

# ATTACHMENT 01



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**Subject: Response to the CPUC's final report on the results of its compliance examination on Pacific Gas and Electric Company's (PG&E) Supplier Diversity 2011 Annual Report, Recommendation 10, due November 27, 2013.**

## Introduction

On October 31, 2013, the Utility Audit, Finance and Compliance Branch (UAFCB) issued a final examination report on PG&E's Supplier Diversity 2011 Annual Report. This was the first CPUC audit of a supplier diversity program under GO 156. The audit report provides PG&E the opportunity to improve its supplier diversity program, and provides the CPUC with the opportunity to discuss and clarify, for the first time in the program's history, the auditing standards for utilities participating in this voluntary program.

PG&E's response to the UAFCB's Recommendation 10, due November 27, 2013, is shown below. Supporting documentation is attached.

## Discussion

### **Recommendation 10:**

By November 27, 2013, PG&E should add, implement and enforce new internal controls for its supplier diversity reporting to prevent future misclassification of PG&E purchases from its diverse procurement. PG&E should submit a summary of these changes to UAFCB by November 27, 2013. PG&E should correct page 47 of its 2011 report and re-file the corrected version by November 27, 2013. PG&E's internal audit department should conduct an audit to verify the accuracy of the revised page 47 for 2011 and page 47 of its 2012 report, subject to UAFCB's review and approval of the scope, work plan and work papers. Once the audit is complete, PG&E will need to submit a full revised GO 156 report for each of the audited years. If PG&E does not begin the audit by March 1, 2014, the audit should also include page 47 of its 2013 report. At the latest, PG&E's internal audit report needs to be submitted to UAFCB on or before December 31, 2014. In addition, PG&E should not use the costs of the internal audit as historical costs in its next general rate case.

### **PG&E Response:**

**New Internal Controls:** Attachments 1 and 2 are examples of the documentation PG&E is doing to address internal controls. PG&E will continue to work with its Internal Audit team to further develop its internal controls in other areas.

- Prime Supplier Requirements for Reporting Subcontracting (**Attachment 1**)
- Prime Supplier Program Training (**Attachment 2**)

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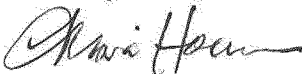
Revised Page 47 of 2011 Report (Attachment 3) - PG&E has updated its 2011 report and made the adjustments, shown below.

- Observation 1- DVBE Overstatement: PG&E moved \$12.6M from DVBE direct to DVBE subcontracting, and moved \$3.0M from DVBE direct to MBE direct.
- Observation 2 – DVBE Certification: No change to page 47. Compass Power provided its DVBE certification letter from the California State Department of General Services (DGS), thus an adjustment is not needed. See **Attachment 4**.
- Observation 3 - Early Payment Discounts: PG&E removed Early Payment Discounts of \$31.4M from total spend, which included \$8.9M of diverse spend.
- Observation 4 - Non-diverse Supplier Payments: PG&E removed \$2.4M from diverse subcontracting spend due to prime supplier overstatements.
- Observation 6 - Lack of Documentation: PG&E removed \$3.6M in diverse spend due to missing invoices/purchase orders.

## Conclusion

PG&E remains proud of its GO156 program and the value it brings to the supplier diversity community. This audit provides an opportunity for the utilities to further enhance their supplier diversity programs through dialog with the CPUC and supplier community about UAFCB's recommended auditing and accounting standards for this voluntary program.

Thank you,



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