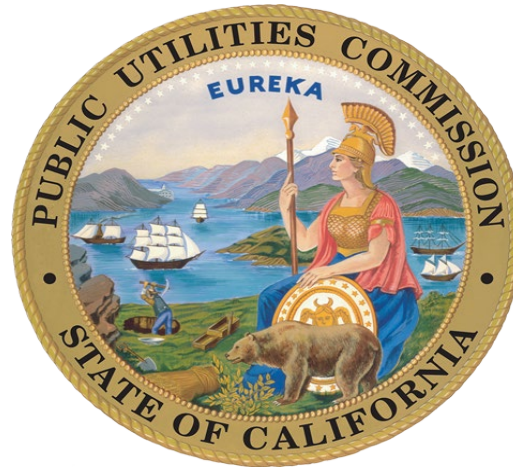




Report on Audits Conducted by the Office of Internal Audit Services



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Chief Internal Auditor

California Public Utilities Commission

July 22, 2020



AGENDA

- ❑ OFFICE OF INTERNAL AUDIT SERVICES and AUDIT COMMITTEE
 - ❖ Audit Committee: President Batjer; Commissioner Shiroma
- ❑ INTERNAL CONTROLS
- ❑ REVIEW OF INTERNAL CONTROLS: *Results and Corrective Actions*
 - ❖ Business Continuity Plan and Technology Recovery Plan
 - ❖ Employee Separation Process
- ❑ QUESTIONS AND RECAP





Accountability

Audit Committee: President Batjer; Commissioner Shiroma

Public Utilities Code Section 307.6

(C) “The chief internal auditor shall report his or her findings and recommendations directly to an audit subcommittee”

Monthly Audit Committee meetings

Review and Approve risk-based AUDIT PLAN

Audit Committee Charter defines key responsibilities





Authority and Services

➤ Public Utilities Code Section 307.6

(A) Chief Internal Auditor (CIA) role and reporting responsibility

(B) “perform audits of key financial, management, operational, and IT functions within CPUC **to improve accountability and transparency** to executive and state management.”

➤ Independent oversight office; Audit Committee; Internal Audit Charter

➤ **Services: Provide Assurance, Advise, Anticipate Risks**

Office of Internal Audit Services Site: <https://www.cpuc.ca.gov/IAS/>





Professional Standards

The International Standards for the Professional Practice of Internal Auditing -
Published by the Institute of Internal Auditors

Internal Auditing

*“helps an organization achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of **Risk Management, Controls and Governance** processes.”*





Internal Control

“Any action taken by **management**, the board, and other parties to **manage risk** and increase the likelihood that established **objectives and goals** will be achieved.”

Simple Definition of Internal Control....

*Trying to make the things we want to happen, happen ...
And the things we don't want to happen, not happen*



OBJECTIVES OF INTERNAL CONTROLS - WHY?

- ✓ Ensure reliability of financial reporting
- ✓ Ensure effective and efficient operations
- ✓ Comply with applicable laws and regulations
- ✓ Safeguard assets





