



California Public Utilities Commission Committee on Finance and Administration



Report on Strategic Directive 12 Risk Management December 4, 2019

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Strategic Directive 12

Risk Management

The CPUC maintains a continuously improving enterprise risk management system and internal audit function.

Within its jurisdictional authority, the CPUC will:

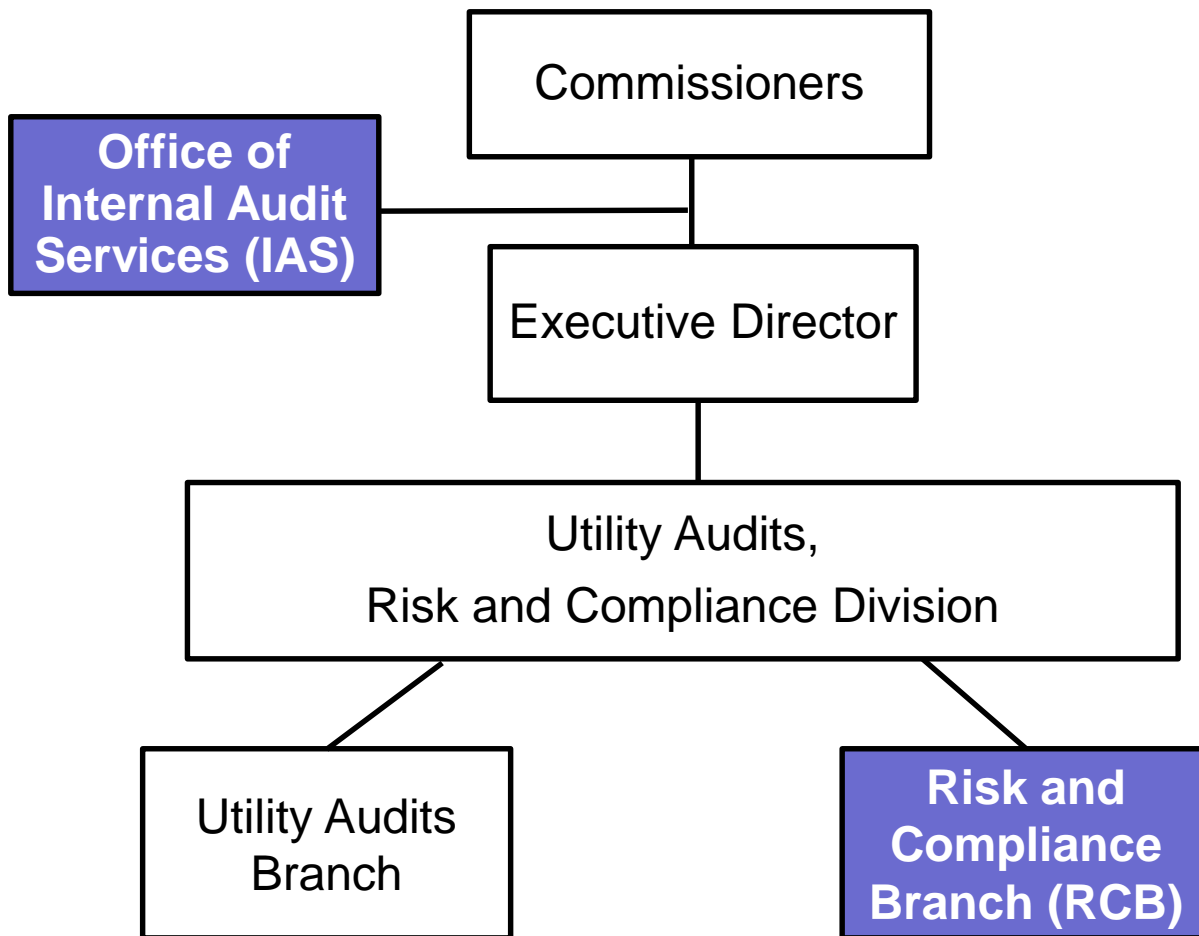
1. Identify and characterize substantial risks to the achievement of the CPUC's goals and strategic directives, including risks the public faces with respect to entities the CPUC regulates;
2. Prioritize risks of greatest concern, in light of their likelihood, severity, and available options for their mitigation;
3. Consider risk priorities in allocating the CPUC's resources, including budgetary funding and the time and attention of Commissioners and CPUC staff;
4. Test and verify the effectiveness of the CPUC's managerial controls and operations.





