



California Public Utilities Commission

Performance Audit

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February 2021

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Transmitted via e-mail

February 1, 2021

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Final Report—California Public Utilities Commission Performance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its performance audit of the California Public Utilities Commission's (CPUC) accounts receivable workbook as of June 30, 2019.

The enclosed report is for your information and use. CPUC's response to the report findings is incorporated into this final report. CPUC agreed with our findings and included a summary of its planned corrective actions within its response. A detailed corrective action plan (CAP) addressing the findings and recommendations is due from CPUC within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies. The CAP should be sent to: OSAEReports@dof.ca.gov. After the initial CAP is submitted, it should be updated every six months thereafter, until all planned actions have been implemented. Finance may perform a desk review or separate audit to ensure corrective actions were completed as reported. If a separate audit is deemed appropriate, CPUC will incur additional costs. The appropriate individual or mailbox CPUC has designated will receive reminders when the updates are due to Finance.

We appreciate CPUC's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

If you have any questions regarding this report, please contact Marilyn Standing Horse, Manager, or Hanzhao Meng, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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EXECUTIVE SUMMARY

At the request of the California Public Utilities Commission (CPUC), the California Department of Finance, Office of State Audits and Evaluations, conducted a performance audit of CPUC's accounts receivable workbook as of June 30, 2019 (AR Workbook). The audit objective was to evaluate whether the AR Workbook was accurate, complete, and in compliance with applicable laws, regulations, policies, and accounting standards.

CPUC serves the public interest by ensuring consumers have safe, reliable utility services at reasonable rates, protecting against fraud, and promoting the health of California's economy. CPUC implements its regulatory responsibilities and funds its operations by collecting user fees and surcharges from various carriers, imposing fines and penalties for violations of Public Utilities Code and other applicable laws and regulations, and seeking reimbursements from companies for utility-related projects. CPUC prepares and submits its annual AR Workbook to the State Controller's Office for the accounts receivable associated with these activities.

Based on the procedures performed and evidence gathered, CPUC's AR Workbook was not accurate or complete, and included a net overstatement of \$6.3 million. This overstatement included \$1.1 million invalid receivables, part of which are dated as early as fiscal year 1990-91, and other errors and variances. While CPUC has been actively pursuing resolving some of these accounts receivable balances and errors, its accounts receivable practices related to preparing the AR Workbook were not always in compliance with applicable laws, regulations, policies, and accounting standards.

The net \$6.3 million overstatement identified by our audit is summarized as follows:

Accounts Receivable Category	(Over)/Understatement
Year-End Accruals	\$ (9,901,541)
Discharge	(1,127,286)
Fines and Penalties	7,724,000
Reimbursable Contracts	(2,969,726)
Other	(28,255)
Total Net (Over)/Understatement	\$ (6,302,808)

We also identified weaknesses in CPUC's accounts receivable recording and collection practices, no policies and procedures for most accounts receivable related processes, and incomplete and untimely reconciliations. Further, weaknesses were identified in the recording of revenue in the Due From Other Funds account. Several of these weaknesses were identified in our 2009 and 2014 prior audit reports. If left unaddressed, these weaknesses increase the risk that CPUC's accounts receivable will continue to be inaccurate and incomplete, and hinder CPUC's ability to adequately monitor and collect monies owed to the state.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In August 2020, the California Public Utilities Commission (CPUC) received an allegation questioning the accuracy and collectability of its accounts receivable balances. The allegation claimed CPUC's \$200 million accounts receivable balances reported to the State Controller's Office (SCO) as of June 30, 2019 included past due, decades-old balances, which CPUC did not consistently pursue.¹ In response to this allegation, CPUC requested the California Department of Finance, Office of State Audits and Evaluations, to conduct a performance audit of CPUC's accounts receivable balances.

Headquartered in San Francisco, California, CPUC regulates privately owned electric, natural gas, telecommunications, water, railroad, rail transit, and passenger transportation companies, in addition to authorizing video franchises. Overseen by five Governor-appointed commissioners, CPUC serves the public interest by ensuring consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy.²

CPUC implements its regulatory responsibilities and funds its operations by collecting user fees and surcharges primarily from telecommunications, non-telecommunications³, and transportation carriers, and imposing fines and penalties for violations of Public Utilities Code and other applicable laws and regulations. In addition, CPUC funds energy efficiency, environmental, and other utility related projects, and seeks reimbursement from utility companies for these project costs. CPUC is organized into 13 divisions and reports accounts receivable data for 18 funds, including the General Fund and special funds.

CPUC uses the Financial Information System for California (FI\$Cal) to record and track all accounts receivable related activities, commencing fiscal year 2018-19. Prior to 2018-19, CPUC used the California State Accounting and Reporting System (CALSTARS).

Accounts Receivable Unit

Established in December 2010, the CPUC Accounts Receivable Unit (AR Unit) is primarily responsible for billing, collecting, and tracking revenue from user fees, surcharges, fines and penalties, and reimbursable contracts from CPUC's debtors,⁴ and CPUC employee salary advances. Additionally, the AR Unit establishes accruals during the year-end financial reporting process. Staffed with one supervisor and five employees, the AR Unit is

¹ CPUC public meeting August 31, 2020.

² Excerpts obtained from <https://www.cpuc.ca.gov/aboutus/>.

³ CPUC's non-telecommunications carriers include electric, gas, steam, water, and sewer corporations, and other public utilities companies.

⁴ CPUC's debtors include telecommunications, non-telecommunications, and transportation carriers, and others that owe monies to CPUC.

reliant on information from the Administrative Law Judge Division⁵, various program divisions, and other units within the accounting office, including the Cashiering Unit, Accounts Payable Unit, and the General Ledger Unit, to implement its responsibilities.

Accounts Receivable Workbook

CPUC prepared and submitted its annual Accounts Receivable Workbook to SCO in accordance with Government Code section 16583.2. The workbook includes accounts receivable balances for each of its 18 funds and information on prior-year accrual reversals, accounts receivable established and collected during the current fiscal year, discharges, current-year accruals, and miscellaneous adjustments.

CPUC's Accounts Receivable Workbook for fiscal year ended June 30, 2019 (AR Workbook) includes receivable balances for 18 funds⁶, totaling \$200.4 million. The balance is comprised of \$141.8 million year-end accruals⁷, \$26.3 million aging receivables greater than 180 days old, and \$32.3 million⁸ receivables less than 180 days old. According to the AR Workbook, CPUC estimates \$23.1 million of the aging receivables are uncollectible. See Appendix A for CPUC's AR Workbook.

