# PACIFIC GAS AND ELECTRIC COMPANY

Audit Report

## ENERGY SAVINGS ASSISTANCE 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 audited Pacific Gas and Electric Company's (PG&E) Energy Savings Assistance (ESA) 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 ESA program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether PG&E's ESA 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 ESA program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

We did not validate the effectiveness of remediation for six of the nine observations identified in the California Public Utilities Commission's (CPUC) prior examination of the ESA program and four findings in the two prior PG&E internal audits. We limited our follow-up to reviewing PG&E's corrective action plans and related documentation (Objective 4).

Our audit found that:

- PG&E did not maintain validation checklists for five of 34 ESA program expenditures tested to indicate that the expenditures were reviewed and authorized prior to payment;
- PG&E did not have an appropriate method for capturing and accounting for ESA program administrative costs; and
- Two of four contract records tested lacked adequate documentation to support contract awards.

These issues are further described in the Findings and Recommendations section of this report.

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Aaron Johnson, Vice President, Customer Energy Solutions
Pacific Gas and Electric Company
Vincent Davis, Senior Director, Energy Efficiency
Pacific Gas and Electric Company
Paola Benassi, Manager (via email)
Energy Savings Assistance Program
Pacific Gas and Electric Company
Thuong-Tina Nguyen, Senior Program Manager
Pacific Gas and Electric Company
Edward Randolph, Director
Energy Division
California Public Utilities Commission
Robert Strauss, Manager (via email)
Energy Efficiency Branch, Energy Division
California Public Utilities Commission
Alison LaBonte, Ph.D., Supervisor
Residential Energy Efficiency Programs and Portfolio Approval, Energy Division
California Public Utilities Commission
Syreeta Gibbs, Senior Public Utility Regulatory Analyst (via email)
Residential Energy Efficiency Programs and Portfolio Approval, Energy Division
California Public Utilities Commission
Lola Odunlami, Public Utility Regulatory Analyst (via email)
Residential Energy Efficiency Programs and Portfolio Approval, Energy Division
California Public Utilities Commission
Barbara Owens, Director of Enterprise Risk and Compliance Office (via email)
Executive Division
California Public Utilities Commission
Kevin Nakamura, Program and Project Supervisor (via email)
Utility Audits, Finance and Compliance Branch
California Public Utilities Commission

# Contents

# Audit Report

## Summary

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

The purpose of this audit was to ensure PG&E's compliance with Public Utilities Code and regulations associated with the Income Qualified Assistance Program for the ESA 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 five of 34 ESA program expenditures tested to indicate that the expenditures were reviewed and authorized prior to payment;
- PG&E did not have an appropriate method for capturing and accounting for ESA program administrative costs; and
- Two of four contract records tested lacked adequate documentation to support contract awards.

These issues are further described in the Findings and Recommendations section of this report.

## Background

The ESA program, administered by electrical and gas utility companies, provides weatherization and energy efficiency measures, minor home repairs, and energy education at no cost to income-eligible program participants. Weatherization includes attic insulation, caulking, weather-stripping, low-flow showerheads, water heater blankets, and door and building envelope repairs that reduce air infiltration. The program's purpose is to reduce energy consumption, resulting in bill savings, while also increasing the health, comfort, and/or safety of the household. The ESA program is funded by ratepayers as part of a statutory "public purpose program surcharge" that appears on monthly utility bills. Income eligibility for ESA program participation is set at 200% or less of the Federal Poverty Guidelines. The program's ultimate goal is to deliver increasingly cost-effective and longer-term savings to participants.

Public Utilities Code section 2790 requires that electrical or gas corporations perform home weatherization services for low-income customers if the California Public Utilities Commission (CPUC) determines that a significant need for those services exists in the corporation's service territory.

The 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 $158 million in ratepayer funds to administer and implement PG&E's ESA program budget for calendar years 2013 through 2015. Budgeted and actual amounts for the three calendar years are as follows:

| Year | Budgeted | Actual |
|---|---|---|
| 2013 | $ 156,330,249 | $ 142,181,389 |
| 2014 | $ 166,669,284 | $ 145,940,449 |
| 2015 | $ 163,946,778 | $ 136,775,345 |

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 ESA program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether PG&E's ESA program is in compliance with applicable laws, regulations, and agreement terms and conditions (see Appendix 1);
- 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 ESA program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

We did not validate the effectiveness of remediation for six of the nine observations identified in the CPUC's prior examination of the ESA program and four findings in the two prior PG&E internal audits. We limited our follow-up to reviewing PG&E's corrective action plans and related documentation (Objective 4).

