailed written summary of issues noted during our review.

To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2013/14 and 2014/15 fiscal years.

CONTRACTING PROGRAM

Our sample tests of various types[1] of contracts processed by CPUC disclosed a number of areas for improvement that need to be addressed to fully comply with the state's service contracting requirements. The state's contracting requirements are primarily contained in State Contracting Manual (SCM) Volume 1. Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted included:

- contracts not being processed in a timely manner, i.e., contacts being approved after the agreement's commencement date (SCM 1, 4.09);
- funds not being retained and paid only upon the satisfactory completion of an agreement, such as a 10% retention from a monthly progress payment (SCM 1, 7.33);
- prime contractors not being required to report within 60 days of receiving final payment under a contract the actual percentage of small business and/or disabled veteran business

[1] The types of contracts tested for compliance included both contracts subject to DGS review and approval (generally contracts of an amount of $50,000 or more) and those delegated to the CPUC to directly execute (generally contracts of an amount under $50,000).

enterprises subcontractor participation that was achieved (Contract General Terms and Conditions 610, #19);

- documentation not being maintained that a contract was entered into the state's centralized database for contract and purchase transactions (SCM 2, 8.1.1)[2];
- documentation not being prepared and/or maintained justifying the cost of contracts with a dollar value under $5,000 (SCM 1, 5.90)[3]; and,
- a legal services contract not being signed (executed) by a party who had been delegated signature authority in writing by CPUC's executive director (SCM 1, 2.06).

Although most contracts with a dollar value of $5,000 or more are processed by the central Contracts Office, we noted that some contracts meeting this criteria were processed by the Business Services Office (BSO) (such as contracts for moving services). In reviewing the BSO's contracting practices, we found instances where required contracting documents were not readily available in the contract files including those fully supporting: (1) the obtaining of quotes for a small business option solicitation (SCM 5.80.A.9); (2) a firm's agreement with various mandated contractor certification clauses (SCM 4.08.A.1.d.4); and, (3) that the Department of Fair Employment and Housing was notified of a contract award in excess of $5,000 (SCM 7.15.B.2).

In addition, we noted that CPUC's contracting policies and practices allow the BSO to use a Purchasing Authority Purchase Order, STD. 65, form[4] to procure small dollar value non-IT services. As provided in SCM 2, 2.B1.6, non-IT services must be acquired in accordance with SCM Volume 1, which governs contracting for various types of services including non-IT and consultant services. In brief, SCM Volume 1 provides for the use of a Standard Agreement, STD. 213, form[5] to acquire services. Due to the different state requirements between procuring goods and services, including different general terms and conditions, a STD. 65 should not be used to procure non-IT services.

Recommendations

1. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the state's contracting requirements. This process should address the issues noted above.

2. Discontinue the use of Purchasing Authority Purchase Order, STD. 65, forms to contract for non-IT services.

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[2] At the time of our audit, the entering of contract data was required as part of the state's eProcurement system. In January 2016, the state transitioned to a new financial data system, FI$Cal, which contains different documentation requirements.

[3] These contracts were processed by the Business Services Office and not the Contracts Office.

[4] CPUC was erroneously coding its STD. 65 non-IT service transactions as non-IT goods procured under its purchasing authority delegation program.

[5] It should be noted that many departments use a service order or service authorization form to simplify the procurement of small dollar value services, i.e., those costing under $5,000.

DELEGATED PURCHASING PROGRAM

Our tests of a sample of 35 delegated information technology (IT) or non-IT procurements, including 10 leveraged procurement agreement transactions, disclosed a number of areas for improvement that need to be addressed to fully comply with delegated purchasing requirements. The state's delegated purchasing requirements are primarily contained in SCM Volumes 2 (non-IT) and 3 (IT). As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing the conduct of competitive solicitations, use of leveraged procurement agreements, solicitation of certified small businesses (SB) and disabled veteran business enterprises (DVBE), establishment of fair and reasonable pricing for acquisitions of less than $5,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers[6].

Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions involved purchasing practices that were not always ensuring full compliance with SCM provisions governing the:

- referencing of the State's Bidder Instructions and General Provisions in all competitive solicitations (SCM 2, 4.B6.0 and 4.B6.1 and SCM 3, 4.B8.0 and 4.B8.1);
- obtaining of bidder declaration forms from SB/DVBEs that assist in verifying the performance of a commercially useful function (SCM 2 and SCM 3, 3.2.6);
- obtaining of a copy of the supplier's sellers permit (SCM 2, 4.B6.3 and SCM 3, 4.B8.6);
- implementing of processes to ensure compliance with the Darfur Contracting Act (SCM 2, 2.B3.12);
- entering of purchase transactions into the state's centralized database for contract and purchase transactions (SCM 2 and 3, 8.1.1)[7];
- notification of the Department of Fair Employment and Housing of purchase awards in excess of $5,000 (SCM 2 and 3, 12.B3.0);
- completion of the state's non-competitively bid process for purchases made without competition (SCM 2, 5.2.0);
- establishment of fair and reasonable pricing for transactions of less than $5,000, including CAL-Card payment transactions (SCM 2 and 3, 4.C1.0);
- maintenance of complete documentation for a small business option solicitation, including the certification status of businesses involved in the solicitation (SCM 2, 4.B5.0 and SCM 3, 4.B7.0);
- completion of a Purchasing Authority Purchase Order, STD. 65, that accurately references the procurement method and general provisions used to award the purchase order (SCM 2, 8.3.5 and SCM 3, 8.4.5); and,

[6] See the results of our prompt payment tests on Page 10.

[7] At the time of our audit, the entering of purchase data was required as part of the state's eProcurement system. In January 2016, the state transitioned to a new financial data system, FI$Cal, which contains different documentation requirements.

- maintenance in the procurement transaction files of copies of the contract cover page and pricing page(s) for leveraged procurement agreement (LPA) transactions (SCM 2 and 3, 6.A4.1). Further, CPUC was not consistently verifying the SB/DVBE certification status of applicable LPA contractors prior to issuing an order for an IT procurement (SCM 3, 6A2.6).

In addition, we had concerns with the completeness of the procurement files. At the time of our audit testing, CPUC did not maintain central procurement files. In order for us to obtain necessary supporting documents for a transaction, CPUC procurement staff often had to search their individual email and procurement desk files to determine if the requested documents could be located and provided for audit purposes. State policy provides that departments are responsible for maintaining records in sufficient detail to allow anyone to review documentation and understand how a procurement was requested, conducted, awarded and administered (SCM 2 and 3, 11.4.0)

Overall, as of the completion of our audit fieldwork in September 2015, we concluded that CPUC's delegated purchasing practices were not sufficient to provide reasonable assurance of compliance with the state's procurement statutes, policies, and procedures. However, subsequent to that date, we received detailed corrective action plans for each of our findings that appeared to address our concerns. Further, we are aware that CPUC is pursuing training from DGS on the state's purchasing and service contracting requirements and reaching out to other departments regarding best purchasing practices.

We are pleased with the prompt actions taken by CPUC to address delegated purchasing findings identified during our audit fieldwork. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended.

Recommendations

3. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.

4. Maintain central procurement files containing sufficient detail to allow anyone to review documentation and understand how a procurement was requested, conducted, awarded and administered.

DRIVER SAFETY AND INSURANCE PROGRAM

CPUC needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents. Collectively, such accidents cost the state millions of dollars each year including liability to other parties, repairs to state vehicles, workers' compensation and lost work time of employees. For maximum containment of these costs, each state agency is expected to actively participate in the state's driver safety program. The following areas need strengthening:

- ***Vehicle Authorizations*** – current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle, STD. 261, certification form is completed and annually updated by employees who use their own vehicle to conduct state business. Specifically, at the time of our audit tests, a current STD. 261 was not available for any of the 27 employees included in our sample tests who used their own vehicle on state

business. Specifically, eighteen of the employees had forms completed for the 2013 calendar year. However, they were not renewed for the 2014 calendar year. The other nine employees did not have forms available for either year. CPUC's travel policies provide that managers/supervisors are to monitor their employees for the proper and timely completion of STD. 261s. As shown by the results of our review, these policies have not been effective.