SCOPE

At the request of CPUC, the California Department of Finance, Office of State Audits and Evaluations, conducted a performance audit of CPUC's AR Workbook. The audit objective was to evaluate whether the AR Workbook was accurate, complete, and in compliance with applicable laws, regulations, policies, and accounting standards.

Our audit focused on nine funds with accounts receivable balances greater than \$1 million as of June 30, 2019, including the General Fund and CPUC special funds. We included other CPUC special funds in our audit scope as necessary. Audit methodologies were applied to components of these receivable balances established during July 1, 1990 through June 30, 2019, to the extent the information was available and applicable to the AR Workbook. Transactions subsequent to June 30, 2019 were also reviewed in determining the accuracy and completeness of the accounts receivable balances.

In performing our audit, we considered internal controls significant to the audit objective. See Appendix C for a list of significant internal control components and underlying principles.

METHODOLOGY

To plan the audit, we interviewed key personnel in the accounting office and program divisions to gain an understanding of processes significant to the accounts receivable balances as of June 30, 2019. We also performed analytical procedures and reviewed supporting invoices, payments, citations, decisions, contracts, and other relevant

⁵ The Administrative Law Judge Division provides an independent forum for the disposition of CPUC proceedings by issuing decisions, resolutions, and other administrative records.

⁶ Although 18 funds were included in the AR workbook, only 15 funds reported receivable balances as of June 30, 2019.

⁷ Per the State Administrative Manual section 8210, accruals represent revenue earned, but not yet received, as of June 30.

⁸ \$32.3 million = \$200.4 million AR Workbook balance – \$141.8 million year-end accruals – \$26.3 million aging receivables.

documents to assess the accuracy and completeness of the accounts receivable balances. Additionally, to assess CPUC's compliance, we identified applicable criteria by reviewing relevant laws, regulations, policies, and accounting standards.

We conducted a risk assessment, including evaluating whether CPUC's key internal controls significant to our audit objective were properly designed, implemented, and operating effectively. Internal controls evaluated focused on CPUC's accounting processes in initiating, recording, reporting, and reconciling accounts receivable related activities; collection practices; and the AR Unit's communication with the other accounting units and program divisions. Our assessment included conducting interviews with CPUC personnel and reviewing supporting documents for selected reconciliation, accrual, and discharge packages. Deficiencies in internal controls identified during our audit and determined to be significant within the context of our audit objective are included in the Results section of this report.

We assessed the reliability of data in the FISCAL General Ledger Detail, Transaction Activity, and Accounts Receivable Accrual reports; the Revenue Detail report generated from the Telecommunications and User Fee Filing System⁹, and the Project Payment Tracker prepared by CPUC's accounting staff. Specifically, we traced a selection of data to source documentation to test for accuracy and completeness, and performed recalculations to determine the accuracy of surcharge rates used in arriving at the fee amount due from debtors. We determined the data assessed were sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to address the audit objective. Our methods are detailed in the Table of Methodologies in Appendix B.

Except as discussed in the following paragraph, we conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Finance and CPUC are both part of the State of California's Executive Branch. As required by various statutes within California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

⁹ The Telecommunications and User Fee Filing System is an electronic reporting and remittance system for surcharges and user fees, used by telecommunications corporations, per the CPUC website <https://www.cpuc.ca.gov/General.aspx?id=11004>

CONCLUSION

Based on the procedures performed and evidence gathered, CPUC's AR Workbook was not accurate or complete, and included a net overstatement of \$6.3 million. This overstatement includes \$1.1 million invalid receivables, part of which are dated as early as 1990-91, and other errors and variances. While CPUC has been actively pursuing resolving some of these accounts receivable balances and errors, its accounts receivable practices related to preparing the AR Workbook were not always in compliance with applicable laws, regulations, policies, and accounting standards. Table 1 summarizes the AR Workbook over and understated amounts.

Table 1: Summary of (Over)/Understated AR Workbook Balances

Fund Name and Number	Year-End Accruals Finding 1	Discharge Finding 2	Fines and Penalties Finding 3	Reimbursable Contracts Finding 4	Other¹⁰	Total (Over)/Understatement
General Fund (0001)	\$ 34,100	\$ (518,548)	\$ 7,724,000			\$ 7,239,552
State Transportation Fund, Motor Vehicle Account (0044)		(495)				(495)
Transportation Rate Fund (0412)		(204,332)				(204,332)
CPUC Transportation Reimbursement Account (0461)	(10,448,733)	(108,217)		\$ 184,430		(10,372,520)
CPUC Utilities Reimbursement Account (0462)	11,500,915	(104,118)			\$ (28,255)	11,368,542
California High-Cost Fund-A Administrative Committee Fund (0464)	(584,857)					(584,857)
Universal Lifeline Telephone Service Trust Administrative Committee Fund (0471)	(8,180,315)	(191,576)				(8,371,891)
Deaf and Disabled Telecommunications Program Administrative Committee Fund (0483)	81,780					81,780
California Teleconnect Fund Administrative Committee Fund (0493)	(1,319,627)					(1,319,627)
Federal Trust Fund (0890)				(3,283,830)		(3,283,830)
CPUC Public Advocate's Office Account (3089)				129,674		129,674
California Advanced Services Fund (3141)	(984,804)					(984,804)
Total Net (Over)/Understatement	\$ (9,901,541)	\$ (1,127,286)	\$ 7,724,000	\$ (2,969,726)	\$ (28,255)	\$ (6,302,808)

Significant weaknesses exist within CPUC's accounts receivable related processes, resulting in an inaccurate and incomplete AR Workbook and noncompliance with applicable laws, regulations, policies, and accounting standards. Issues related to

¹⁰ \$28,255 overstated accounts receivable balance as of June 30, 2019 was related to a fee payment received in February 2019 but not applied to the debtor's account until June 2020.

CPUC's accounts receivable practices were previously identified in Finance's March 2009¹¹ and April 2014¹² audits. Left unaddressed, these weaknesses increase the risk that CPUC's accounts receivable will continue to be inaccurate and incomplete, and hinder CPUC's ability to adequately monitor and collect monies owed to the state.

