



SUPPLIER DIVERSITY PROGRAM PERFORMANCE AUDIT

Verizon Wireless

January 1, 2019, through December 31, 2019

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 29, 2021



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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

December 29, 2021

Ms. Sandra Nielsen, Senior Manager
Global Diversity and Inclusion
Verizon Wireless
One Verizon Way
Basking Ridge, NJ 07920

Dear Ms. Nielsen:

Final Report Transmittal Letter—Audit of Verizon Wireless’s Supplier Diversity Program for the period of January 1, 2019, through December 31, 2019

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Verizon Wireless’s (Verizon) procurement expenditures reported for the Supplier Diversity Program for the period of January 1, 2019, through December 31, 2019, or Program Year 2019. The final audit report is enclosed.

Verizon’s response to the draft report findings and our evaluation of the response are incorporated into this final report. Pursuant to requirements set forth in General Order (GO) 66-D, the confidential information contained in this report is redacted. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](http://AuditReportsbyIndustry.ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations within 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to: UtilityAudits@cpuc.ca.gov.

We appreciate Verizon’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Tracy Fok, Program and Project Supervisor, at (415) 703-3122.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of Verizon Wireless's (Verizon) procurement expenditures reported for the Utility Supplier Diversity (Supplier Diversity) Program for the audit period of January 1, 2019, through December 31, 2019, or Program Year (PY) 2019.

Our audit objective was to determine whether Verizon's Supplier Diversity Program procurement expenditures for PY 2019 were reported accurately, supported by appropriate source documents, and in compliance with applicable Public Utilities (PU) Code sections, General Order (GO) 156, CPUC decisions and guidance, and Verizon's policies and procedures.

Based on the procedures performed, samples tested, and evidence gathered, we determined that Verizon's Supplier Diversity Program procurement expenditures reported in its 2019 Women, Minority, and Disabled Veteran Business Enterprise Annual Report and Annual Plan (2019 Annual Report) were not reported accurately and were not in compliance with GO 156 guidance. The instances of noncompliance with GO 156 guidance are quantified in the Summary Schedule of Audit Results and described in the Findings and Recommendations section of this audit report. Also, the audit findings are summarized as follows:

- Finding #1: Verizon does not have supporting documentation to substantiate the reported subcontractor expenditures of \$102,652,972 reported in its 2019 Annual Report for the Supplier Diversity Program.
- Finding #2: Verizon's Supplier Diversity Program procurement expenditures reported in its 2019 Annual Report are not specific to business activities in California, which leads to a lack of consistent reporting across all utilities and the inability to evaluate the overall effectiveness and successes of the program.

We issued a draft report on November 24, 2021. Verizon's Managing Associate General Counsel responded by letter dated December 10, 2021, disagreeing with the audit results. Verizon's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Utility Supplier Diversity (Supplier Diversity) Program

In the mid-1980s, the California Legislature passed Assembly Bill (AB) 3678 to encourage the award of a fair proportion of total utility contracts to women-owned business enterprises (WBE) and minority-owned business enterprises (MBE). This bill created the foundation for the CPUC's Supplier Diversity program that was developed to implement the statutes enacted by the California Legislature and codified in PU Code sections 8281-8285. The CPUC established and adopted GO 156 in 1986, which outlined the specific guidelines and framework of the Supplier Diversity Program. On June 3, 1992, CPUC's Decision (D.) 92-06-030 amended GO 156 to add disabled veteran-owned business enterprises (DVBE) into the program. On June 11, 2015, D.15-06-007 further amended GO 156 to include lesbian, gay, bisexual, and/or transgender-owned business enterprises (LGBTBE) into the program by implementing AB 1678 that amended PU Code sections 8281-8285 and added PU Code section 8286 to expand the provisions of the program.

