

# **PACIFIC GAS AND ELECTRIC COMPANY**

Audit Report

## **CALIFORNIA ALTERNATE RATES FOR ENERGY PROGRAM**

*January 1, 2013, through December 31, 2015*



**BETTY T. YEE**  
California State Controller

December 2018



**BETTY T. YEE**  
California State Controller

December 5, 2018

Mary O'Drain, Regulatory Reporting and Policy Expert  
Pacific Gas and Electric Company  
245 Market Street  
San Francisco, CA 94105

Dear Ms. O'Drain:

The State Controller's Office (SCO) audited Pacific Gas and Electric Company's (PG&E) California Alternate Rates for Energy (CARE) program for the period of January 1, 2013, through December 31, 2015.

The objectives of the audit were to (1) determine whether PG&E manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether PG&E's CARE program is in compliance with applicable laws, regulations, and agreement terms and conditions; (3) identify opportunities and priorities in which financial management governance may help to strengthen key controls; and (4) follow up on prior audit findings and evaluate the effectiveness of remediation.

We assessed and evaluated the CARE program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

Our audit found that PG&E did not maintain validation checklists for six of 26 CARE program expenditures to indicate that the expenditures were properly reviewed and authorized prior to payment.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/lis

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California Public Utilities Commission

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Pacific Gas and Electric Company's (PG&E) California Alternate Rates for Energy (CARE) program for the period of January 1, 2013, through December 31, 2015.

The purpose of this audit is to ensure PG&E's compliance with Public Utilities Code and regulations associated with the Income Qualified Assistance Program for the CARE program, the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and program rules and restrictions provided by PG&E.

Our audit found that PG&E did not maintain validation checklists for six of 26 CARE program expenditures tested to indicate that the expenditures had been properly reviewed and authorized prior to payment. This issue is further described in the Finding and Recommendation section of this report.

## Background

The CARE program is administered by electrical and gas utility companies, often in partnership with community-based organizations, which enroll eligible customers in their communities. The program provides a 30-35% discount for electrical charges and 20% for natural gas charges to eligible participants. Income eligibility for CARE participation is set at 200% or less of Federal Poverty Guidelines. The program is funded by non-participating CARE customers as part of a statutory "public purpose program surcharge" that appears on monthly utility bills. CARE is a self-certification program, with targeted post-enrollment income verification. High-energy usage CARE customers are also targeted for enrollment in energy efficiency programs (e.g., the Energy Savings Assistance [ESA] program) and other conservation efforts.

The California Public Utilities Commission (CPUC) requires that utility companies adhere to the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and comply with Public Utilities Code, CPUC directives, and CPUC General Orders (GO).

CPUC Decision (D.) 12-08-044 and D.14-08-030 authorized average annual budgets of approximately \$641.2 million in ratepayer funds to administer and implement PG&E's CARE program budget for calendar years 2013 through 2015. Budgeted and actual amounts for the three calendar years are as follows:

Year	Budgeted	Actual
2013	\$ 647,446,512	\$ 712,258,213
2014	\$ 621,740,513	\$ 619,488,611
2015	\$ 621,744,833	\$ 572,696,080

We performed the audit at the request of the CPUC, pursuant to an Interagency Agreement.

## Objectives, Scope, and Methodology

The objectives of the audit were to:

- Determine whether PG&E manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether PG&E's CARE program is in compliance with applicable laws, regulations, and agreement terms and conditions (see Appendix);
- Identify opportunities and priorities in which financial management governance may help to strengthen key controls; and
- Follow up on prior audit findings and evaluate the effectiveness of remediation.

We assessed and evaluated the CARE program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

We conducted an audit of PG&E's CARE program for the period of January 1, 2013, through December 31, 2015.

To achieve our objectives, we:

- Reviewed prior audit reports of PG&E related to the CARE program to follow up on prior audit findings by reviewing the action plan and responses to recommendations, and analyzing supporting documentation to determine whether remediation efforts were implemented;
- Reviewed applicable laws, regulations, agreement terms and conditions, policies, and procedures related to PG&E's CARE program required by the CPUC for all energy utilities;
- Interviewed all PG&E CARE program employees, and reviewed PG&E's CARE program Annual Reports to:
  - Gain an understanding of the CARE program's services and benefits, budgets, operational goals, funding sources, revenues, expenditures, targeted beneficiaries, and recent statistical results;
  - Gain an understanding of the CARE program's accounting and operational systems; and
  - Assess and evaluate the CARE program's processes, and determine whether key processes could be strengthened.