FINDINGS AND RECOMMENDATIONS

The Findings and Recommendations detail the identified over and understated accounts receivable balances, including the causes for the differences and recommendations to improve CPUC's related processes. Findings 1 through 4 are organized by the accounts receivable topics of year-end accruals, discharging uncollectible balances, fines and penalties, and reimbursable contracts. Findings 5 through 7 discuss weaknesses in CPUC's internal controls over its accounts receivable practices. Additionally, we identified unrecorded revenue in the Due From Other Funds account, included in the Other Matters section.

Finding 1: Year-End Accruals Contributed to \$9.9 million in Overstated Accounts Receivable

Differences between estimated year-end revenue accruals and actual revenue received contributed to the inaccurate and incomplete AR Workbook, for a net overstatement of \$9.9 million. Specifically, CPUC estimated \$141.8 million of 2018-19 revenue earned that would be received after June 30. However, actual revenue received totaled \$131.9 million. Table 2 summarizes the accrual differences identified by revenue type.

Table 2: (Over)/Understated Accrual Amounts By Revenue Type

Fund #	User Fees and Surcharges	Reimbursable Contracts	Fines and Penalties	Total
0001			\$ 34,100	\$ 34,100
0461	\$ (10,448,733)			(10,448,733)
0462	4,799,690	\$ 6,701,225		11,500,915
0464	(584,857)			(584,857)
0471	(8,180,315)			(8,180,315)
0483	81,780			81,780
0493	(1,319,627)			(1,319,627)
3141	(984,804)			(984,804)
Total	\$ (16,636,866)	\$ 6,701,225	\$ 34,100	\$ (9,901,541)

Accruals are a significant component of CPUC's year-end accounts receivable balances, representing approximately 71 percent of all June 30, 2019 balances. As part of the year-end financial reports process, the State Administrative Manual (SAM) section 7950 requires departments to estimate accruals with reasonable accuracy, including estimating receivable accruals when it is not possible to obtain actual documentation.

After issuing its year-end financial reports, if a department determines there are material differences between amounts accrued as of June 30 and actual revenues received,

¹¹ CPUC Fiscal Office Internal Control Review, December 2008, issued March 23, 2009.

¹² CPUC Fiscal Audit of Transportation Reimbursement Account and Utilities Reimbursement Account Fiscal Years 2010-11 through 2012-13, March 2014, issued April 1, 2014.

SAM section 7981 instructs departments to contact SCO for instructions. For 2018-19, a net change in total accrued revenue of \$100,000 was considered material.¹³ CPUC did not contact SCO for instructions regarding its \$9.9 million over-accrued amounts due to delays in completing SCO fund and agency reconciliations. Incomplete accrual methodologies and inadequate review practices primarily contributed to the differences between estimated revenue accruals and actual revenue received.

Incomplete Accrual Methodologies

CPUC's accounts receivable accrual methodologies vary by revenue type. As described below, these methodologies do not include all components necessary to produce accurate and complete year-end accruals.

User Fees: Accruals are based on actual revenue received from debtors, primarily from July through September after fiscal year-end. Accruals do not include estimates for fees due from debtors with active licenses or permits who did not submit payments.

Surcharges: Accruals are estimated using revenue reported by debtors in May and June of the current fiscal year. Estimates do not consider debtors with active licenses or permits who did not report revenue in these months.

Reimbursable Contracts: Accruals are estimated by comparing an expenditure encumbrance report generated from FI\$Cal and billing information manually tracked by the AR Unit. The 2018-19 accrued amounts did not include all differences identified from this comparison.

Fines and Penalties: The AR Unit relies on notifications from the Administrative Law Judge Division and program divisions to record accruals. Those divisions are responsible for assessing fines and penalties; however, there is no process to ensure the complete population of fines and penalties is communicated to the AR Unit or recorded in the accounting records.

Inadequate Review Practices

Not all accrual entries were adequately reviewed by AR Unit management to ensure accuracy and completeness. For three of eight accrual entries reviewed, CPUC could not provide any evidence of management review. The AR Unit management's approval of 2018-19 user fees and surcharges accruals was based on a comparison to the 2017-18 accrual amounts, without reviewing the accrual methodologies or supporting documents.

Recommendations

- A. Report all material differences related to accruals to SCO, as required by SAM.
- B. Reassess the reasonableness and completeness of accrual methodologies to better estimate revenue earned but not received at year-end.

¹³ The SAM \$100,000 threshold was increased to \$1 million in August 2019, effective 2019-20.

- C. Collaborate with the Administrative Law Judge Division and program divisions to obtain necessary information to increase the accuracy and completeness of revenue accruals.
- D. Ensure that all year-end accruals are thoroughly reviewed by CPUC management before approving. The review should include verification of the appropriate use of the accrual methodologies developed pursuant to Recommendation B, and supporting documentation.

Finding 2: CPUC's Discharge Practices Resulted in at least \$1.1 million Uncollectible Accounts Receivable

Weaknesses in CPUC's discharge process resulted in reporting \$1.1 million invalid accounts receivable balances for six funds, and \$21.9 million potentially uncollectible balances in the AR Workbook. These balances date from as early as 1990-91 to as recent as 2015-16. Weaknesses in the discharge process include retaining balances without sufficient documentation, and infrequent review and monitoring of outstanding receivables.

Balances without Sufficient Documentation

CPUC's AR Workbook includes \$1,127,286 of invalid receivables, overstating the overall accounts receivable balance. Specifically, \$607,780 are balances not associated with any specific debtor and \$519,506 are balances with no documentation supporting the outstanding balances or ongoing collection efforts. These balances are further explained below.

- The \$607,780 emanated from CPUC's transition to CALSTARS in 1999-00, including receivables dated between 1990-91 and 1997-98. This inherited balance was related to dishonored checks, unpaid fines and penalties, and other miscellaneous balances as a lump-sum amount. Individual debtor details accompanying these balances were not loaded into CALSTARS. The same balances were also carried forward during CPUC's 2018-19 transition to FISCAL.
- The \$519,506 consists of accounts receivable balances where no documentation is available to support the amounts or CPUC's collection efforts for receivables dated between 1997-98 and 2015-16. CPUC stated that documentation was not retained due to staff shortages, lack of staff expertise, and competing priorities. As a result, CPUC has been unable to discharge these balances via the SAM process of completing an Application for Discharge of Accountability form.

SAM section 8291.1 considers a receivable valid when sufficient documentation exists to support the receivable, including the debtor name and an invoice or other document identifying the amount owed. Because the \$1,127,286 receivable balances do not have debtor names or sufficient documentation supporting amounts owed, they are not considered valid receivables, and therefore, overstate the AR Workbook.