GO 156

The CPUC's Supplier Diversity Program encourages energy, telephone, and water utility companies under our jurisdiction to procure goods and services from WBEs, MBEs, DVBEs, and LGBTBEs (collectively known as WMDVLGBTBE). GO 156 consists of various rules and guidelines governing the Supplier Diversity Program to increase participation of WMDVLGBTBE in procurement of contracts from utilities as required by PU Code sections 8281-8286. These rules apply to all electric, gas, water, wireless telecommunications service providers, and telephone corporations and their regulated subsidiaries and affiliates with gross annual revenues exceeding 25 million dollars (\$25,000,000).

The main purposes of the program are to:

1. Encourage greater economic opportunity for WMDVLGBTBE;
2. Promote competition among regulated public utility suppliers to enhance economic efficiency in the procurement of electrical, gas, and telephone corporations' contracts; and
3. Clarify and expand the program for the utilities' procurement of products and services from diverse enterprises.

The Supplier Diversity Program is a voluntary program that promotes and monitors utilities' procurement from WMDVLGBTBE. The Supplier Clearinghouse¹ (Clearinghouse) is a CPUC-supervised entity whose primary purpose is to audit and verify the status of WMDVLGBTBEs on behalf of the individual utility companies. The Clearinghouse maintains an accurate and reliable database of WMDVLGBTBE-certified firms that is accessible to the CPUC and participating utilities for procurement-related outreach and opportunities.

¹ www.thesupplierclearinghouse.com

Annual Report

PU Code section 8283 (d) requires each participating utility to report annually to the CPUC on its WMDVLGBTBE procurement performance and its plans for future improvements. This requirement is further reiterated in GO 156, section 9. The intent of the Annual Report is to provide the CPUC with information on the utilities' diversity procurement performance, progress in meeting their short-, mid-, and long-term supplier diversity goals, and future program enhancement plans.

Verizon filed its 2019 Annual Report with the CPUC in March 2020 pursuant to GO 156, section 9. In its 2019 Annual Report, Verizon reported over \$1.8 billion of WMDVLGBTBE purchases, comprising of direct and subcontracted procurement, out of approximately \$4.7 billion in net procurement. The following table illustrates Verizon's Supplier Diversity Program's annual results by business enterprise:

2019 WMDVLGBTBE Annual Results²

		Direct (\$)	Sub (\$)	Grand Total
Minority Male	Asian Male	\$ 372,012,203	\$ 34,857,572	\$ 406,869,775
	African American Male	103,886,903	6,010,088	109,896,992
	Hispanic American Male	78,155,845	13,767,848	91,923,693
	Native American Male	15,367,975	3,368,321	18,736,296
	Total Minority Male	\$ 569,422,926	\$ 58,003,829	\$ 627,426,755
Minority Female	Asian Female	\$ 234,346,722	\$ 22,235,186	\$ 256,581,907
	African American Female	1,660,910	247,806	1,908,715
	Hispanic American Female	786,568,773	1,310,611	787,879,384
	Native American Female	-	152,476	152,476
	Total Minority Female	\$ 1,022,576,404	\$ 23,946,078	\$ 1,046,522,483
Women Business Enterprise (WBE)		\$ 147,018,120	\$ 18,501,622	\$ 165,519,741
Lesbian, Gay, Bisexual, Transgender Business Enterprise (LGBTBE)		\$ 4,318,921	\$ -	\$ 4,318,921
Disabled Veteran Business Enterprise (DVBE)		\$ 1,423,602	\$ 2,201,443	\$ 3,625,045
Total WMDVLGBTBE		\$ 1,744,759,974	\$ 102,652,972	\$ 1,847,412,946
Total Net Procurement		\$ 4,696,131,881		

Audit Authority

The UAB conducted this audit under the general authority outlined in the PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, GO 156, section 9.1.10 directs the UAB to perform audits to ensure that the utilities' WMDVLGBTBE procurement expenditures reported in their annual reports are accurate.

² 2019 Annual Report - GO 156 section 9.1.2, Page 9. The Purchase Base and diverse supplier spending dollar amounts shown in the table are derived from a national system and are not limited to Verizon's spending for business activity in California and are inclusive of amounts spent with any diverse suppliers certified with the Clearinghouse.