We conducted an audit of PG&E's ESA 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 ESA 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 ESA program required by the CPUC for all energy utilities;

- Interviewed all PG&E ESA program employees and reviewed PG&E's ESA program Annual Reports to:
    - Gain an understanding of the ESA program's services and benefits, budgets, operational goals, funding sources, revenues, expenditures, targeted beneficiaries, and recent statistical results;
    - Gain an understanding of the ESA program's accounting and operational systems; and
    - Assess and evaluate the ESA program's processes, and determine whether key processes could be strengthened.

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

- Selected 34 of 114,413 ($1,450,386 of $422,920,830) ESA program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 15 of 889 ESA program customer files and records to determine compliance with the Modified 3 Measure Minimum Rule;
- Selected three of 42 contracts and reviewed bid awards;
- Reviewed all fund shifting instances reported in the ESA program Annual Reports; and
- Reviewed the ESA 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 findings, conclusions, and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations 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 ESA 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 instances of non-compliance with applicable laws, regulations, and agreement terms and conditions, as described in the Findings and Recommendations section of this report.

[1] As these samples were not statistical, we made no assumption that the errors would also be found in the transactions not sampled.

## Follow-up on Prior Audit Findings

We reviewed the CPUC's prior examination of the ESA program, *Interim Financial, Management and Regulatory Compliance Examination of Pacific Gas & Electric Company's Energy Savings Assistance Program for January 1, 2009 through December 31, 2010*, dated April 16, 2013, and presented our comments in Appendix 2 of this report. Based on work performed in the current audit, we noted that PG&E has not implemented appropriate corrective actions for Observations 2 and 6. PG&E stated that Observation 7 is pending guidance from the CPUC Energy Division. We did not validate the effectiveness of remediation for Observations 8, 9, 10, 11, 14, and 15.

We also reviewed PG&E's internal audit reports for the ESA program, File Nos. 15-017 and 15-028, dated February 3, 2015, and April 24, 2015, respectively. We identified one finding regarding supervisor ride-alongs for inspections that was not relevant to the objectives of the current audit (Finding 2, February 3, 2015 audit); therefore, we did not consider follow-up to be necessary for this finding. For Finding 1 (April 24, 2015 audit), we had a similar finding regarding the classification of administrative costs (Finding 2 of the current audit). For Finding 3 (April 24, 2015 audit) regarding supporting documentation for program costs, our testing in this area did not identify any issues; therefore, we did not consider additional follow-up to be necessary. We did not validate the effectiveness of remediation for Findings 1 and 3 (February 3, 2015 audit); and Findings 2 and 4 (April 24, 2015 audit).

## Views of Responsible Officials

We issued a draft audit report on October 3, 2018. Marlene Murphy-Roach, Director, Low Income Programs & Disadvantaged Communities, responded by letter dated November 5, 2018 (Attachment), partially agreeing with the audit findings. This final 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

# Findings and Recommendations

**FINDING 1—PG&E did not consistently maintain validation checklists for ESA expenditures**

We selected 34 of 114,413 ($1,450,386 of $422,920,830) ESA program expenditure transactions, and reviewed invoices and other supporting documentation. We noted that five transactions (15%, totaling $218,524) did not have validation checklists, which are used internally by PG&E to document expenditure review and approval prior to payment. Of the 34 transactions, 11 were from 2013, 11 were from 2014, and 12 were from 2015. The invoices were dated as follows:

| Date | Amount |
|---|---|
| July 3, 2013 | $ 41,526 |
| August 30, 2013 | 11,313 |
| March 27, 2014 | 24,094 |
| September 22, 2014 | 83,763 |
| October 23, 2014 | 57,828 |
| Total | $ 218,524 |

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, except for the administrative expense noted in Finding 2.

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 our 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 ESA 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.

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.

**FINDING 2— PG&E lacked an appropriate method to capture and account for administrative costs**

Our expenditure testing, described in Finding 1, noted that one transaction for contractor administrative costs was accounted for in measure costs rather than in administrative costs. Accounting for contractors' administrative costs in this manner understates the true cost of PG&E's administrative expenses and overstates the measure cost category. Without an appropriate method by which to capture and account for ESA program administrative costs in one reporting area, the CPUC is unable to compare measure costs and administrative costs to properly evaluate budget proposals.

Public Utilities Code section 584 states, "Every public utility shall furnish such reports to the commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the commission."

CPUC D.05-04-052 V.E., Investor Owned Utility Contractor Costs, requires a contractor to furnish a full breakdown of its contractor costs so that the utilities can furnish it to the CPUC.

This issue was also noted in the prior examination performed by the CPUC. The examination report recommended that the CPUC work with the four large utility companies to devise an accounting and reporting system for capturing all costs to administer the ESA program in the administrative cost category. Furthermore, the recommendation stated that the CPUC's Energy Division would provide guidance and plans for resolving this matter. As the resolution is pending, we did not pursue further testing on this issue.

Recommendation

We recommend that PG&E continue to work with the CPUC to devise an accounting and reporting system to capture and account for all ESA program administrative costs in one reporting area.