Infrequent Review and Monitoring of Outstanding Receivables for Discharge

CPUC's monitoring of existing balances and debtor information needs improvement. CPUC reviews accounts receivable to identify potential balances to discharge on an infrequent, intermittent basis, as opposed to the quarterly review requirement set forth in SAM section 8293.5. CPUC stated it was not aware of the quarterly review requirement. This sporadic review and monitoring has resulted in outstanding balances owed by insolvent or out of business debtors, outdated contact information for debtors, and longstanding balances with no activity or payment. For example, we attempted to confirm accounts receivable balances of 34 CPUC debtors with balances ranging between \$0 and \$19.8 million as of June 30, 2019. Nine debtors confirmed amounts different from CPUC's records, and six debtors were no longer in business, despite CPUC reporting receivable balances for them totaling \$21.9 million as of June 30, 2019. One of these six debtors' last known communication with CPUC was in 2003. Table 3 summarizes the last known communication between CPUC and the six debtors.

Table 3: Last Known Communication with Debtors No Longer in Business

Debtor Number	Outstanding Balance	Last Known Communication
1	\$ 19,760,000	Administrative action filed July 2020.
2	792,730	Final collection letter issued October 2018. CPUC received \$300,000 settlement in March 2020.
3	495,121	Final collection letter issued October 2012.
4	437,783	Final collection letter issued June 2003.
5	228,000	Final collection letter issued April 2018.
6	189,061	No supporting documents available. Balance relates to receivables dated from 2009-10.
Total	\$ 21,902,695	

Recommendations

- A. Consult with SCO to remove receivable balances associated with invalid receivables, including those without an identifiable debtor or documentation supporting the receivable amounts.
- B. Review accounts receivable balances at least quarterly to timely discharge uncollectible and invalid receivables, and train staff to maintain all supporting documentation required by SAM.
- C. Routinely communicate with debtors regarding outstanding receivable balances, which includes, but is not limited to, sending monthly statements and periodic phone calls.
- D. Work with CPUC Legal Division to determine the appropriateness of discharging balances associated with debtors that are no longer in business.

Finding 3: AR Workbook did not Include Fines and Penalties Totaling \$7.7 million

The AR Workbook did not include all fines and penalties owed to CPUC as of June 30, 2019, for a total understatement of \$7.7 million to the General Fund. The AR Workbook did not include these balances because of incomplete or delayed communication between program divisions and the AR Unit. Table 4 presents the details of these balances.

Table 4: Details of Understated Fines and Penalties Accounts Receivable

Responsible Program Division	Amount	Reason not Included in AR Workbook	Date Citation Issued	Date Recorded in FI\$Cal
Consumer Protection and Enforcement Division(CPED)- Transportation Branch	\$ 10,000	Citation was not timely provided to the AR Unit.	11/30/2018	11/4/2019
CPED- Transportation Branch	8,000	Citation was not timely provided to the AR Unit.	3/3/2019	12/23/2019
CPED- Transportation Branch	6,000	Citation was not timely provided to the AR Unit.	6/4/2019	10/17/2019
Safety and Enforcement Division - Electric Safety and Reliability Branch	7,700,000	Citation amount was amended from \$300,000 to \$8 million; however, amendment was not provided to the AR Unit.	10/3/2018	Not recorded
Total	\$ 7,724,000			

CPUC's regulatory responsibilities include imposing fines and penalties for violations of Public Utilities Code and other applicable laws and regulations. CPUC's various program divisions (excluding the Communications Division) and the Administrative Law Judge Division, are responsible for notifying the AR Unit of imposed fines and penalties to establish accounts receivable. Despite citations creating valid accounts receivable, the Communications Division reached a verbal agreement with the AR Unit in October 2018 to not record receivables for citations because many impacted debtors may no longer be in business. As described in Finding 5, this practice does not ensure accounts receivable are established for all debtors.

CPUC's existing process is not designed to ensure all fines and penalties are communicated to the AR Unit to establish receivables in FI\$Cal or included in the AR Workbook. If the AR Unit is not timely provided with the fines or penalties information, it has no other mechanism to identify or establish the receivable or pursue its collection. For example, CPUC does not have a process that requires periodic communication or reconciliations between the AR Unit, program divisions, and Administrative Law Judge Division to ensure the completeness and accuracy of the fines and penalties accounts receivable, as described in Finding 7. The AR Unit stated it is unaware of who the appropriate contact is in each program division to obtain the necessary information.

SAM sections 8291 and 8291.1 requires all state entities to maintain proper controls over receipts and receivables, including recording receivables accurately and timely within 30 days following the occurrence of the event that gave rise to the accounts receivable.

Recommendations

- A. Proactively communicate with the program divisions and Administrative Law Judge Division to obtain information related to all fines and penalties imposed and establish accounts receivable in accordance with SAM.
- B. Reconcile fines and penalties related accounts receivable with divisions' internal systems at least monthly to identify any unrecorded accounts receivable. Establish contact persons for each division to facilitate communication.

Finding 4: Errors and Weaknesses Related to Reimbursable Contracts Resulted in \$2.9 million Overstated Accounts Receivable Balances

Weaknesses in CPUC's reimbursable contract practices, including incomplete reconciliations and issues with FI\$Cal implementation, contributed to the inaccurate and incomplete AR Workbook, impacting three funds for a net overstatement of \$2.9 million, as follows:

Fund 0890: Two federally funded receivables should have been reported in Fund 0890's Due From Federal Government account instead of the Accounts Receivable Reimbursement account, resulting in an overstatement of \$3,283,830. CPUC subsequently corrected this error in November 2019.

Fund 0461: One payment was erroneously applied to Fund 0461, resulting in an understatement of \$184,430. CPUC was unclear as to what caused the error, and subsequently corrected this error in June 2020.

Fund 3089: One reimbursable project did not automatically generate accounts receivable in FI\$Cal for five expenditures, resulting in an understatement of \$129,674 in receivables for Fund 3089. CPUC was unclear as to what caused the error, and subsequently corrected this error in June 2020.

Additional weaknesses within the reimbursable contract and billing process contributed to the inaccurate and incomplete accounts receivable balances and noncompliance with applicable laws, regulations, and policies, as further described below.