Risk and Compliance Branch

Office of Internal Audit Services





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1) Identify the Risks

Risk Assessment Process:

- June 2019 - Meetings with Commissioners & Executive Director
- September 2019 - Kick off meeting for division leadership
- Fall 2019:
 - ✓ Prepared Risk Management Process Memo
 - ✓ Facilitated risk assessment meetings with divisions
 - ✓ Risks captured in spreadsheets and collated across the CPUC

Risks identified through:

- Past Risk Assessment Results (2017 first year)
- Prior State Leadership Accountability Act (SLAA) Report
- External Audit Findings
- Internal Audit Findings
- Budget Change Proposals, Concept Papers
- All Hands Meeting with Managers and Supervisors





1) Characterize the Risks

Characterization of Substantial Risks:

Operational Risks

- Staffing/People
- Processes and Procedures

Compliance Risk

- Oversight/Monitoring
- Challenges in fully implementing laws and regulations





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2) Prioritize the Risks

Divisions and RCB Prioritization Process:

- Divisions:
 - ✓ Standardized scoring methodology
 - ✓ Acknowledged mitigating controls
 - ✓ **Identified root causes and action plans**
- RCB – Prioritized risks reported across the divisions using:
 - ✓ Completed scoring analysis (same)
 - ✓ Frequency (# reported by divisions)
 - ✓ Expertise (professional judgment) based on effect to CPUC's overall mission





2) Risk Scoring

LIKELIHOOD OF RISK

Not Likely \longleftrightarrow Definitely
1 ----- 5

1. Not Likely
2. Somewhat Likely
3. Likely
4. Very Likely
5. Definitely

IMPACT OF RISK

No Impact \longleftrightarrow Severe Impact
1 ----- 5

1. No impact
2. Slight Impact
3. Moderate Impact
4. Strong Impact
5. Severe Impact

The likelihood number is multiplied by the impact number. The total score is a factor in determining risk priority.





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3) The Results

Top Risks Affecting the CPUC:

1. Operational Risks – Staffing and Processes
 - a. Recruitment & Retention, Staffing Levels
 - b. Loss of Institutional Knowledge, Workforce Planning
 - c. Policies and Procedures

2. Operational Risks - Information Technology
 - a. Data Security
 - b. Physical Access to Assets
 - c. Documentation of Controls (System Security Plan)





3) The Results

Top Risks Affecting the CPUC:

3. Compliance Risks – Oversight and Monitoring
 - a. Implementing New Programs
 - b. Appeals and Litigation Process

4. Strategic Risks – Short Term/Long Term Planning
 - a. Prioritizing Strategies and Tasks
 - b. Facilities (Space, Infrastructure, and Safety)

Risks will populate the 2019 SLAA Report





3) Next Steps

Now that risks are identified, assessed, and prioritized, how do we manage risks?

- Divisions work to implement action plans.
- RCB confirms and tracks status of action plans.
- RCB will meet quarterly with Commissioners & Executive Director; provides status on action plans.
- Identify solutions through taskforces.
- RCB meets annually with Divisions for continuous risk management.
- Capitalize on attendance at Directors and Executive Director meetings.





3) Significant Risks Dashboard

Current Risks	Action Plan	2019		2020		2021		Trending
		Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	
1		1	4	○	○	○	○	↑
2		5	2	○	○	○	○	↓
3		3	3	○	○	○	○	↔
4		2	5	○	○	○	○	↑
5		4	1	○	○	○	○	↓
6		5	5	○	○	○	○	↔

Key:

- 1** Impact:
Likelihood:
- 2** Impact:
Likelihood:
- 3** Impact:
Likelihood:
- 4** Impact:
Likelihood:

- 5** Impact:
Likelihood:
Negative; Risk increasing
- ↑
Positive; Risk decreasing
- ↓
Holding; pending further action
- ↔





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4) Testing and verifying the effectiveness of CPUC's managerial controls and operations

➤ Office of Internal Audit Services (IAS)

- Performs **independent, objective assurance** services
- Internal Audit Charter

- **IAS' Authority** <Public Utility Code Section 307.6>
 - Chief Internal Auditor reports to the Commissioners
 - through the **Audit Committee**
 - and under the President's general direction





Audit Committee

President Batjer and Commissioner Shiroma

Approved Audit Committee (AC) Charter

- Authority:** Approve audits, operational reviews or investigations into any matters within its scope of responsibility
 - Audit Plan (AP): risk-based audits, special reviews; AP revisions**
- AC Meetings are held monthly**
- Oversight Responsibilities for the CPUC's:**
 - Internal Audit Process** (executed by Internal Audit Services)
 - Process for monitoring compliance with laws & regulations**
 - System of Internal Controls**





What is the System of Internal Controls?