PG&E's Response

PG&E agrees with the finding and recommendation. PG&E stated that it has implemented corrective actions regarding the finding and recommendation.

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.

**FINDING 3—PG&E did not provide adequate supporting documentation for contract procurement**

For contract procurement testing, we obtained a list of all active contracts during the audit period, consisting of approximately 35 contractors that were sorted into five service categories: Air Conditioning Tune Up; Heating, Ventilation, and Air Conditioning; Refrigeration; Refrigerator Leveraging; and Weatherization. We selected four contractors with the highest contract values, consisting of three contractors from three different categories and one contractor from the remaining two categories.
Our review found that PG&E did not did not provide adequate supporting documentation for two contractors as follows:

- Lovotti: The contractor received a direct award with an effective date of April 29, 2013. The Direct Award Request Form No. 62-1562 referenced a justification. However, when requested by the auditor, PG&E did not provide actual documents to support the justification.
- Richard Heath and Associates, Inc. (RHA): The contractor received a bid award with an effective date of December 21, 2012. PG&E was not able to locate the Bid Record Form for this award. RHA was also the contractor for two other service categories and had approximately 40 subcontractors. Consequently, we were unable to determine justification for selecting this contractor or whether RHA and its subcontractors were the most qualified bid recipients.

During fieldwork, PG&E staff indicated that the staff responsible for these documents during the audit period are no longer with the contracts section. As such, PG&E cannot attest to what transpired then.

Based on the results of testing, we determined that testing additional transactions would not affect our overall conclusion that supporting documents for contract procurement were not maintained.

PG&E *Requisition to Pay Procurement Manual*, 2. Source, page 37 states:

> All Direct Award recommendations for non-catalog contracts over $100,000 must be documented, and documents related to the sourcing efforts and decision criteria used to select the supplier must be retained in the contract file.

PG&E *Bid Record Form* (62-1561), Step 3.2 states:

> The Sourcing department completes this Bid Record to document the award justification through competitive bidding. This award justification is a required part of the contract package.

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.

PG&E *Requisition to Pay Procurement Manual*, 3. Contract, page 31 states:

> The SRM contract must contain attachments of the contract document as well as any related documentation (i.e. specifications, award justification, etc.). Having all contract documents attached to the SRM contract allows users to easily access and refer to these documents, thereby helping ensure contract compliance.

Recommendation

To adhere to its procurement policies and procedures, we recommend that PG&E document in sufficient detail the rationale for its procurement methods, decision criteria, and award justifications.

PG&E's Response

PG&E disagrees with the finding regarding Lovotti, Inc. PG&E stated that it had provided SCO with the Direct Award Form (62-1562), and that the form contained five detailed justifications supporting the award to the contractor.

PG&E partially agrees with the finding regarding RHA. It agrees that it was not able to locate the Bid Record Form (62-1561), but PG&E disagrees that it was not able to provide justification for selecting the contractor. PG&E stated that it was able to locate a supporting document that contains the majority of the information documented in the Bid Record Form to provide justification for the award. PG&E stated that it has implemented action plans to mitigate the risk of a similar finding in the future.

PG&E disagrees with the statement in the finding that PG&E staff responsible for documents during the audit period are no longer with the contracts section and that PG&E cannot attest to what transpired at that time. PG&E stated that it was able to identify the actions that transpired related to the contracts identified in the finding.

SCO Comment

The finding and recommendation remain unchanged.

Regarding Lovotti, Inc., PG&E provided the Direct Award Request Form to the SCO on November 3, 2016. Although the form included five justifications, we subsequently requested additional documentation to support the statements made on the form; PG&E did not provide this additional documentation. For example, one justification stated that "through benchmarking and aggressive negotiations," Lovotti offered competitive pricing. A cost analysis comparing other vendors' prices or industry benchmarks would have constituted adequate support for Lovotti's competitive pricing justification.

Regarding RHA, when PG&E responded to this draft report, it provided PowerPoint slides titled "ESAP RFP Finalist Recommendation." The slides contained a breakdown of the bidders' scores during the request for proposal (RFP) evaluation. However, PG&E did not provide additional documentation to substantiate the amounts in the PowerPoint slides, and we could not reconcile the scores to any RFP documentation provided during fieldwork.

At a meeting on October 27, 2016, contracts section staff members indicated that staff who worked on the RHA and Lovotti procurements were no longer with the contracts section. As a result, the supporting documentation that we requested during audit fieldwork was not provided.