Reimbursement Contract Process Issues

CPUC did not always execute reimbursement contracts prior to billing utilities, impacting the appropriateness and collectability of related accounts receivable balances. For example, CPUC billed one utility company a total of \$1.2 million for project expenditures without an executed reimbursement contract and Administrative Law Judge decision. The AR Unit was unaware of this issue until after the billings were generated and reclassified the \$1.2 million as a contingent receivable. CPUC's standard practice is to instruct utility companies to reimburse CPUC's expenses related to reimbursable projects through reimbursement contracts and Administrative Law Judge decisions. As of November 2020, CPUC was determining the disposition of the \$1.2 million receivable.

State Contracting Manual section 2.02 defines a contract as "an agreement to do or not to do a certain thing." An agreement gives rise to an obligation or legal duty enforceable in an action at law, and must clearly identify the parties to the contract,

the term of the contract, and the contract price. SAM section 8291.1 considers a receivable to be valid when legal authority exists to bill for the amounts owed.

Incomplete and Untimely Reimbursement Contract Billing

The AR Workbook may have been understated by project expenditures paid but not billed to utility companies for reimbursable contracts. After CPUC pays project invoices, the AR Unit bills utility companies for the paid project expenditures that are eligible for reimbursement and establishes an accounts receivable. However, lack of adequate review and reconciliation of billings for reimbursable contracts by the AR Unit may have resulted in unbilled reimbursable expenditures. CPUC stated it was unable to quantify the impact of unbilled reimbursable expenditures on the accounts receivable balances due to its unfamiliarity with FI\$Cal.

Additionally, CPUC did not always bill utility companies within 30 days after the reimbursable project expenditures were paid. Specifically, of the 117 billing invoices reviewed, 35 invoices totaling approximately \$7.8 million were sent between 60 days to 180 days after the related expenditure payment. According to CPUC, since its transition to FI\$Cal in July 2018, it faced significant challenges in learning the system and timely closing fiscal periods. CPUC was unable to allocate staff resources to process billings related to reimbursable contracts until December 2018, leaving five months of billings processed untimely.

SAM section 8291.1 states invoices should be sent to the debtor as soon as practical and within 30 days after the event giving rise to the accounts receivable, i.e. after the reimbursable expenditure was paid. Public Utilities Code section 401, subdivision (b), states reimbursements and other revenue sources are used to fund CPUC's authorized expenditures.

Recommendations

- A. Communicate with program divisions at least monthly to reconcile reimbursable project related information, including identifying new contracts, closed contracts, and amendments.
- B. Reconcile expenditures and billings related to reimbursable contracts on a monthly basis. Identify and bill any reimbursable expenditures incurred but not billed and ensure a related accounts receivable is recorded in FI\$Cal.
- C. Ensure all reimbursable accounts receivable billings are generated within 30 days after corresponding expenditures are incurred.
- D. Attend FI\$Cal training provided by the California Department of FI\$Cal, including topics related to month-end and year-end processes, and the accounts receivable module.

Finding 5: Weaknesses in Accounts Receivable Recording and Collection Practices

CPUC's accounts receivable recording and collection practices are ineffective to ensure accurate recording and timely and successful collection of accounts receivable balances. For example,

- CPUC does not establish accounts receivable balances for all of its user fees, surcharges, fines and penalties, and reimbursable contracts. CPUC stated it is not feasible to establish receivables due to the volume of carriers owing fees and surcharges, and the frequency of payments. For details regarding fines and penalties and reimbursable contracts, refer to Findings 3 and 4, respectively. Because of this practice, combined with the incomplete accrual methodologies described in Finding 1, the impact to CPUC's accounts receivables for fees and surcharges is unknown.
- CPUC does not proactively verify all user fees and surcharges due, impacting the accuracy of the accounts receivable balances. CPUC continues to rely on carriers to self-report revenue and calculate user fees and surcharges due, only verifying the revenue if a carrier requests an adjustment to its previously reported revenue. The Utility Audit, Risk and Compliance Unit also verifies the accuracy of revenue reported and fees due for significant carriers. Although the audits can help ensure the accuracy of reported revenues for selected carriers, the process can be improved by performing accuracy checks at the time the revenue are reported and payments received, rather than retrospectively. Similar self-reported revenue and calculation for user fees and surcharges due issues were noted in our April 2014 audit report.
- CPUC's primary collection method for delinquent accounts receivable is to send collection letters to debtors. These letters were not always sent timely, and in some instances were not sent at all. Additionally, CPUC does not pursue collection of a receivable if the debt is under appeal with CPUC or the debtor is in the bankruptcy process; although, CPUC may still have the authority to collect the monies owed to the state under these circumstances. Further, while CPUC has the ability to exercise punitive actions including revoking licenses or permits, or charging interest and penalties on outstanding balances, CPUC does not currently exercise these actions for all types of debtors.

SAM section 8291 defines accounts receivable as a claim against a debtor, such as a person, business, or governmental entity for money owed to the state. A valid accounts receivable should be billed and recorded in the department's accounting records in a timely manner. When a carrier holds an active license or permit, and conducts business in California under CPUC's regulatory authority, the carrier must pay its dues as required by Public Utilities Code section 401. Although SAM section 8210 allows departments to account for revenues on a cash basis as of the date the remittances are received, the department should accrue revenue earned whether billed or non-billed at fiscal year-end. As required by Government Code section 13403, subdivision (b), an effective system of internal review is an integral part of a satisfactory system of internal control.

By not formally establishing all receivables, using alternative methods to properly account for unpaid fees and surcharges, or actively pursuing collections for delinquent

accounts receivable, CPUC risks reporting and collecting incomplete revenue and accounts receivable balances.

Recommendations

- A. Develop and implement a process to ensure total fees, surcharges, fines and penalties, and reimbursable contracts accounts receivable are recorded in FI\$Cal and included in the AR Workbook.
- B. Implement a revenue verification process upon receiving self-reported revenues, such as requiring carriers to provide financial records as supporting documents. Communicate variances to CPUC's Utility Audit, Risk and Compliance Unit for consideration in its audit plan and risk assessment.
- C. Develop and implement a process that ensures collection letters are sent timely for all outstanding receivables to which CPUC has the legal authority to collect.
- D. Identify and apply applicable collection methods within Government Code, Public Utilities Code, SAM, and other state requirements, and consult with other state departments for best collection practices.

Finding 6: No Policies and Procedures for Most Accounts Receivable Related Processes

CPUC does not have formal policies and procedures for almost all accounts receivable related processes, including reconciliations, estimating year-end accruals, discharging uncollectible balances, and monitoring and collecting receivables. CPUC stated it is in the process of developing and finalizing written policies and procedures for all accounts receivable related processes; however, as of December 2020, these policies and procedures were not yet finalized. Similar issues related to policies and procedures and reconciliations were noted in our March 2009 and April 2014 audit reports.