Policies, procedures, and processes, designed to provide reasonable assurance regarding the achievement of agency objectives in the following categories:

- **Reporting** - Reliability of reporting
- **Operations** - Effectiveness and efficiency
- **Compliance** – with applicable laws and objectives

Helps safeguard assets; prevents/detects improper activities

Source: The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations (COSO) is the recognized standard for establishing internal controls

G.C.13400-13407 known as the **State Leadership Accountability Act (SLAA)**

- Enacted to strengthen internal control and reduce waste of resources





4) Outcomes of Internal Control Audits

Audit Methodology complying with Professional Standards

- ✓ Risk-based, systematic, disciplined (“to know what we audit”)
- ✓ Substantiated audit findings vs. defined audit criteria
- ✓ Identified root causes and developed remediation plans
- ✓ Collaborate and communicate to audit clients to correct the problem and implement a plan prior to issuing final audit report
- ✓ Management Corrective Action Plans; targeted dates
- ✓ Post-audit Follow-up and monitoring; report to Audit Committee

Key Results of the Inventory Control Audit

- ✓ **Significant lack of inventory internal controls**
 - ✓ Lack of controls severely limited our testing
- ✓ **Non-compliance with State Administrative Manual (SAM)**
 - ✓ SAM = reference resource for statewide requirements and policies
 - ✓ Lack of awareness of SAM





4) Risk Ranked Findings and Audit Recommendations = Corrective Action Plan with targeted implementation dates

Inventory Control Audit Reportable Findings	Probability of adverse effects to the division or CPUC				Implemented
	Priority	High	Medium	Low	
Finding 1: Significant Lack of Internal Controls Over CPUC's Entire Inventory Control Process *No policies and procedures <SAM 20060> *Division Silos					
Finding 2: CPUC Does Not Have a Property Inventory Plan – physical counts not conducted, reconciliations not performed, records inaccurate <SAM 8652>					
Finding 3: Lack of Segregation of Duties <SAM 20060>					
Finding 4: Inadequate Internal Controls over Asset Tagging <SAM 8651>					
Finding 5: CPUC's Record of State Property Does Not Contain all Necessary Information <SAM 8650>					
Finding 6: CPUC Does Not Have a Property Survey Board <SAM 3520.2>					
Finding 7: Inadequate Internal Controls Over Sensitive and High-Risk Property <SAM 8603>					





Effect of Inventory Control Deficiencies on CPUC

RISK RATING	EFFECT	Number of Findings with this rating
Priority	<p>Immediate and on-going threat to the achievement of division or CPUC strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>	5
High	<p>High probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur 	2
Medium	<p>Medium probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p>	0
Low	<p>Low probability of adverse effects to the division or CPUC as a whole, but that represent an opportunity for improving the efficiency of existing processes.</p>	0
Implemented	<p>Management action has been taken to address risk(s) noted in audit finding.</p>	0