Responsibility for Internal Controls

Management is responsible for establishing & maintaining controls

✓ **Government Code 13400 – State Leadership Accountability Act**

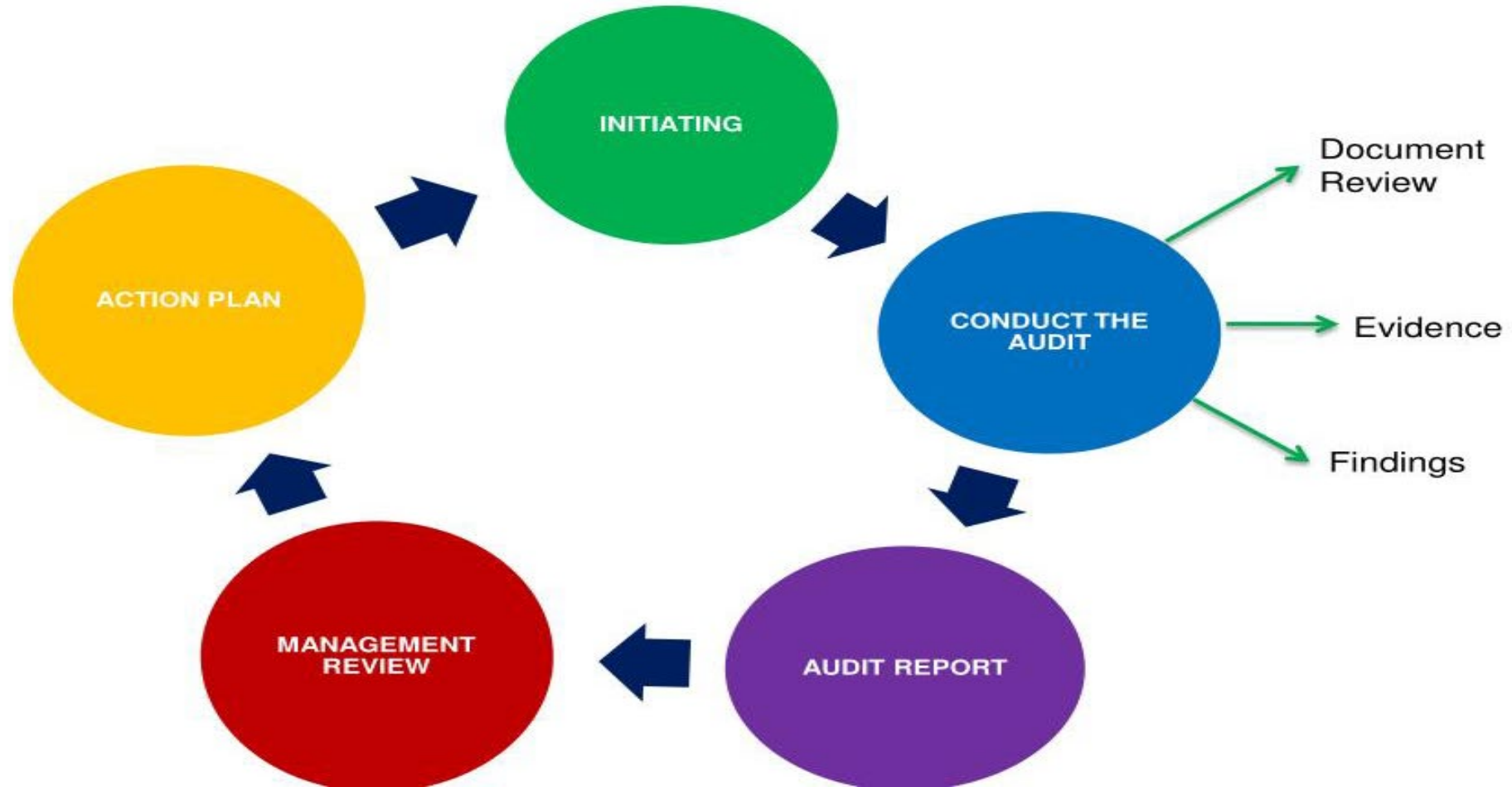
NOT Internal Auditors - Instead we *are* responsible for:

- ✓ Examining adequacy and effectiveness of CPUC's internal controls
- ✓ Making recommendations where control improvements are needed
- ✓ Contributing to the effectiveness of the control environment





The Audit Process





Review of Internal Controls over the Business Continuity Plan and Technology Recovery Plan

Audit objective: *To determine the adequacy and effectiveness of continuity planning management controls.*
Specific objectives: *1) Assess whether internal controls over the CPUC’s Business Continuity Plan and Technology Recovery Plan are in place and operating as designed, and 2) that the processes are administered in accordance with the applicable federal, state and department rules, regulations and statutes.*

- ***There is a significant lack of internal controls, which limited our testing. The CPUC’s internal controls over both Plans were not sufficient to meet the assurances stated above.***

Finding	Priority	High	Medium	Low	Implemented
1: The CPUC Does Not Have a Business Continuity Plan					
2: The value of the CPUC’s TRP is questionable as it was created without a current Business Continuity Plan					





Review of Internal Controls over the Employee Separation Process

Audit Objectives: 1) To determine whether internal controls over the CPUC’s employee separation process related to assets, security controls and disabling system user accounts are in place and operating as designed, and 2) that the processes are administered in accordance with the applicable rules, regulations and statutes.

➤ ***There is a significant lack of internal controls over the reviewed areas of employee separation processes. Our audit established the lack of awareness of the October 2018 established policies and procedures and the related internal control weaknesses.***

Finding	Priority	High	Medium	Low	Implemented
1. The separated employees’ user accounts are not timely disabled					
2. IT equipment retrieval is delayed and not always ensured					
3. There are significant internal control weaknesses over badge retrieval and deactivation					
4. HRD did not fully enforce the systematic rollout and implementation of the Employee Separation Clearance Policy and Procedure					
5. The Policy and Procedure needs refinement and enhancement to strengthen internal controls and guide CPUC management and staff in processing employee separations					





Legend of Risk Ratings

Effect of Control Deficiencies on CPUC

Priority	<p>Immediate and on-going threat to the achievement of division or CPUC strategic goals and objectives. In particular:</p> <ul style="list-style-type: none"> - Significant adverse impact on reputation - Non-compliance with statutory requirements - Potential or known financial losses - Substantially raising the likelihood that risks will occur <p>Management must implement corrective actions as soon as possible and monitor the effectiveness.</p>
High	<p>High probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - High potential for adverse impact on reputation - Increase in the possibility of financial losses - Increase in the likelihood that risks may occur
Medium	<p>Medium probability of adverse effects to the division or CPUC as a whole. Management must put in place corrective actions within a reasonable timeframe and monitor the effectiveness of the corrective actions.</p> <ul style="list-style-type: none"> - Medium potential for adverse impact on reputation - Potential increase in the likelihood that risks may occur
Low	<p>Low probability of adverse effects to the division or CPUC as a whole, but that represent an opportunity for improving the efficiency of existing processes. Correcting this will improve the efficiency and/or effectiveness of the internal control system and further reduce the likelihood that risks may occur.</p>
Implemented	<p>Management action has been taken to address the risk(s) noted in the audit finding. Management must ensure that controls implemented as a result of the finding are documented, communicated to employees, and monitored to ensure they are functioning as intended.</p>