SAM Section 0753 requires that a privately-owned vehicle authorization form be completed and annually updated by each employee who uses his or her own vehicle to conduct state business. In addition, this section provides that an employee's travel expense claim for private vehicle mileage should not be approved by a supervisor prior to verification that a current authorization form is on-file for the employee. The completion of the authorization form accomplishes the objective of having the employee certify in writing that the vehicle used will always be:

- Covered by liability insurance for the minimum amount prescribed by law;
- Adequate for work performed;
- Equipped with safety belts; and,
- In safe mechanical condition.

- ***Defensive Driver Training*** – our review of the 27 frequent drivers identified above also found that 24 of them had not attended a defensive driver training course within the last four years. SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver training course at least once every four years. At CPUC, the responsibility for ensuring that employees attend a driver training course rests with managerial/supervisory personnel. As shown by the results of our tests, these employees are not enforcing this requirement.

  In addition, CPUC has not been submitting a defensive driver training report that is due to DGS by September 1 of each year (Management Memo 11-04). The report contains defensive driver training information for the preceding fiscal year including data on the number of employees required to take the training for the reporting fiscal year and the number of employees completing the training.

Subsequent to the completion of our fieldwork, we received detailed information on actions taken by CPUC to address our concerns with the adequacy of its driver safety and insurance program. We are pleased with the prompt action taken to improve operations. However, we did not test the effectiveness of the new operating processes prior to the completion of our audit.

Recommendations

5. Implement policies and procedures that ensure the completion and annual update of a STD 261 certification form by employees who use their own vehicle to conduct state business. This process should include an annual notification to managers/supervisors of their responsibility for ensuring the completion and updating of the form.

6. Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.

7. Submit a defensive driver training report to DGS by September 1 of each year.

RECORDS MANAGEMENT

CPUC's records management policies and procedures are not ensuring the completion and maintenance of up-to-date records retention schedules. Specifically, at the time of our review, only 1 of the 36 records retention schedules on-file at CPUC had been updated within five years, with the other schedules expiring in 2013. As provided in SAM Sections 1600 through 1624, records retention schedules must be updated at least once every five years after the conducting of a records inventory and appraisal process. Up-to-date records retention schedules provide evidence of a cost effective and efficient records management program. Business services management and staff advised us that other operating responsibilities and priorities have impacted CPUC's ability to maintain updated records retention schedules.

Recommendation

8. Develop an action plan that provides for the completion and updating of records retention schedules to ensure compliance with SAM Sections 1600 through 1624.

FLEET ADMINISTRATION

CPUC has not implemented adequate and effective policies and procedures that ensure compliance with the state's fleet administration program requirements. Specifically, CPUC, which at the time of our review had a fleet totaling around 100 owned and leased vehicles, was not updating information into the DGS Office of Fleet and Asset Management's (OFAM) Fleet Asset Management System on a monthly basis, including fuel and utilization data for owned vehicles (See Management Memo 13-01). The information provided through this web-based portal is used to support information requests from the legislature and to prepare mandated reports for the state and federal government. CPUC's Business Services Branch had not implemented policies and procedures to comply with this reporting requirement.

In addition, CPUC has not implemented policies and procedures that ensure the adequate control of state fleet cards. Fleet cards are primarily used by state employees to purchase fuel for vehicles used for official state business. In brief, Management Memo 12-08, dated December 26, 2012, was issued by DGS to establish controls that would help prevent abusive fleet card practices, including but not limited to fraud and abuse. The State Fleet Card Program requires that participating departments comply with a number of requirements including: (1) implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM an annual certification that the department has executed required procedures; and, (4) requiring card users to sign an agreement addressing compliance with usage policies and procedures. CPUC's business services management/staff was not aware of the State Fleet Card Program requirements.

We also observed that vehicle home storage permits (VHSPs) were not being annually renewed as required by state policy (See Management Memo 13-03 and SAM Section 4109). In fact, all 18 VHSPs included in our sample tests had expired at the time of audit testing. A VHSP must be completed and annually renewed for each state employee who frequently stores a state-owned vehicle at or in the vicinity of his/her home. The VHSP contains information justifying that the vehicle home storage is essential or cost effective. Further, CPUC was not submitting

to OFAM a VHSP Certification Form (due January 2 of each year) which contains information on the number of VHSPs issued by the CPUC and a signed certification by executive management that each employee with a VHSP meets program criteria.