# Appendix 1—
# Compliance with Applicable Laws, Regulations, and Agreement Terms and Conditions

| APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS AND CONDITIONS | AUDIT RESULTS |
|---|---|
| CPUC GO 28 Preservation of records of public utilities and common carriers | Did not comply; see Findings 1 and 3 |
| CPUC D.12-08-044 Section 6.2. Fund Shifting Rules | Complied |
| CPUC D.08-11-031 Section 20. Fund Shifting | Complied |
| *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*. Section 2 Customer and Structural Eligibility | Complied |
| CPUC D.08-11-031 Section 11. 3 Measure Minimum Rule | Complied |
| CPUC D.09-06-026 Section 2.1. Modified “3 Measure Minimum Rule” | Complied |
| PG&E Requisition To Pay Procurement Manual, 2. Source and 3. Contract | Did not comply; see Finding 3 |
| CPUC D.05-04-052 V.E., IOU Contractor Costs | Did not comply; see Finding 2 |

# Appendix 2— Summary Schedule of Prior CPUC Audit Findings

**CPUC INTERIM FINANCIAL, MANAGEMENT AND REGULATORY COMPLIANCE EXAMINATION OF PACIFIC GAS & ELECTRIC COMPANY'S ESA PROGRAM FOR JANUARY 1, 2009 THROUGH DECEMBER 31, 2010**

| CPUC's Observations and Recommendations | Status | SCO Comments |
|---|---|---|
| OBSERVATION 2: PG&E failed to demonstrate compliance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA), General Order (GO) 28 and its internal accounting controls. Invoices for six percent or $2.98 million of the sampled contractor invoice transactions lacked sufficient documentation. | | |
| RECOMMENDATION: PG&E should ensure that all recorded program expenditures are fully supported by sufficient appropriate documentation, including documents substantiating its performed procedures. | Not implemented | Our audit found similar issues related to program expenditures. See Finding 1. |
| OBSERVATION 6: PG&E failed to demonstrate compliance with general accounting best practices and § 581. PG&E reports its prime contractor costs to administer its ESAP within other cost areas such as within the measures. | | |
| RECOMMENDATION: To accurately reflect the true extent of the ESAP general administrative costs, the Commission and all four large utilities providing ESAP should devise an accounting and reporting system to capture all costs to administer ESAP in the administrative cost category whether incurred internally or by the utility or externally by a utility contractor. Within 90 days of the date of this memo, ED should provide its guidance or decision to the utilities and UAFCB on how it plans to resolve this matter. | Not implemented | Our audit found similar issues related to accounting for administrative costs. See Finding 2. |
| OBSERVATION 7: PG&E failed to demonstrate compliance with: the USOA, GO 28, D.05-04-052 and §§ 451, 581, and 584. Thirty-nine percent of the contracted hourly rates of PG&E's implementation contractors are unidentified general administrative costs and lack proper substantiation. | | |
| RECOMMENDATION: PG&E should begin to require its contractors to provide a full breakdown and substantiation of their costs as required in D.05-04-052 and GO 28 and provide the results of such when requested to do so by the Commission. | Not implemented | PG&E stated that guidance regarding the level of detail that must be provided by its contractors is pending from the CPUC Energy Division. |

# Appendix 2 (continued)

| CPUC's Observations and Recommendations | Status | SCO Comments |
|---|---|---|
| OBSERVATION 8: PG&E failed to demonstrate compliance with the FERC USOA, GO 28 and its own internal accounting controls. Two recorded entries from the sample reviewed were lacking supporting employee timecards. | | |
| RECOMMENDATION: PG&E should ensure all recorded program expenditures are fully supported by sufficient appropriate documentation and maintain said documentation so that UAFCB may readily examine them at its convenience. | PG&E provided SCO with documentation of its current time-entry processes. | PG&E provided the Time Administrator Training Guide, last updated July 16, 2015, and a copy of the New Time Entry Process for Customized Energy Solutions (CES) Business Operations. PG&E stated that it had implemented SAP ESS/MSS (Employee Self Service/Manager Self Service) in January 2013 to improve labor recording processes. SAP ESS/MSS provides the following functions: management employees can submit their time directly; supervisors and their delegates can aprove time directly; timekeepers do not need to manually enter time or maintain timesheets in other systems; and the system validates leave balances in real time and implements general time-entry validation rules and controls.<br>We did not test the effectiveness of PG&E's implementation of these processes. However, we did validate that PG&E implemented SAP ESS/MSS. |