Audit Follow-up and Monitoring

Reporting Requirements for the Audit Committee

Monitoring of Management's Corrective Action Plans (CAPs)

- IAS requests updates from management 60 days, 6 months, and 1 year after the final audit report release date.
- Further updates at 6-month intervals may be due if the corrective actions are not completed after 1 year

Follow-up Audit

- IAS may conduct a follow-up audit to determine if corrective actions have been implemented





Business Continuity Plan and Technology Recovery Plan Audit 60-day CAPs Update

Recommendation	Description	Initial Target Completion Date	Updated Target Completion Date	Status (OPEN = Not Implemented)
1A	Develop Continuity Plan	4/30/2020	6/30/2020	OPEN 6/29 update: Plan submitted to CalOES for review and approval
1B	Update TRP in Tandem with the Continuity Plan	4/30/2020	6/30/2020	OPEN
1C	Continuity Plan Policies & Procedures in line with Requirements & Guidelines	4/30/2020	6/30/2020	OPEN
1D	Assess and Update the Continuity Plan	1 Year after Cal OES approval	N/A	OPEN
2A	Update TRP Based Upon Continuity Plan	12/31/2021	N/A	OPEN
13 2B	TRP Policies & Procedures in line with Requirements & Guidelines	12/31/2021	N/A	OPEN

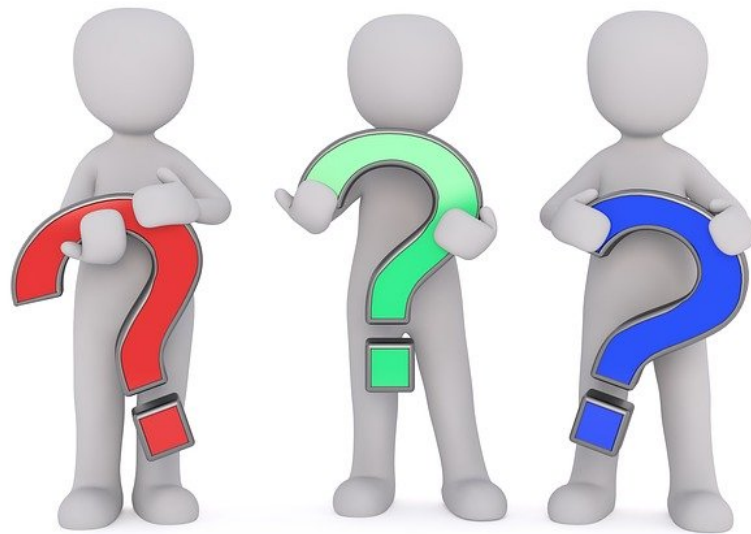




Employee Separation Process Audit: 60-day CAPs Update

Recommendation	Description	Initial Target Completion Date	Updated Target Completion Date	Status
1A	Develop a procedure, including SARF submission timeframe, to remove, add and update an employee	4/1/2020	4/9/2020	Implemented
1B	Implement and maintain a regular reconciliation to ensure timely & complete SARF submission vs. HRD records.	6/30/2020	6/1/2020	Partially Implemented
1C	HRD should provide training to supervisors and division HR liaisons about SARF submission and reconciliation.	6/30/2020	6/1/2020	OPEN
1D	ITSD should develop a separate periodic SARF review to confirm user accounts are disabled immediately upon separation.	4/1/2020	8/13/2020	OPEN
2	Establish controls for an improved process regarding timely IT equipment retrieval upon employees' separation.	4/1/2020	8/13/2020	Partially Implemented
3	Develop and implement policies: 1) for accountability of badges issued to employees and 2) timely badge deactivation & retrieval.	6/30/2020	5/15/2020	Implemented
4A	Adopt and enforce the updated version of the Employee Separation Policy and Procedure and the accompanying form.	6/30/2020	7/1/2020	Partially Implemented
4B	Provide agency wide training to stakeholders regarding their roles and responsibilities in the separation process.	6/30/2020	7/1/2020	Partially Implemented
5A	Collaborate and revisit each stakeholder's roles and responsibilities in the separation process and continuously revisit the policy and procedure for any changes or updates.	6/30/2020	6/1/2020	Partially Implemented
5B	Establish an employee on-boarding procedure in collaboration with stakeholder divisions, incl all items issued to new employees.	6/30/2020	6/1/2020	Partially Implemented
5C	Enhance the current Employee Separation Clearance Policy and Clearance Form - consider specific situation of different locations.	6/30/2020	6/1/2020	Partially Implemented





Questions





Thank you!

For Additional Information:

www.cpuc.ca.gov

www.GoSolarCalifornia.ca.gov

www.CalPhoneInfo.com