Government Code section 13401, subdivision (b), requires each state department to maintain effective systems of internal control, and one of the required elements of a satisfactory system of internal control is a system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.

Documented policies and procedures guide employees in consistently applying business processes to meet CPUC management's directives, and help ensure continuity in the event of employee departures. The absence of written policies and procedures for accounts receivable related processes contributed to inaccurate and incomplete accounts receivable balances.

Recommendation

- A. Finalize the written policies and procedures for the accounts receivable reconciliation, year-end accrual, discharge, and monitoring and collection processes. Communicate the policies and procedures to the appropriate parties. These policies and procedures should include, but not be limited to, the following:
- Roles and responsibilities of employees, units, and divisions involved in these processes.
 - Expected timeframes and due dates for each process, as appropriate.
 - Supervisory review of processes, as appropriate.

Finding 7: Reconciliations Impacting Accounts Receivable were Untimely or Incomplete

Key reconciliations essential for effectively managing accounts receivable balances were untimely and incomplete, including reconciliations with SCO records. Specifically, some reconciliations were not performed within 30 days of their required due date, while others were not performed at all. For reconciliations performed, issues and errors were left unresolved or uncorrected, leaving the reconciliation incomplete. Similar issues related to reconciliations were noted in our March 2009 and April 2014 audit reports.

Table 5 summarizes the types of reconciliations relevant to accounts receivable that were either not performed or were incomplete. CPUC stated these reconciliations were untimely and incomplete due to a lack of FI\$Cal expertise and no available staff to perform the reconciliations.

Table 5: Untimely and Incomplete Reconciliations Impacting Accounts Receivable

Reconciliation Descriptions	Fiscal Year 2018-19 Status
Telecommunications carrier surcharges and user fees and FI\$Cal	Incomplete, unresolved reconciling items and errors.
Non-telecommunications carriers and transportation user fees and FI\$Cal	Incomplete, unresolved reconciling items.
Reimbursable contracts and fines and penalties (all payments) and FI\$Cal	No reconciliations performed during 2018-19.
SCO records and FI\$Cal general ledger account balances (fund reconciliation)	Only completed for 5 funds. The completed reconciliations were completed untimely and there was no evidence of management review or approval.
SCO records and FI\$Cal appropriation account balances (agency reconciliation)	Completed for all funds, except for Fund 0462 which had unresolved reconciling items. ¹⁴ No evidence of management review and approval, or dates indicating when reconciliations were performed.

SAM sections 6401 and 7901 require state departments to complete reconciliations necessary to safeguard the state's assets; such reconciliations are required to be prepared monthly within 30 days of the preceding month and include documentation of the date prepared and reviewed.

¹⁴ Fund 0462 is the CPUC Utilities Reimbursement Account.

By not completing required reconciliations, CPUC was unable to identify and remit deposits collected from telecommunications carriers between July 2018 and October 2018, or resolve over \$25.6 million reconciling items resulting from Fund 0462's reconciliation.

Recommendations

- A. Ensure all accounts receivable reconciliations between FI\$Cal, CPUC internal systems, and SCO records are completed and reviewed by CPUC management within 30 days of the preceding month, as required by SAM.
- B. Document management's review and approval of the reconciliations, including dates completed.
- C. Timely research and resolve outstanding reconciling items.
- D. Retain appropriate documentation to support the reconciliations.

Other Matters - Due From Other Funds did not Include Gas Consumption Surcharges Totaling \$147.3 million

CPUC did not accrue gas consumption surcharges revenue earned in the last quarter of 2018-19, totaling \$147.3 million in CPUC's Due From Other Funds account in the Gas Consumption Surcharge Fund 3015.¹⁵ The California Department of Tax and Fee Administration (CDTFA) collects these revenues on behalf of CPUC, transferring the revenue to CPUC quarterly. CPUC did not contact CDTFA to identify possible accruals related to these revenues during its year-end accrual process.

¹⁵ While accounts receivable balances represent revenue owed to CPUC from private entities, amounts owed to CPUC from other funds or appropriations are recorded in the Due From Other Funds account, as described in SAM section 7620.

CPUC Accounts Receivable Workbook as of JUNE 30, 2019 Submitted to SCO (PARTIAL)

Accounts Receivable (AR) Reporting
Fiscal Year 2018-2019
Detail of ARs by Fund

TABLE #1

DEPARTMENT: California Public Utilities Commission

ORG. CODE: 8660

TABLE 1 - DETAIL ACCOUNTS RECEIVABLE DATA for GL 13XX ONLY as reported in the Budgetary/Legal Basis Financial Statements.

	1		2	3	4	5	6	7	8.000	9.000	10
Fund	ARs as of 06/30/18 (Must Agree with Financial Statement by Fund)		Reversal of PY Accruals	Dollar Amount of ARs Established During FY 2018-19	PY ARs Collected in CY (During FY 2018-19 for 06/30/18 ARs)	Collections of ARs Established During FY 2018-19	Total AR Collections During FY 2018-19	Miscellaneous Adjustments	CY Accruals	ARs as of 06/30/19 (Must Agree with Financial Statement by Fund)	Total Dollar Amount of ARs Discharged during FY 2018-19
0001	\$22,181,327		\$0	\$26,854,113	\$1,795,146	\$10,526,032	\$12,321,178	(\$311,639)	0.000	36,402,622.960	\$311,639
0042	\$0		\$0	\$0	\$0	\$0	\$0	\$0	0.000	0.000	0
0044	\$525		\$0	\$135	\$0	\$110	\$110	\$0	0.000	550.000	0
0046	\$45		\$0	\$0	\$0	\$0	\$0	\$0	0.000	44.930	0
0097	\$0		\$0	\$0	\$0	\$0	\$0	\$0	0.000	0.000	0
0412	\$970,643		\$762,062	\$3,574	\$76	\$0	\$76	\$0	0.000	212,079.120	0
0461	\$3,366,339		\$3,249,744	\$23,617	\$4,058	\$196,237	\$200,295	\$0	10,644,135.530	10,584,052.660	0
0462	\$45,628,910		\$40,753,872	\$21,373,530	\$2,379,152	\$6,089,497	\$8,468,650	(\$37,656)	42,635,155.030	60,377,416.100	37,656
0464	\$4,924,210		\$4,921,949	\$56	\$51	\$5	\$56	\$0	4,466,486.000	4,468,747.170	0
0470	\$445		\$0	\$0	\$0	\$0	\$0	\$0	0.000	445.040	0
0471	\$66,931,461		\$66,715,339	\$818,445	\$25,649	\$66	\$25,715	\$0	60,616,601.000	61,625,452.770	0
0483	\$7,033,628		\$7,031,280	\$78	\$71	\$7	\$78	\$0	6,380,695.000	6,383,043.150	0
0493	\$15,165,975		\$15,159,362	\$170	\$157	\$13	\$170	\$0	9,953,884.000	9,960,497.240	0
0890	\$0		\$0	\$3,289,419	\$0	\$0	\$0	(\$5,589)	0.000	3,283,830.200	0
0942	\$0		\$0	\$18,010	\$0	\$18,010	\$18,010	\$10	0.000	10.000	0
3015	\$0		\$0	\$0	\$0	\$0	\$0	\$0	0.000	0.000	0
3089	\$26,722		\$0	\$454,870	\$26,610	\$371,676	\$398,286	(\$129,674)	0.000	-46,367.970	0
3141	\$6,969,184		\$6,966,581	\$54	\$46	\$8	\$54	\$0	7,146,378.000	7,148,981.270	0
							\$0			0.000	
							\$0			0.000	
TOTAL	\$173,199,414		\$145,560,189	\$52,836,071	\$4,231,017	\$17,201,660	\$21,432,678	(\$484,548)	141,843,334.560	200,401,404.640	\$349,295