Objective and Scope

Our audit objective was to determine whether Verizon's Supplier Diversity Program procurement expenditures for PY 2019 were reported accurately, supported by appropriate source documents, and in compliance with applicable PU Code sections, GO 156, CPUC decisions and guidance, and Verizon's policies and procedures.

The scope of our audit covered Verizon's Supplier Diversity Program procurement expenditures reported in its 2019 Annual Report.

Methodology

In planning our audit, we gained an understanding of the Supplier Diversity Program and operations and identified relevant criteria, by reviewing GO 156, relevant PU Code sections, CPUC decisions and guidance, Verizon's policies and procedures, and interviewing Verizon's personnel.

We conducted a risk assessment, including evaluating whether Verizon's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from Verizon's accounts payable system for direct diverse supplier procurement and Verizon's Tier 2³ reporting system for subcontractors. Our assessment included examining extracted reports and tracing data between different report formats to verify completeness. We determined the data to be sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. To achieve our audit objective, we:

- Reviewed Verizon's accounts payable system and accounts payable policies for making payments to vendors including diverse suppliers.
- Reviewed the processes and procedures for reporting Verizon's WMDVLGBTBE procurement expenditures in its 2019 Annual Report.
- Assessed whether Verizon's policies, procedures, and practices comply with the CPUC's Supplier Diversity Program requirements.
- Reconciled Verizon's schedule of suppliers and expenditures to the balances reported in Verizon's 2019 Annual Report for accuracy and completeness.
- Assessed significance by performing analysis of procurement expenditure data and evaluating program requirements.

³ The Tier 2 reporting system is the system that prime contractors use to report subcontractor expenditures.

- Obtained an understanding of Verizon’s internal controls relevant to the Supplier Diversity Program, such as direct diverse supplier procurement payment approval, program Annual Report preparation, and reporting and monitoring subcontractor procurement expenditure data, and assessed the design, implementation, and/or operating effectiveness of selected controls that are significant to the audit objective by:
 - interviewing and performing walk-throughs of key processes and systems with Verizon’s key personnel and completing an internal control questionnaire;
 - performing walkthroughs of selected transactions;
 - tracing selected transactions to source documents;
 - reviewing Verizon’s policies and procedures and performing a walkthrough for prime suppliers’ reporting of diverse subcontractor expenditure data.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed transaction testing by judgmentally selecting non-statistical sample of significant transactions for the following category:
 - Direct Diverse Supplier Procurement – We tested \$172,523,692 of \$1,744,759,974.

For the selected samples, errors found, if any, were not projected to the intended (total) population.

- For the selected samples, we verified that the expenditures paid during the audit period were supported by appropriate source documents and determined whether costs were accurate, relevant to the Supplier Diversity Program, and incurred in compliance with applicable PU Code sections, GO 156, CPUC decisions and guidance, and Verizon’s own policies and procedures by:
 - tracing expenditures to invoices to ensure expenditures (1) were paid within the audit period; (2) agreed to the invoice amount; and (3) were calculated correctly.
 - verifying payments were made to the eligible suppliers.

We did not audit Verizon’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that Verizon incurred, reported, and supported its Supplier Diversity program expenditures in accordance with the applicable criteria. We considered Verizon’s internal controls only to the extent necessary to plan the audit and achieve our audit objective.

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.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we determined that Verizon's Supplier Diversity Program procurement expenditures reported in its 2019 Annual Report were not reported accurately and were not in compliance with GO 156 guidance. The instances of noncompliance with CPUC guidance are quantified in the Summary Schedule of Audit Results and described in the Findings and Recommendations section of this audit report.

Views of Responsible Officials

We issued a draft report on November 24, 2021. Verizon's Managing Associate General Counsel responded by letter dated December 10, 2021, disagreeing with the audit results. Verizon's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of Verizon and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULE OF AUDIT RESULTS

Schedule of Verizon's Supplier Diversity Program Procurement for PY 2019

Procurement Category	Reported on Annual Report	Tested	Questioned Amounts	Findings ¹
Subcontractor	\$ 102,652,972	\$102,652,972	\$ 102,652,972	Finding 1
Direct	<u>1,744,759,974</u>	<u>172,523,692</u>	<u>-</u>	Finding 2
Total	<u><u>\$1,847,412,946</u></u>	<u><u>\$275,176,664</u></u>	<u><u>\$ 102,652,972</u></u>	

¹ See the Findings and Recommendations Section of this Audit Report

FINDINGS AND RECOMMENDATIONS

Finding #1: Unsubstantiated Diverse Subcontractor Expenditures

Condition: Verizon reported expenditures totaling \$102,652,972 for WMDVLGBTBE subcontractor procurement in its 2019 Annual Report.