# Appendix 2 (continued)

| CPUC's Observations and Recommendations | Status | SCO Comments |
|---|---|---|
| OBSERVATION 9: PG&E failed to demonstrate compliance with §§ 451, 581, and 584. PG&E overpaid one of its contractors by $8,272. | | |
| RECOMMENDATION: PG&E should: (1) revise the terms of its existing contracts to include a provision requiring a detail-level hours worked schedule from its vendors; (2) refund ESAP funds with either (a) a charge against its investors' account or (b) a recovery from the contractor in question; and (3) ensure accurate and complete vendor billing support before making payments. Within 90 days after the UAFCB provides its Energy Division Director memo and Appendix A and C to PG&E, it should provide the UAFCB with a summary of the steps it has taken to resolve this matter. | PG&E provided a corrective action plan. | PG&E stated that: (1) It will include the detail level of hours worked requirement in all subsequent contracts with Direct Technologies. We did not verify this update to the contracts. (2) A recovery from the contractor was not warranted because the revised support for the invoice reconciled with the invoice total. We validated this assertion. (3) It provided UAFCB with evidence that all program managers in ESAP on June 27, 2013, completed an invoice review refresher training program to ensure accurate and complete vendor billing support before making payments. |
| OBSERVATION 10: PG&E failed to demonstrate compliance with the USOA, GO 28 and §§ 451, 581, and 584. UAFCB was unable to determine the accuracy of invoices totaling $266,036. | | |
| RECOMMENDATION: PG&E should: (1) revise its existing contracts to include a provision requiring a detailed level, as opposed to the summary level, of hours worked from its vendors; (2) review the recorded expense entries discussed above against a to-be-recalculated amount that is to be based on a detailed level of hours worked and, if the entries do not reconcile, make restitution to the program balancing account with either (a) a charge against its investors' account or (b) a monetary recovery from the vendor; and (c) ensure accurate and complete vendors billing support before making payments. Within 90 days after the UAFCB provides its Energy Division Director memo and Appendix A and C to PG&E, it should provide UAFCB with: (1) copies of the detail-level schedules of hours worked for the invoices in question or evidence of making restitution to the program and (2) a copy of a revised contract requiring the contractor to provide a detail-level schedule of hours worked in addition to the summary. | PG&E provided a corrective action plan. | PG&E stated that: (1) It included the detail level of hours worked requirement in all subsequent contracts with Direct Technologies. We did not verify this update to contracts. (2) A recovery from the contractor was not warranted because the revised support for the invoices reconciled with the invoice totals. We validated this assertion; however, our review of the revised invoice support differed from the invoice total by $88. |

# Appendix 2 (continued)

| CPUC's Observations and Recommendations | Status | SCO Comments |
|---|---|---|
| OBSERVATION 11: PG&E did not demonstrate compliance with §§ 581 and 584. PG&E improperly accounted for or improperly accrued some of its employee's hours. | | |
| RECOMMENDATION: PG&E should ensure proper accounting for its labor hours to ensure accurate data reporting and program labor costing. | PG&E provided SCO with documentation of its current time-entry process. | PG&E stated that it provided staff with a Time Administrator Training Guide, last updated July 16, 2015, and a copy of the New Time Entry Process for CES Business Operations. PG&E stated it implemented SAP ESS/MSS in January 2013 to improve labor recording processes. SAP ESS/MSS provides the following: management employees can submit their time directly; supervisors and their delegates can approve time directly; timekeepers do not need to manually enter time or maintain timesheets in other systems; and the system validates leave balances in real time and implements general time-entry validation rules and controls.<br><br>We did not test the effectiveness of PG&E's implementation of these processes. However, we did validate that PG&E implemented SAP ESS/MSS. |
| OBSERVATION 14: PG&E failed to demonstrate compliance with FERC USOA, GO 28 and its own internal controls and procurement policies and procedures. Over 34% of the payments to contractors that UAFCB sampled lacked proper supporting documentation. | | |
| RECOMMENDATION: PG&E should (1) adhere to and enforce the terms of its existing contracts and (2) preserve all the required documentation supporting all of its recorded expenses in a manner such that UAFCB may readily examine the same at its convenience. (3) If PG&E changes the way it conducts business during an active contract period, PG&E should amend its contracts with its direct service providers and ensure that the terms of the executed contract are adhered to. | PG&E provided a corrective action plan. | For (1) and (3), PG&E stated that it will update Section 8 – Work Authorization Form of the Repair and Replacement contracts to clarify that the information is to be submitted electronically for any new contracts or existing contracts when they are renewed. We did not verify this update to the contracts. For (2), PG&E stated that it continues to require its contractors to electronically enter the Work Authorization Form details directly into the Energy Partners Online database. We did test the effectiveness of this process. |

# Appendix 2 (continued)

| CPUC's Observations and Recommendations | Status | SCO Comments |
|---|---|---|
| OBSERVATION 15: PG&E failed to demonstrate compliance with §§ 451, 581 and 584. Five of the sampled transactions regarding payments to PG&E's direct service providers that UAFCB reviewed had inconsistent accounting for rendered services and allocations between its gas and electric programs. | | |
| RECOMMENDATION: UAFCB should review PG&E's new controls and their implementation in this area in a future audit or examination. | PG&E did not provide a corrective action plan. | Based on interviews and flowcharts provided by PG&E of their Energy Partner Online process, any corrections necessary to invoices are sent back to the contractor to revise and resubmit for payment. We did not test the effectiveness of PG&E's implementation of this process. |