Upon gaining an understanding of PG&E's administration of the CARE program, we judgmentally selected transactions using non-statistical samples; errors found were not projected to the intended population.<sup>1</sup> We:

- Selected 26 of 59,029 (\$743,547 of \$35,243,784) CARE program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 15 of 22,233 CARE customer files and records to determine compliance with applicable laws, regulations, and agreement terms and conditions;

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<sup>1</sup> As these samples were not statistical, we made no assumption that the errors would also be found in the transactions not sampled.

- Reviewed all fund shifting instances reported in the CARE program Annual Reports; and
- Reviewed the CARE program balancing account.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding, conclusion, and recommendation based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, conclusion, and recommendation based on our audit objectives.

We did not audit PG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that PG&E's CARE program was in compliance with the laws and regulations associated with the Income Qualified Assistance Programs, the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and program rules and restrictions provided by PG&E.

## **Conclusion**

We identified one instance of non-compliance with applicable laws, regulations, and agreement terms and conditions, as described in the Finding and Recommendation section of this report.

## **Follow-up on Prior Audit Findings**

We reviewed CPUC's prior audit of the CARE program, *Financial Management and Regulatory Compliance Audit Report on the California Alternate Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Pacific Gas and Electric Company for the Years Ended December 31, 2007 and December 31, 2008*, dated April 21, 2011. As we identified no issues that were relevant to the CARE program, we did not consider follow-up to be necessary.

We also reviewed PG&E's internal audit report for the CARE program, dated April 28, 2014. We identified one finding related to the objectives of the current audit, regarding post enrollment verification documentation. As our testing in this area did not identify any issues, we did not consider additional follow-up to be necessary for this finding.

## **Views of Responsible Officials**

We issued a draft audit report on October 3, 2018. Marlene Murphy-Roach, Director, Low Income Programs and Disadvantaged Communities, responded by memorandum dated October 30, 2018 (Attachment), agreeing with the audit finding. This final audit report includes PG&E's response.

**Restricted Use**

This report is solely for the information and use of PG&E, the CPUC, and the SCO; 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 report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

December 5, 2018



# Finding and Recommendation

**FINDING—  
PG&E did not  
consistently  
maintain validation  
checklists for  
CARE  
expenditures**

We selected 26 of 59,029 (\$743,547 of \$35,243,784) CARE program expenditure transactions, and reviewed invoices and other supporting documentation. We noted that six transactions (23%, totaling \$349,208) did not have validation checklists, which are used internally by PG&E to document expenditure review and approval prior to payment. Of the 26 transactions, nine were from 2013, eight were from 2014, and nine were from 2015. The invoices were dated as follows:

<u>Date</u>	<u>Amount</u>
January 7, 2013	\$ 75,905
May 29, 2013	89,830
February 27, 2014	32,120
March 14, 2014	91,700
May 7, 2014	29,929
June 29, 2015	<u>29,724</u>
Total	<u>\$ 349,208</u>

The absence of the checklists could result in payments being made without proper authorization. Although the validation checklists were missing, we determined that all expenditures were program-related and supported by invoices and/or other documentation. All expenditures were properly recorded.

As part of our expenditure testing plan, we selected an initial limited number of transactions. Based on the results of testing, we determined that testing additional transactions would not affect the overall conclusion that validation checklists were not consistently maintained.

CPUC GO 28 requires public utilities to preserve all records, memoranda, and papers supporting all transactions so that the CPUC may readily examine them at its convenience.

### Recommendation

We recommend that PG&E ensure that all recorded CARE program expenditures are fully supported by sufficient, appropriate documentation, and that all documentation is preserved in such a manner that it may be readily examined.

### PG&E's Response

PG&E agrees with the finding and recommendation. PG&E stated that it has implemented process improvements related to routing and storage of documents to facilitate proper record keeping.

### SCO Comment

Although PG&E stated that it has implemented corrective actions regarding the finding and recommendation, we did not validate the implementation or effectiveness of these corrective actions. CPUC should follow up to ensure that the corrective actions were adequate and appropriate.