During our internal control assessment, we found that Verizon could not provide any supporting documentation to verify the reported subcontractor procurement amount. Also, we found that prime contractors report diverse subcontractor expenditures on a quarterly basis and that Verizon does not require its prime contractors to provide supporting documentation to substantiate the diverse subcontractor procurement expenditures reported. Therefore, Verizon cannot provide sufficient evidence to support the validity, completeness, and accuracy of the diverse subcontractor expenditures totaling \$102,652,972 reported in Verizon's 2019 Annual Report.

Criteria: The CPUC's GO 156 Frequently Asked Questions (FAQs), Reporting Requirement, issued February 5, 2016, states, in part:

Audit Areas for Utilities to be Aware of

The utilities should be aware of things such as: (...)

6. Maintaining adequate documentation to substantiate any reported expenditures.

Subcontracting Expenditures

Each utility should be aware that any expenditure reported to the Commission must be verifiable and is subject to audit at any time.

All subcontracting spend, at any level, must be well documented and specifically related to the project for which the prime contractor was hired.

GO 156 section 9.1.8 states:

Utilities shall retain all documents and data they rely on in preparing their WMDVLGBTBE annual report for the longer of either three years or in conformance with the utilities' individual document retention policies, and shall provide these documents and data to the Commission upon request.

Cause: Verizon does not require its prime suppliers to provide supporting documentation to substantiate the diverse subcontractor procurement expenditures reported. Without this requirement, Verizon cannot substantiate the reported expenditures.

Effect: Verizon's subcontractor procurement expenditures were unsubstantiated with proper supporting documentation resulting in unreliable program data reported.

The intent of the Annual Report is to provide the CPUC with information on the utilities' diversity procurement performance, progress in meeting their short-, mid-, and long-term supplier diversity procurement goals, and future program enhancement plans. CPUC relies upon the program data reported in the Annual

Reports to monitor Verizon's and other participating utilities' program performance and progress in achieving the supplier diversity procurement goals. As the program data of Verizon's 2019 Annual Report are not reliable, CPUC cannot effectively evaluate Verizon's diversity procurement performance and cannot determine whether Verizon had achieved the supplier diversity procurement goals.

Recommendations:

We recommend that Verizon comply with GO156 requirements and guidance by reporting expenditures that are supported with adequate supporting documentation to substantiate the reported expenditures. In addition, we recommend that Verizon develop policies and procedures to ensure that prime suppliers begin providing supporting documentation for subcontractor procurement expenditures reported.

Finding #2: Verizon Reported Procurement Expenditures for Non-California Operations

Condition: Verizon reported procurement expenditures for non-California operations in its 2019 Annual Report.

Verizon's current reporting methodology for its procurement expenditures does not segregate Verizon's reported activities for California operations and may have included expenditures for operations outside of California. For example, when Verizon reports expenditures from a diverse supplier providing engineering, accounting, research, and management services in California and other states, Verizon reports all payments made to that supplier if it is certified with the Clearinghouse, regardless of whether those products or services are attributable to California.

A Clearinghouse-certified supplier does not automatically indicate that the procurement expenditure reported was specifically contributing to California operations. The Clearinghouse only verifies the status of the WMDVLGBTBE on behalf of the individual utility companies; and the WMDVLGBTBE are not required to do business in California to be certified.

During our testing, we reviewed supporting documentation for direct procurement expenditures totaling \$172,523,692. Due to Verizon's reporting methodology, supporting documentation provided were not sufficient in determining whether the payments made were attributable to California operations.