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

**Pacific Gas and Electric Company**

*Memorandum*

**Date:** November 5, 2018

**To:** Andrew Finlayson, Chief, Division of Audits, State Controller's Office

**From:** Marlene Murphy-Roach
Director, Low Income Programs & Disadvantaged Communities

**Subject:** Pacific Gas and Electric Company's Response to the California State Controller's Office Audit of the PG&E Energy Savings Assistance (ESA) Program (January 1, 2013 – December 31, 2015)

Pacific Gas & Electric received the State Controller's Office (SCO) second draft audit report on October 15, 2018. PG&E appreciates the work of the State Controller's Office in auditing the Energy Savings Assistance (ESA) program for the period of January 1, 2013 through December 31, 2015.

The SCO's first draft audit report was issued on October 18, 2017. PG&E filed a response to the first report on December 1, 2017. The majority of the Findings and Recommendations in the second draft audit report are unchanged from the first report. Where appropriate, PG&E incorporates its response to the SCO Findings and Recommendations issued in 2017.

PG&E's response to the second draft report is organized into three sections:

A. PG&E's Response Audit Report Findings and Recommendations.
B. PG&E's Response to Conclusions in Appendix 1 of SCO report.
C. PG&E's Response to Observations and Recommendations in Appendix 2 of SCO report.

**A. PG&E's Response Audit Report Findings and Recommendations.**

**1. SCO Finding 1 - PG&E did not consistently maintain validation checklists for ESA expenditures**

The SCO draft audit report found:

- PG&E did not maintain validation checklists for five of 34 ESA program expenditure to indicate that the expenditures were reviewed and authorized prior to payment.[1]

The draft audit report recommended that PG&E ensure that all program expenditures are fully supported by sufficient appropriate documentation, and that such documentation is preserved in such a manner that it may be readily examined.[2]

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:

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[1] SCO Draft Audit Report, p. 1. All references are to the SCO report dated October 3, 2018, unless otherwise stated.
[2] SCO Draft Audit Report, p. 5.

- In January 2016, the ESA program implemented Utility Standard 2015-118891 ("Energy Savings Assistance Program Contract Price"). This standard defines the steps the ESA program uses for Quality Assurance/Quality Control on a sample of weekly invoices over $500,000 to ensure the contractually agreed upon measure amount was correctly captured in the invoice before final approval. This validation process compares the costs listed in the invoice to the costs identified in the contract to ensure they match. This is done in addition to the Validation Checklist and is also attached to the invoice as supporting documentation and proof of review.
- Beginning in March 2016, the review and approval of all invoices, including supporting Validation Checklist, for the ESA program are conducted through PG&E's Electronic Document Routing System (EDRS). Implementing electronic routing for approval ensures all supporting documentation for expenditures are included in the approval request and mitigates the risk of documents being lost.

**2. SCO Finding 2 - PG&E lacked an appropriate method to capture and account for administrative costs**

The SCO draft report found:

- PG&E does not have an appropriate method for capturing and accounting for ESA program administrative costs.[3]

The draft audit report recommended that PG&E continue to work with the CPUC to devise an accounting and reporting system to capture and account for all ESA program administrative costs in one reporting area.[4]

PG&E agrees with this recommendation. PG&E proposed to establish a stand-alone Implementation line item to account for ESA program administrative costs incurred by prime contractors in one reporting category of the proposed budget tables. PG&E proposed this change in an advice letter filed on 6/20/2017, and approved by the Commission on 12/14/2017.[5] Beginning January 2018, PG&E's monthly ESA program report to the Commission incorporated the revised budget template that identifies the prime contractors' administrative costs on a monthly basis. An example of this table is included as Attachment 1.

**3. SCO Finding 3 - PG&E did not provide adequate supporting documentation for contract procurement**

The SCO draft report found:

- Two of four contract records tested lacked adequate documentation to support contract awards.[6]

To adhere to its procurement policies and procedures, the draft audit report recommended that PG&E maintain records that sufficiently detail the rationale for the method of procurement and proper contractor justification.[7]

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[3] SCO Draft Audit Report, p. 1.

[4] SCO Draft Audit Report, p. 5. This SCO finding and recommendation has not been revised since the October 18, 2017 draft report. PG&E incorporates the response it provided in December 1, 2017 and provides additional information on the activities that have transpired since.

[5] PG&E's Conforming Advice 3830-G-A/5043-E-A was filed 6/20/2017 and is approved via Resolution G-3531 dated 12/14/2017.

[6] SCO Draft Audit Report, p. 1.