**Appendix—  
Compliance with Applicable Laws, Regulations, and  
Agreement Terms and Conditions**

<b>APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS AND CONDITIONS</b>	<b>AUDIT RESULTS</b>
CPUC GO 28. Preservation of records of public utilities and common carriers	Did not comply; see Finding
CPUC D.12-08-044 Section 6.2. Fund Shifting Rules	Complied
CPUC D.08-11-031 Section 20. Fund Shifting	Complied
CPUC D.08-11-031 Section 23. CARE Recertification	Complied
CPUC D.12-08-044 Section 4.5 CARE High usage customers	Complied
<i>California Statewide Energy Savings Assistance Program Policy and Procedures Manual. Section 2.2.3.2. Categorical Eligibility</i>	Complied
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 584	Complied

**Attachment—  
Pacific Gas and Electric Company's Response to  
Draft Audit Report**

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**Memorandum**

**Date:** October 30, 2018  
**To:** Jeffrey Brownfield, Chief, Division of Audits, State Controller's Office  
**From:** Marlene Murphy-Roach, Director, Low Income Programs and Disadvantaged Communities, Pacific Gas & Electric Company  
**Subject:** Pacific Gas and Electric Company's (PG&E) Response to the California State Controller's Office Audit of the PG&E California Alternate Rates for Energy (CARE) Program (January 1, 2013 – December 31, 2015)

The State Controller's Office (SCO) audited the California Alternate Rates for Energy (CARE) program for the period of January 1, 2013 through December 31, 2015. The objectives of the audit were to: (1) determine whether PG&E effectively manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether PG&E's CARE program is in compliance with applicable laws, regulations, and agreement terms and conditions; (3) identify opportunities and priorities in which financial management governance may help strengthen key controls; and (4) follow up on prior audit findings and evaluate the effectiveness of remediation.

PG&E received the first SCO draft Audit Report dated October 18, 2017 and provided response to the finding and recommendation in that report on December 1, 2017. PG&E received a second SCO draft Audit Report dated October 3, 2018 on October 15, 2018. The second Report assessed PG&E was in compliance with six of seven applicable laws, regulations, and agreement terms and conditions included on the report's Appendix. The one instance of non-compliance was described in the Finding and Recommendation section of the report. PG&E did not identify any changes to the SCO finding and recommendation from the 2017 report. There were also no changes since PG&E filed its response to the 2017 report. For this reason, PG&E's response to 2018 report is the same as its response to 2017 report, as provided below:

**Finding 1 - PG&E did not consistently maintain validation checklists for CARE expenditures**

The SCO draft audit report identified one instance of non-compliance with applicable laws, regulations, and agreement terms and conditions. The report noted six of 26 CARE program expenditures transactions did not have validation checklists, which are used internally by PG&E to document expenditure review and approval prior to payment.

In response to the draft audit report's only CARE finding, it is recommended that PG&E ensure that all recorded CARE program expenditures are fully supported by sufficient appropriate documentation, and that all documentation is preserved in such a manner that it may be readily examined.

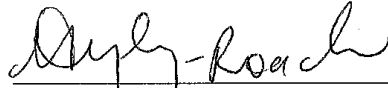
PG&E agrees with this finding and takes this opportunity to submit comments and action plans concerning the draft audit report finding and recommendation. In order to facilitate proper record keeping including the transaction validation checklists, PG&E has implemented the following process improvements related to routing and storage of the documents since 2015:

In January 2016, the CARE program implemented the Utility Standard CUST-4015S (Invoice Validation Standard). This standard defines the steps the CARE program uses to validate and approve invoices, and complete the Invoice Validation Checklist prior to payment. CARE program employees responsible for validating and approving invoices are trained on this standard and refreshed annually. Additionally, CARE expenditure transactions are also subjected to quarterly Quality Assurance (QA) reviews. These QA reviews select a random sample of invoices for auditing in order to monitor internal processes and adherence to the steps outlined in the Invoice Validation Standard.

To increase ease of document retrieval and storage, PG&E has implemented electronic routing such as the Electronic Document Routing System (EDRS) for approval to ensure all supporting documentation for expenditures are included in the approval request, and mitigates the risk of documents being lost.

If there are any follow up questions concerning this response, please contact Allen Fernandez Smith at 415.973.0970.

As the accountable Director for the CARE Program, I certify that the above information is accurate.



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Marlene Murphy-Roach, Director, Low Income Programs and Disadvantaged Communities

cc: Allen Fernandez Smith, Manager, Low Income Programs and Strategy  
Thuong-Tina Nguyen, Senior Program Manager

**State Controller's Office  
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**<http://www.sco.ca.gov>**