Criteria: CPUC's GO 156 FAQs, Reporting Requirement, issued February 5, 2016, states:

Non-California Spend

The expenditures a utility reports must be in support of its California operations.

Cause: Verizon indicated it does not interpret the CPUC's guidance to report procurement that supports California operations as the explicit requirement to segregate the reported business activities. Therefore, Verizon has not developed or implemented a methodology or a process to segregate the reported expenditures that only support business activities conducted in California.

Effect: Verizon did not accurately report its procurement expenditures pertaining to its California operations. The expenditures may have been substantially overstated by including Verizon's business operations in other states.

A focus of the Supplier Diversity Program is to quantify and measure the benefits brought by the program to utilities, ratepayers, and economy in California. By not reporting the program expenditures specific to California operations, CPUC cannot ensure consistent reporting across all utilities and cannot assess WMDVLGBTBE procurement progress and benefits within California to evaluate the overall effectiveness and successes of the program.

Recommendations:

We recommend that Verizon comply with GO 156 guidance by reporting program expenditures that support its California operations. In addition, we recommend that Verizon enhance and/or revise its reporting methodology for the Supplier Diversity Program to ensure it can segregate procurement expenditures specifically attributable to business activities in California.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



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Bldg. D, 2nd Floor
Irvine, CA 92618

Jesús G. Román
Managing Associate General Counsel
Public Policy & Legal Affairs
Phone: 949-286-7202
jesus.g.roman@verizon.com

December 10, 2021

Via Electronic Mail

Angie Williams, Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102

RE: Audit of Verizon Wireless Supplier Diversity Program For 2019

Dear Ms. Williams:

Thank you for providing us with a copy of the Draft Audit Report of Verizon Wireless' ("Verizon") Supplier Diversity Program and the opportunity to comment on the Draft Audit Report findings.

Verizon takes seriously our commitment to our supplier diversity program, as is evident in the volume of diverse supplier expenditures (\$1.8 billion) that Verizon made in 2019. Verizon has one of the most diverse boards in corporate America, with 6 out of 10 members who are women and/or people of color. Moreover, Verizon sets targets for supplier diversity procurement as part of its compensation incentive structure, and regularly reviews its diversity procurement status throughout the year to ensure that we meet our targets. We have devoted significant efforts toward mentoring diverse suppliers and developing a comprehensive database of diverse vendors that we can call upon for our needs, including through our Premier Supplier Academy (PSA), a developmental and educational session for diverse suppliers to learn about Verizon's business requirements and to develop and enhance key business relationships. As examples of our commitment to growing our procurement in categories that traditionally have had less diversity, we guided a vendor in its process of becoming a certified Clearinghouse LGBTBE supplier, and for 2021, we retained a diverse law firm to represent Verizon in Commission matters.

We are equally focused on ensuring accurate and comprehensive reporting of our diverse supplier procurement and respectfully disagree with the audit methodology

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and its draft findings. Specifically, the Draft Audit Report notes that the “objective was to determine whether Verizon’s Supplier Diversity program procurement expenditures for PY 2019 were reported accurately, supported by appropriate source documents, and in compliance with applicable Public Utilities (PU) Code sections, General Order (GO) 156, CPUC decisions *and guidance*, and Verizon’s policies and procedures” (emphasis added). The Draft Audit Report then makes two findings that Verizon did not comply with “GO 156 guidance,” in particular, the *staff’s* Frequently Asked Questions (FAQ). The FAQ, however, constitutes *staff’s guidance* regarding GO 156 requirements and is neither a Commission order nor decision as the Commission itself has noted about staff guidance on various occasions.¹ It is not appropriate for the Commission to review compliance with *staff guidance* or to find that Verizon has not complied with *staff guidance*, as such staff guidance does not have the force and effect of law. Indeed, to the extent this audit is based on Decision 11-05-019, which mandated random audits of GO 156 reports, it fails to follow that decision by expanding the purpose of the audit beyond that authorized in the decision. Ordering Paragraph 3 of D.11-05-019 mandated random audits to “verify the accuracy of reported” diverse spend, but did not authorize or mandate an audit of compliance with post-decision staff guidance. OP 3 states:

Beginning in 2012, the Commission’s Division of Water and Audits, Utility, Audit, Financial, and Complaint Branch, (Audit Division) will conduct at least one random audit every two years on a General Order 156 annual report from the most recently filed annual reports. The Audit Division will segregate reporting companies by industry and, beginning with energy companies in 2012, followed by telecommunications and water in subsequent two-year periods, will determine the random selection process and audit methodology to be used to verify the accuracy of reported women-, minority-, and disabled veteran-owned businesses enterprises spend. The Audit Division will promptly report its findings to the Commission by letter to the Executive Director.

Nothing in the Commission’s decision authorizes the staff to conduct audits based on compliance with staff guidance. Accordingly, Verizon submits that the audit findings are inherently misplaced in focusing on compliance with *staff guidance* and that the Draft Audit Report’s findings do not establish that Verizon has failed to comply with GO 156 or with the Commission’s orders and decisions.

As explained below, Verizon has complied with GO 156 and the Commission’s orders and decisions. Verizon has appropriately reported diverse subcontractor

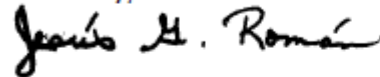
¹ D.15-05-052, 2015 Cal. PUC LEXIS 306, *51, *citing Holder v. Key System* (1948) 88 Cal. App.2d 925, 933; D.10-12-016 at 82 and 96-97, as modified by D.11-04-035 at 6, fn.13.

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expenditures of verified subcontractors, as required by GO 156 Section 6.3.9. We have also reported supplier diversity expenditures of contractors that are certified through the Clearinghouse, as required by GO 156, Section 9.1.2. For these reasons, Verizon disagrees with the Draft Audit Report findings and requests that the Draft Audit Report delete these findings.

Thank you for your consideration of our comments.

Sincerely,



Jesús G. Román

Finding #1: Unsubstantiated Diverse Subcontractor Expenditures

Verizon respectfully disagrees with this finding. As an initial matter, Verizon notes that this amount is 5.6% of our reported \$1.8 billion spend on diverse suppliers. Further, Verizon respectfully disagrees that GO 156 requires utilities to substantiate the subcontractor expenditures that its prime contractors report. While the Audit Report refers to staff's Frequently Asked Questions (FAQ) as support for the finding that subcontracting expenses must be documented, the FAQ is "staff guidance" and not a Commission order or decision. The Commission itself has stated that "staff advice is not binding on the Commission" and that the "Commission acts by formal decision or order only."²

The Commission's GO 156 does not require that Verizon substantiate all expenditures for Tier 2 spend. Section 6.3 of GO 156 sets out requirements for subcontractors. This section encourages utilities to include certain language in their RFPs and contracts that would promote use of diverse suppliers. (See GO 156, Section 6.3.5.) In addition, GO 156 requires the utility to "monitor and include in its annual report a summary of prime contractor progress in increasing the participation of WMDVLGBTBE subcontractors." (GO 156, Section 6.3.7.) Section 6.3.9 allows a utility to include awards to "verified WMDVLGBTBE subcontractors" in its supplier diversity results. Verizon verifies that the list of subcontractors are certified by the Clearinghouse. Nothing in Section 6.3, however, requires utilities to

² D.15-05-052, 2015 Cal. PUC LEXIS 306, *51, citing *Holder v. Key System* (1948) 88 Cal. App.2d 925, 933; D.10-12-016 at 82 and 96-97, as modified by D.11-04-035 at 6, fn.13.

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“substantiate” each of its prime contractor’s diverse supplier expenditures with subcontractors through obtaining documentation of such expenditures.

The Commission has also not addressed in prior decisions whether utilities must obtain documentation of a prime contractor’s diverse supplier expenditures. The most that the Commission has considered regarding prime contractors and subcontractors is whether to audit the “prime contracts” to determine whether prime contractors were following through *on promises to use diverse suppliers*. In an effort to encourage prime contractors’ use of diverse suppliers, the Commission noted that the staff, utilities, and CBOs should work together to develop networking events for prime contractors and subcontractors to discuss various matters, including “best practices for verification of prime contractor *commitments* to use diverse businesses.”³ Notably, the Commission did not go further to require staff or utilities to develop mechanisms for substantiation of expenses.