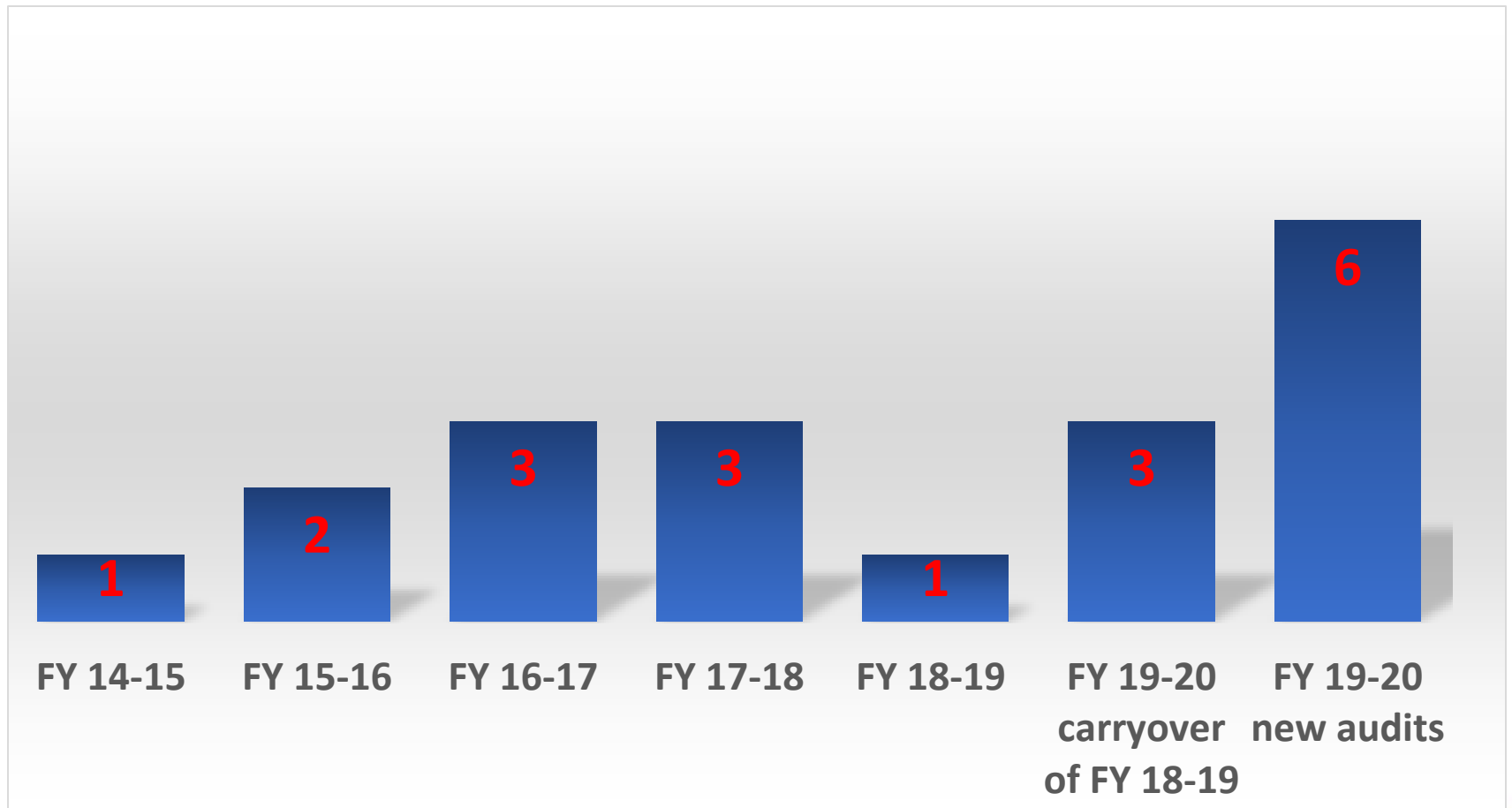
4) Status of Audits in Progress

INTERNAL CONTROL REVIEWS	IDENTIFIED INTERNAL CONTROL WEAKNESSES	FY19-20 TARGET** <i>**Dependent on AC priorities & resources</i>
1. Employee Separation Process	X	End of Q2
2. Business Continuity Plan	X	End of Q2
3. Lifeline Third Party Administrator Contract Management	X	Fieldwork CDT Support
4. Travel Advances	X	Fieldwork
5. Special Review (referral)	AUDIT ANALYSIS NOT STARTED	Restart Q3





IAS REPORT DELIVERABLES





4) Ongoing Collaboration Efforts

Monthly IAS/RCO Meetings

Integration - Provides assurance that critical risks are being identified effectively for focused action

- ❑ Link Audit Plan and enterprise risk assessment results
- ❑ Share other work products

Communication – Share information

- ❑ @ Division Risk Meetings; @ Audit Entrance/Exit
- ❑ For areas of mutual interest, increase awareness
- ❑ Shared goal as Change Agents = leads to action

Next Steps

Audit and Risk Quarterly Updates to the Commissioners
Education and Outreach on SAM; Policies & Procedures





4) Ongoing Collaboration Efforts

Initiatives accomplished:

- Joint Risk Presentation to Directors for the State Leadership Accountability Act risk assessment
- New Employee Onboarding Class – “Three Lines of Defense and Ethics” presented by RCO, IAS, Legal
 - ✓ **State Administrative Manual**; Call to action
- Joint Participation in CA Governance, Risk Management and Compliance Council (GRCC)
 - Best practices toward implementing and/or strengthening agencies’ governance, risk management, and compliance (GRC) programs





Compliance with Strategic Directive 12

CPUC staff believe the organization is substantially in compliance with Strategic Directive 12.





Questions?