Recommendations

9. Update information into the Fleet Asset Management System on a monthly basis, including fuel and utilization data for owned vehicles.

10. Implement policies and procedures that ensure the adequate control of State Fleet Cards. This process should ensure compliance with State Fleet Card Program requirements including: (1) implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM an annual certification that the department has executed required procedures; and, (4) requiring card users to sign an agreement addressing compliance with usage policies and procedures.

11. Implement policies and procedures that ensure the annual renewal of vehicle home storage permits.

12. Submit to OFAM a VHSP Certification Form by January 2 of each year that contains information on the number of VHSPs issued by the CPUC.

PROMPT PAYMENT OF VENDORS

In reviewing a sample of 25 vendor invoices processed for payment during the period January 2014 through June 2014[8], we found that 8 were not processed in a manner that ensured payment in accordance with the state's prompt payment requirements. Specifically, the invoices were not paid within 45 calendar days of receipt by CPUC. Further, a penalty fee was not added to the amount due a vendor in 5 applicable instances. Although we did not perform sufficient tests to determine the cause of each of the late payments, in most instances, they appeared to be caused by operating units not promptly processing invoices to the Fiscal Office for payment.

Government Code Section 927, et seq., and SAM Sections 8474 through 8474.4 contain the state's policies related to the prompt payment of businesses. These policies include a requirement that vendor invoices be paid within 45 calendar days of receipt and the automatic payment of penalties when applicable. The 45 day timeline allows state agencies 30 days to perform their payment approval function and the State Controller's Office 15 days to perform its audit and warrant generation process. The failure to promptly pay invoices restricts the state's efforts in getting businesses to provide goods and services to the state.

Subsequent to the completion of our fieldwork, we received detailed information on actions taken by CPUC to improve its prompt payment program. We are pleased with the prompt action taken to improve operations. However, we did not test the effectiveness of the new operating processes prior to the completion of our audit.

[8] Sample invoices were selected from payments made to vendors included in our evaluation of CPUC's delegated purchasing program.

Recommendation

13. Implement policies and procedures that ensure the prompt payment of vendor invoices and payment of applicable penalty fees.

CONCLUSION

Our findings and recommendations are presented to aid CPUC in administering its business management functions and services. CPUC should address the reported issues to assist in ensuring compliance with applicable state laws, policies and procedures.

STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

June 27, 2016

Rick Gilliam, CPA, CIA
Chief, Office of Audit Services
Department of General Services
Office of Audit Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

SUBJECT: Response to the Department of General Services Draft Audit Report "COMPLIANCE WITH STATE BUSINESS MANAGEMENT POLICIES"

Dear Mr. Gillam,

The California Public Utilities Commission (CPUC) provides the following response to the June 15th, 2016, draft audit report from the Department of General Services entitled, "Compliance with State Business Management Policies." We take the audit recommendations very seriously and intend to comply with the recommendations as outlined below:

Our goal is to make necessary changes to policies, process, practices and procedures to address all of the audit report recommendations and to bring our administrative practices into conformity with state procedures, requirements, and norms.

Audit Recommendations *(in italics)* and CPUC Responses:

1. *Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the state's contracting requirements. This process should address the issues noted above.*

Response: The CPUC agrees with this recommendation. The CPUC will continue to monitor compliance with the State's contracting requirements by performing the following:

- Implementing quarterly testing of procurement documents.
- Adding a checklist for all procurement transactions that the supervisor and manager will review along with the accompanying documents and sign to ensure all requirements for compliance have been met.
- Developing updated procurement manual and procedures for staff.
- Developing an update to the Contract manual.

2. *Discontinue the use of Purchasing Authority Purchase Order, STD 65, form to contract for non-IT Services.*

Response: The CPUC agrees with this recommendation. The CPUC will discontinue using the STD 65 forms to contract for non-IT services, unless otherwise noted under an LPA contracting procedure.

3. *Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.*

Response: The CPUC agrees with the recommendation. The implementation of strong quality review processes, including the checklist and three levels of review by management, will ensure the Delegated Purchasing Program meets state requirements and includes all of the documents noted in the finding.