That said, Verizon does have processes in place to monitor the reported subcontractor spend as it noted in an earlier response during the audit. Specifically, Verizon’s contract allows for it to audit the expenditures of its prime contractors to ensure that the spend is consistent with the reporting requirements. [REDACTED]

Verizon also reviews its prime suppliers’ Tier 2 spend amounts and where there are unusual variances [REDACTED]

[REDACTED] it contacts those prime suppliers to confirm that the reported tier 2 spend is accurate. Accordingly, although Verizon does not require every prime supplier to provide supporting documentation for their Tier 2 spend, it does validate the accuracy of such spend where the reports appear to be unusual or at variance from prior reports. Verizon understands that its practices are also generally consistent with industry practices.

³ D.11-05-019, 2011 Cal PUC LEXIS 276, *57.

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Finding #2: Verizon Reported Procurement Expenditures for Non-California Operations

Verizon respectfully disagrees that GO 156 requires expenditures to be specifically tied to California operations. Staff's FAQ is, as noted above, only guidance, and does not constitute a binding order or decision of the Commission.

As Verizon explained in its responses to the data requests in this audit, nothing in GO 156 requires that the diverse supplier spend be confined solely to California operations. Section 9.1.2 of GO 156 requires that utilities provide:

... a summary of WMDVLGBTBE purchases and/or contracts, with breakdowns by ethnicity, product and service categories compared with total utility contract dollars awarded to outside vendors in those categories, and with information regarding the total number of WMDVLGBTBEs with contracts, and the dollars awarded to such WMDVLGBTBEs.

Accordingly, GO 156 does not require California-specific expenditures only to be reported. The only thing that GO 156 requires with regard to California-specific expenditures is that the "utility shall report the number of WMDVLGBTBEs who have the majority of their workforce working in California, *to the extent such information is readily accessible.*"⁴

While Verizon does not have information about the number of its diverse suppliers that have the majority of their workforce in California, Verizon complies with the requirement of GO 156 that only Clearinghouse-certified diverse vendors be included in its GO 156 expenditures. All spend in Verizon's report is connected to California either because the diverse supplier is certified by the Clearinghouse or, if a Disabled Veteran, by the Department of General Services or qualified by a Comparable Agency Verification (CAV).

But more importantly, nothing in the Commission's orders or GO 156 requires that the diverse suppliers be California businesses or that spend be tied to California operations. In Rulemaking 09-07-027, intervenors sought to have the Commission focus exclusively on California spend and diverse suppliers located in California, but the Commission did not adopt any such rule. Greenlining Institute, for example, explained as follows: "Though the Commission does not require that WMDVBEs be California businesses in order to count toward GO 156 goals, the utilities under GO 156's purview serve Californians, and profit from California ratepayers."⁵ Despite Greenlining's recommendation that the Commission modify GO 156 to require that

⁴ GO 156, Section 9.1.2 (emphasis added).

⁵ See Response and Opening Comments Of The Greenlining Institute On The Order Instituting Rulemaking For The Purpose Of Reviewing And Potentially Amending General Order 156 and To Consider Other Measures To Promote Economic Efficiencies Of An Expanded Supplier Base and To Examine The Composition Of The Utilities' Workforce, at footnote 16, filed September 30, 2009 (<https://docs.cpuc.ca.gov/PublishedDocs/EFIELD/CM/107817.PDF>).

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diverse suppliers have their “principal place of business in California,” the Commission did not modify GO 156 in such a manner. Nothing in the decision in that rulemaking or in subsequent rulemakings have subsequently required WMDVBEs to be California businesses in order to count toward GO 156 goals. It would be a serious violation of due process for staff to enforce a rule that the Commission--in response to feedback by multiple parties--did not accept or adopt.