CPUC Accounts Receivable Workbook as of JUNE 30, 2019 Submitted to SCO (PARTIAL)

Accounts Receivable (AR) Reporting
Fiscal Year 2018-2019
Detail of ARs by Fund

TABLE #2

DEPARTMENT:

California Public Utilities
Commission

ORG CODE:

8660

TABLE 2 - AGING OF ARs OVER 180 DAYS as of 06/30/19 - GL 13XX series only. Provide the amounts, if any, that are on payment plan and/or estimated uncollectible for each time period.

	1	1b	2	2b	3	3b	4	4b	5	5b	6	6b
Fund	181 days to 1 year		Over 1 year to 2 years		Over 2 years to 3 years		Over 3 years to 5 years		Over 5 years		Total ARs Over 180 Days	
	Amount	Estimated Uncollectible	Amount	Estimated Uncollectible	Amount	Estimated Uncollectible	Amount	Estimated Uncollectible	Amount	Estimated Uncollectible	Amount	Estimated Uncollectible
0001	\$263,700	\$45,000	\$329,182	\$0	\$268,720	\$261,460	\$19,856,350	\$19,851,350	\$610,761	\$570,761	\$21,328,712	\$20,728,571
0042	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
0044	\$0	\$0	\$30	\$30	\$0	\$0	\$0	\$0	\$495	\$495	\$525	\$525
0046	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$45	\$45	\$45	\$45
0097	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
0412	\$3,574	\$3,574	\$4,148	\$4,148	\$25	\$25	\$532	\$532	\$203,800	\$203,800	\$212,079	\$212,079
0461	\$4,500	\$210	\$4,198	\$1,126	\$355	\$330	\$15,772	\$15,338	\$92,878	\$92,878	\$117,703	\$109,883
0462	\$1,244,555	\$0	\$1,203,770	\$486	\$13,041	\$608	\$58,774	\$9,727	\$1,070,604	\$1,067,874	\$3,590,744	\$1,078,695
0464	\$0	\$0	\$2,261	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,261	\$0
0470	\$0	\$0	\$445	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$445	\$0
0471	\$792,730	\$792,730	\$24,355	\$0	\$0	\$0	\$189,061	\$189,061	\$2,706	\$2,706	\$1,008,852	\$984,497
0483	\$0	\$0	\$2,348	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,348	\$0
0493	\$0	\$0	\$6,613	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,613	\$0
0890	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
0942	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3015	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3089	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$112	\$112	\$112	\$112
3141	\$0	\$0	\$2,603	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,603	\$0
TOTAL	\$2,309,059	\$841,514	\$1,577,350	\$5,790	\$282,141	\$262,424	\$20,120,488	\$20,066,008	\$1,981,401	\$1,938,671	\$26,270,440	\$23,114,407

Table of Methodologies

Audit Objective: Evaluate whether the AR Workbook as of June 30, 2019 was accurate, complete, and in compliance with applicable laws, regulations, policies, and accounting standards.	
General accounts receivable balances	<ul style="list-style-type: none"> • Interviewed CPUC accounting and program staff to gain an understanding of accounts receivable related processes. • Agreed the AR Workbook to the AR Aging Report and the general ledger. • Performed trend analysis for receivable balances by fund for the period July 1, 1998 to June 30, 2020, to the extent the information was available, and identified significant and/or unusual fluctuations. • Reviewed all five available June 2019 fund reconciliations and five June 2019 agency reconciliations for funds with accounts receivable balances of \$1 million or greater and determined whether these reconciliations were supported and reconciling items were properly addressed and reflected in the accounts receivable balances. • Selected 34 customers, focusing on those with receivable balances greater than \$100,000 as of June 30, 2019, and sent accounts receivable confirmations for 26 active customers from various funds and programs. • For CPUC's funds with greater than \$100,000 in revenue for 2018-19 but minimal or no accounts receivable balances as of June 30, 2019, inquired with CPUC accounting staff regarding the nature of these funds and their revenue sources, and determined whether no accounts receivable balances was appropriate. • Identified 17 revenue transactions of \$100,000 or more from a 14 day period, and reviewed all 123 deposits from the same period, by tracing these deposits to deposit slips, bank statements, and the general ledger to determine whether all deposits were recorded correctly in the accounts receivable account.
Year-end accruals	<ul style="list-style-type: none"> • Obtained CPUC's accounts receivable year-end accrual methodologies for all types of revenues and identified information included in these methodologies. • Reviewed all journal entries related to accounts receivable accruals for 2018-19, and assessed accuracy of the accrued amounts by comparing these amounts to subsequent collected amounts after year-end, and tracing to supporting documents. • Determined whether CPUC complied with SAM section 7981 to report adjustments greater than \$100,000 to SCO. • Assessed the completeness of AR accruals by reviewing all 2018-19 revenues collected in 2019-20 and determining whether significant transactions were recorded in the correct period. Additionally, determined whether subsequent events were correctly reflected in the accounting records and complied with applicable laws, regulations, policies, and accounting standards, based on interviews conducted, board meeting minutes reviewed, web searches conducted, and other available documents reviewed.