4. *Maintain central procurement files containing sufficient detail to allow anyone to review documentation and understand how procurement was requested, conducted, awarded and administered.*

Response: The CPUC agrees with the recommendation. All required documentation and communication with the project manager during the time period of the contract will be kept in procurement files. This action provides assurance the process was completed according to the State Contracting Manual. The Manager will review these files on an on-going basis.

5. *Implement policies and procedures that ensure the completion and annual update of the STD 261 certification form by employees who use their own vehicle to conduct state business. This process should include an annual notification to managers/supervisors of their responsibility for ensuring the completion and updating of the form.*

Response: The CPUC agrees with this recommendation. Fleet has established one centralized process to track the forms to ensure they have been completed and an annual review will take place by the Fleet Manager. In addition, Division Supervisors will ensure there is compliance with the STD 261 form completion requirement prior to employee's travel. As an added quality assurance the Manager of Fleet will review on a sample basis employee compliance with the requirement.

6. *Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.*

Response: The CPUC agrees with this recommendation. One centralized process has been established to ensure all drivers have completed the required Defensive Driver Training. As an added quality assurance the Manager of Fleet will review on a sample basis employee compliance with this requirement.

7. *Submit a defensive driver training report to DGS by September 1 of each year.*

Response: The CPUC agrees with this recommendation. CPUC will provide DGS with the report by September 1st of each year for the preceding Fiscal Year.

8. *Develop an action plan that provides for the completion and updating of records retention schedules to ensure compliance with SAM sections 1600 through 1624.*

Response: The CPUC agrees with this recommendation. Currently an internal audit is underway to review the current documentation process. Based on the DGS audit and the internal audit, the CPUC will develop an action plan to correct all deficiencies.

9. *Update information into the Fleet Asset Management System on a monthly basis, including fuel and utilization data for owned vehicles*

Response: The CPUC agrees with this recommendation. CPUC will update the Fleet Asset Management System on a monthly basis including fuel and utilization data for owned vehicles.

10. *Implement policies and procedures that ensure the adequate control of State Fleet Cards. This process should ensure compliance with State Fleet Card Program requirements including: 1) Implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM an annual certification that the department has executed required procedures; and (4) requiring card users to sign an agreement addressing compliance with usage policies and procedures.*

Response: The CPUC agrees with this recommendation and the findings that support it. A fleet card usage policy and procedure was developed and submitted to the Administrative Services Manager. The Fleet Card Policy and Procedure was added to the CPUC Intranet. A coordinator from Administrative Services has been designated as a fleet coordinator to manage the program. In addition, the Fleet manager has developed a spreadsheet to ensure all users have signed an agreement addressing compliance with usage policies and procedures and will be updated each year in April to coincide with renewal of fleet cards. The OFAM annual certification for 2016 was submitted and the certification will continue to be submitted timely.

11. *Implement policies and procedures that ensure the annual renewal of vehicle home storage permits.*

Response: The CPUC agrees with this recommendation and is implementing the following process: Email all applicable Divisions who are assigned a vehicle and are home based to comply with submission of the STD. 377. After the initial emails a reminder notice will be sent until all forms have been submitted. All STD 377s will be stored on the shared server and a hard copy will be kept with the fleet coordinator.

12. Submit to OFAM a VHSP Certification Form by January 2 of each year that contains information on the number of VHSPs issued by the CPUC.

Response: The CPUC agrees with this recommendation. A Vehicle Home Storage Permit (VHSP) certification form will be submitted by January 2nd of each year and it will contain the number of VHSP's issued at that time by the CPUC.

13. Implement policies and procedures that ensure the prompt payment of vendor invoices and payment of applicable penalty fees.

Response: The CPUC agrees with this recommendation. The procurement service area will expedite any invoices that are reaching the penalty phase. In addition, if late fees occur the Purchase Order will be tagged with notice indicating late penalties are incurred so accounting can add on to the invoice when paying.

Sincerely,

Timothy J Sullivan

Timothy J. Sullivan
Executive Director

CALIFORNIA PUBLIC UTILITIES COMMISSION
COMPLIANCE AUDIT

EVALUATION OF CPUC'S RESPONSE

We have reviewed the response by the California Public Utilities Commission (CPUC) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by CPUC to improve its business management functions and services.