Notwithstanding the foregoing, Verizon is willing to discuss with staff why its methodology actually promotes staff's guidance.

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate Verizon's comments and its strong commitment to the Supplier Diversity Program. We reviewed Verizon's response to the draft audit report, and we are providing our assessment of Verizon's responses in the same order comments were provided.

Verizon expressed its disagreement with the draft report findings and the inclusion of GO 156 staff guidance as part of the audit objective and criteria. Verizon stated it did not believe it has to comply with the GO 156 program guidance because "staff guidance does not have the force and effect of law." Furthermore, Verizon stated:

Ordering Paragraph 3 of D.11-05-019 mandated random audits to "verify the accuracy of reported" diverse spend, but did not authorize or mandate an audit of compliance with post-decision staff guidance.

Verizon also expressed its position that it has "complied with GO 156 and the Commission's orders and decisions."

We would like to reiterate that GO 156 consists of various rules and guidelines governing the Supplier Diversity Program to increase participation of WMDVLGBTBE in procurement of contracts from utilities as required by PU Code sections 8281-8286. The Supplier Diversity Program is a voluntary program that promotes and monitors utilities' diversity procurement. And the intent of the Annual Report submitted by utilities, as required by PU Code section 8283 (d) and section 9 of GO 156, is to provide the CPUC with information on the utilities' diversity procurement performance, progress in meeting their short-, mid-, and long-term supplier diversity goals, and future program enhancement plans. The accuracy of reported information is vital to providing the CPUC a consistent method of quantifying and measuring the benefits of the program. Therefore, D.11-05-019 authorizes the UAB to conduct these audits to ensure accuracy of information reported by participating utilities. The decision further authorized the UAB to determine the appropriate audit methodology to be used to achieve this objective.

On January 14, 2015, the Supplier Diversity Program staff held an Audit Workshop with utilities specifically designed to communicate and provide a global understanding of the audit methodology to be used in conducting the CPUC audits of the Supplier Diversity Program to verify compliance with GO 156 requirements. The purpose of this workshop was to clarify to participating utilities the GO 156 requirements, including those that may not have been explicitly stated by the CPUC in GO 156 but have been communicated to utilities via other medium in the context of GO 156 requirements. Following the workshop, Supplier Diversity Program staff updated the GO 156 FAQs document on January 30, 2015, to incorporate the audit and reporting requirements discussed at the workshop that directly relate to Findings #1 and #2. In addition, the Supplier Diversity Program staff has subsequently incorporated additional updates to the GO 156 FAQs and provides copies to all participating utilities at least once a year. Therefore, our position is that the staff guidance in question provide the necessary context to GO 156 requirements and serve as one of the guiding principles of the Supplier Diversity Program.

Finding #1: Unsubstantiated Diverse Subcontractor Expenditures

Verizon disagreed with the finding and stated it did not believe that GO 156 requires utilities to "substantiate" each of its prime contractor's diverse supplier expenditures with subcontractors through

obtaining documentation of such expenditures. However, we reiterate that Supplier Diversity program staff has communicated this requirement to all participating utilities that utilities should maintain adequate documentation to substantiate any reported expenditures. GO 156 section 9.1.8 further affirms the requirement that utilities must maintain supporting documentation to substantiate information reported in the annual reports. In addition, each utility should be aware that any expenditure reported to the CPUC must be verifiable and is subject to audit at any time.

Verizon also asserted that it has an internal monitoring process in place for reporting subcontractor expenditures. However, this audit determined that this process is insufficient, as Verizon does not require its primary contractors to substantiate subcontractor expenditures with supporting documentation. The finding and recommendations remain unchanged.

Finding #2: Verizon Reported Procurement Expenditures for Non-California Operations

Verizon disagreed with the finding and stated that GO 156 does not require the diverse supplier expenditures reported to be confined solely to California operations. We disagree. GO 156 FAQs states that the expenditures a utility reports must be in support of its California operations, which would facilitate the CPUC's ability to ensure consistent reporting across all utilities and to measure the program's effectiveness and benefits in California. The finding and recommendations remain unchanged.