Audit Objective: Evaluate whether the AR Workbook as of June 30, 2019 was accurate, complete, and in compliance with applicable laws, regulations, policies, and accounting standards.

Discharged balances	<ul style="list-style-type: none"> • Obtained all available accounts receivable discharge history and selected 12 discharges that were \$100,000 or more to determine whether they were supported, complied with SAM requirements, approved by SCO, and correctly recorded in the accounting records, by reviewing the approved Application for Discharge from Accountability form, billing invoices, court decisions, collection letters sent, and the general ledger. • Inquired with CPUC management regarding reasons and planned actions for long outstanding balances not discharged.
Fees, Surcharges, and Penalties	<ul style="list-style-type: none"> • Obtained a list of citations and decisions sent to AR Unit in 2018-19 from the Administrative Law Judge Division and various program divisions, and determined whether receivables and/or payments were recorded in correct funds, periods, and amounts for selected citations and decisions, by reviewing FI\$Cal accounts receivable and revenue activities reports. • Selected recorded payments for 37 user fees, 74 surcharges, and 11 fines and penalties based on large dollar amounts and/or all fee types, and verified they were accurate and supported, by recalculating fee amounts due based on authorized rates, tracing to bank statements and/or SCO records, and reviewing the accounting records. • Searched for unrecorded receivables related to penalties by inquiring with program staff and visiting the fines/penalties page on CPUC's public website and determined whether the issued fines/penalties were recorded as receivables in accounting records timely. • Reviewed reconciliations among Telecommunications and User Fee Filing System, User Fee System, and FI\$Cal and determined whether these reconciliations were supported, with reconciling items properly addressed and reflected in the accounting records.
Reimbursable Contracts	<ul style="list-style-type: none"> • Identified reimbursable contracts with open receivable balances as of June 30, 2019, and gained an understanding of these contracts, including contract amounts, contractor names, contract payments and reimbursement activities, and outstanding balances. Compared the total of payments made to contractors for these contracts with the billings generated and sent to responsive companies, to ensure all payments made were billed for reimbursements. • Selected 16 contracts related to 30 projects with receivable balances of \$100,000 or more as of June 30, 2019, and determined whether these contracts were properly established, paid, and billed, by interviewing program staff, reviewing contracts, reviewing accounting codes, tracing to vendor invoices and reimbursement billings for selected transactions, and verifying postings in the accounting system.
Collections and Aging	<ul style="list-style-type: none"> • Selected 13 debtors with open receivable balances of \$100,000 or more that were greater than 180 days old to determine collection efforts made for these balances and evaluated compliance with applicable laws, regulations, policies, and accounting standards.

We considered the following internal control components and underlying principles significant to the audit objective:

Internal Control Component	Internal Control Principles
Control Environment	<ul style="list-style-type: none"> • The oversight body oversees entity's internal control system. • Management has established an organizational structure, assigned responsibility, and delegated authority to achieve the entity's objectives.
Risk Assessment	<ul style="list-style-type: none"> • Management identifies, analyzes, and responds to significant changes that could impact the internal control system.
Control Activities	<ul style="list-style-type: none"> • Management designs control activities to achieve objectives and respond to risks. • Management designs the entity's information system and related control activities to achieve objectives and respond to risks. • Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none"> • Management uses quality information to achieve the entity's objectives. • Management internally communicates necessary quality information to achieve the entity's objectives. • Management externally communicates necessary quality information to achieve the entity's objectives.

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



January 29, 2021

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

Dear Ms. McCormick:

The California Public Utilities Commission (CPUC) thanks your team for its thorough review of our Accounts Receivable Workbook for Fiscal Year 2018-2019. Your report identifies a number of internal control weaknesses that we are working to strengthen. We are reassured that your report does not support assertions that the CPUC failed to collect \$200 million in fees and surcharges from our regulated entities. In fact, your report supports our public statements that a majority of our reported Fiscal Year 2018-2019 Accounts Receivables were forecasted year-end revenue accruals.

Below is a summary of how we are improving our practices. We will submit additional detail in our 60-day corrective action plan:

First, we are improving our accrual practices, particularly as they relate to documenting our year-end accrual forecasting methodology for user fees, surcharges, and reimbursable contracts.

Second, we are memorializing our practices for billing for reimbursable contracts and transmittal of citations issued by program staff to the Accounts Receivable Unit. We will continue to pursue collections for fines and penalties that are assessed and move for prompt discharge if it becomes clear they are uncollectible.

Third, we have already scheduled meetings with our assigned analysts at the State Controller's Office, Fi\$Cal, and Department of Finance to confirm receivables that are invalid and uncollectible because the debtor is defunct, bankrupt, or unidentified, and begin the process of removing them from our books.

Fourth, we are writing formal policies and procedures for all accounts receivable-related practices, including how we will assure accuracy in our Due From Other Funds account.

We acknowledge that we have additional room for improvement, especially as it relates to documentation of our processes and procedures. We believe that many of the issues identified by your team were driven by the fact that Fiscal Year 2018-2019 was the first year that the CPUC operated in the Fi\$Cal system. That conversion and the need for our staff to learn the new Fi\$Cal system and its reporting tools led to substantial delays in our FY 2018-2019 year end close, billing for reimbursable contracts and other receivables, as well as reconciliations. We believe our staff has learned substantially from the first two years in Fi\$Cal, as well as your audit, and has already made significant improvements in processes and is now positioned to focus on documenting these processes.

Thank you for undertaking this audit at the Commissioners' request. As Commission President, I take seriously our responsibility to ensure the accuracy and compliance of our receivable, accrual, discharge, and reconciliation practices. To that end, I have directed Rachel Peterson, the CPUC's Executive Director, and Michelle Cooke, the CPUC's Acting Deputy Executive Director for Administrative Services, to ensure substantial progress is made on these audit findings in the first half of 2021. Please contact Michelle Cooke at michelle.cooke@cpuc.ca.gov should you have any questions concerning this letter.

Sincerely,

ORIGINAL SIGNED BY

Marybel Batjer
President
California Public Utilities Commission

cc: Commissioner Genevieve Shiroma
Rachel Peterson, Executive Director
Saul Gomez, Deputy Executive Director
Michelle Cooke, Acting Deputy Executive Director and Assistant Chief Administrative Law Judge
Lalaine Semana, Fiscal Manager