The SCO draft report identified three justifications to support its finding.

a. **Contract Award to Lovotti, Inc.**

The SCO draft reports refers to a contract that PG&E awarded to Lovotti, Inc. in 2013. The SCO draft report found:

- Lovotti: The contractor received a direct award with an effective date of April 29, 2013. The Direct Award Request Form No. 62-1562 referenced a justification. However, when requested by the auditor, PG&E did not provide actual documents to support the justification.[8]

PG&E disagrees with the SCO finding. In response to the SCO request, PG&E provided the Direct Award Form (62-1562) for Lovotti, Inc. via Data Request 31 on 11/3/2016. This Form contained five detailed justifications supporting the award to the contractor. Providing this response to the SCO constituted a full response to the request for information. PG&E will provide a copy of the form to the SCO through a separate communication.

b. **Contract Award to Richard Heath and Associates (RHA)**

PG&E agrees that PG&E did not provide or locate the Bid Record Form (62-1561) for RHA. The SCO draft report, p. 6, states:

- Richard Heath and Associates, Inc. (RHA): The contractor received a bid award with an effective date of December 21, 2012. PG&E was not able to locate the Bid Record Form for this award. RHA was also the contractor for two other service categories and had approximately 40 subcontractors. Consequently, we were unable to determine justification for selecting this contractor or weather RHA and its subcontractors were the most qualified bid recipients.[9]

PG&E partially agrees with this finding, as PG&E was not able to locate the Bid Record Form (62-1561). However, PG&E disagrees that PG&E was not able to provide justification for selecting the contractor. PG&E was able to locate a supporting document that contains the majority of the information documented in the Bid Record Form (62-1561) and provides justification for the award. PG&E will provide a copy of this information to the SCO through a separate communication.

PG&E has implemented action plans to mitigate the risk of a similar finding in the future. To assure continuous improvement and consistency across work portfolios, PG&E formalized a revised strategic sourcing process and associated training that specifically covers document retention. This mandatory training was rolled out in December 2016 and requires annual renewal.

c. **SCO's Fieldwork Finding**

PG&E respectfully disagrees with the SCO's findings regarding fieldwork discussions. The SCO report found:

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[7] SCO Draft Audit Report, p. 7.
[8] SCO Draft Audit Report, p. 6.
[9] SCO Draft Audit Report, p. 6.

- During fieldwork, PG&E staff indicated that the staff responsible for these documents during the audit period are no longer with the contracts section. As such, PG&E cannot attest to what transpired then.[10]

PG&E disagrees with this finding as PG&E has been able to identify the actions that transpired related to the contracts SCO identified in this section. PG&E has provided information to the contracts identified by the SCO. PG&E is not clear on the time period referred to in this response or on the information referred to by the SCO in this finding.

**4. SCO Conclusion and Follow Upon Prior Audit Findings. PG&E did not provide adequate supporting documentation for contract procurement Follow-up on Prior Audit Findings**

The SCO draft report found:

- For the CPUC's prior examination of the ESA program, *Interim Financial Management and Regulatory Compliance Examination of Pacific, Gas & Electric Company's Energy Savings Assistance Program for January 1, 2009 through December 31, 2010*, dated April 16, 2013, the SCO draft report found, "Based on work performed in the current audit, we noted that PG&E has not implemented appropriate corrective actions for Observations 2 and 6."

PG&E responds to this statement in the paragraphs below.

Observation 2 states that PG&E did not consistently maintain sufficient documentation for ESA expenditures. As SCO noted, this observation is similar to the SCO's draft audit report Finding 1. PG&E agrees with this comment and implemented appropriate corrective action as detailed above in response to Finding 1. PG&E implemented process improvements to facilitate proper record keeping in 2016. These improvements addressed routing and storage of the documents and use of transaction validation checklists.

Observation 6 states that PG&E lacked an appropriate method to capture and account for administrative costs. As SCO noted, this observation is the same as the SCO's draft audit report Finding 2. PG&E agrees with this comment and implemented appropriate corrective action. As stated above in response to Finding 2: PG&E implemented a stand-alone implementation line item to account for ESA program administrative costs incurred by prime contractors. The Commission approved this new implementation budget category and it was added to ESA monthly CPUC reporting starting January 2018.[11] An example of this new budget report is attached at Attachment 1.

**B. PG&E's Response to Conclusions in Appendix 1 of SCO draft report.**
The SCO draft report, Appendix 1, contains a summary of "Audit Results." These "Results" duplicate the findings that are also contained in the main SCO draft report. PG&E incorporates by reference it's responses in Section A above.

**C. PG&E's Response to Observations and Recommendations in Appendix 2 of SCO draft report.**
The SCO draft report, Appendix 2, contains a "Summary Schedule of Prior CPUC Audit Findings." Attachment 2 to this response contains PG&E's response to each SCO comment in Appendix 2 of the SCO draft report.

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[10] SCO Draft Audit Report, p. 4.

[11] PG&E's Conforming Advice 3830-G-A/5043-E-A was filed 6/20/2017 and is approved via Resolution G-3531 dated 12/14/2017.

**D. Conclusion**
PG&E appreciates the work of the State Controller's Office in auditing the Energy Savings Assistance (ESA) program and looks forward the final audit report.

If there are any follow up questions concerning this response, please contact Paola Benassi at 415.973.5731.

As the accountable Director for the Energy Savings Assistance Program, I certify that the above information is accurate.

Marlene Murphy Roach, Director, Low Income Programs & Disadvantaged Communities

cc: Paola Benassi, Manager, Customer Energy Solutions

Attachment 1: Energy Savings Assistance (ESA) Program Monthly Report Table 1 for January 2018

**Energy Savings Assistance Program Table 1 - Expenses**
**Pacific Gas and Electric Company**
**Through January 31,2018**

| | Authorized Budget [*] | | | Current Month Expenses | | | Year to Date Expenses | | | % of Budget Spent YTD | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ESA Program:** | Electric | Gas | Total | Electric | Gas | Total | Electric | Gas | Total | Electric | Gas | Total |
| **Energy Efficiency** | | | | | | | | | | | | |
| Appliances | $ 6,845,121 | $ 5,831,029 | $ 12,676,149 | $ 100,629 | $ 20,147 | $ 120,776 | $ 100,629 | $ 20,147 | $ 120,776 | 1% | 0% | 1% |
| Domestic Hot Water | $ 596,240 | $ 8,705,362 | $ 9,301,602 | $ 10,887 | $ 223,211 | $ 234,097 | $ 10,887 | $ 223,211 | $ 234,097 | 2% | 3% | 3% |
| Enclosure | $ 7,556,780 | $ 34,279,163 | $ 41,835,943 | $ 141,056 | $ 642,590 | $ 783,647 | $ 141,056 | $ 642,590 | $ 783,647 | 2% | 2% | 2% |
| HVAC | $ 4,917,962 | $ 8,047,615 | $ 12,965,576 | $ 92,573 | $ 97,249 | $ 189,822 | $ 92,573 | $ 97,249 | $ 189,822 | 2% | 1% | 1% |
| Maintenance | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| Lighting | $ 41,030,214 | $ - | $ 41,030,214 | $ 1,064,716 | $ - | $ 1,064,716 | $ 1,064,716 | $ - | $ 1,064,716 | 3% | 0% | 3% |
| Miscellaneous | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| Customer Enrollment | $ 5,653,014 | $ 5,218,166 | $ 10,871,180 | $ 194,205 | $ 179,266 | $ 373,470 | $ 194,205 | $ 179,266 | $ 373,470 | 3% | 3% | 3% |
| In Home Education | $ 4,325,784 | $ 3,993,032 | $ 8,318,816 | $ 47,104 | $ 43,481 | $ 90,585 | $ 47,104 | $ 43,481 | $ 90,585 | 1% | 1% | 1% |
| Pilot | $ 252,200 | $ 232,800 | $ 485,000 | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| Implementation [2] | $ 3,195,182 | $ 2,949,398 | $ 6,144,580 | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| **Energy Efficiency TOTAL** | $ 74,372,496 | $ 69,256,565 | $ 143,629,061 | $ 1,651,170 | $ 1,205,944 | $ 2,857,113 | $ 1,651,170 | $ 1,205,944 | $ 2,857,113 | 2% | 2% | 2% |
| | | | | | | | | | | | | |
| Training Center | $ 574,162 | $ 529,995 | $ 1,104,157 | $ 21,900 | $ 20,216 | $ 42,116 | $ 21,900 | $ 20,216 | $ 42,116 | 0% | 0% | 0% |
| Inspections | $ 2,628,129 | $ 2,425,965 | $ 5,054,094 | $ 169,898 | $ 156,829 | $ 326,726 | $ 169,898 | $ 156,829 | $ 326,726 | 6% | 6% | 6% |
| Marketing and Outreach | $ 1,079,343 | $ 996,317 | $ 2,075,660 | $ 64,234 | $ 59,293 | $ 123,526 | $ 64,234 | $ 59,293 | $ 123,526 | 6% | 6% | 6% |
| Statewide Marketing Education and Outreach | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| Measurement and Evaluation Studies | $ 150,020 | $ 138,480 | $ 288,500 | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| Regulatory Compliance | $ 428,561 | $ 395,595 | $ 824,156 | $ 9,069 | $ 8,371 | $ 17,440 | $ 9,069 | $ 8,371 | $ 17,440 | 2% | 2% | 2% |
| General Administration | $ 2,435,168 | $ 2,247,847 | $ 4,683,016 | $ 334,974 | $ 309,207 | $ 644,181 | $ 334,974 | $ 309,207 | $ 644,181 | 14% | 14% | 14% |
| CPUC Energy Division | $ 29,172 | $ 26,928 | $ 56,100 | $ - | $ - | $ - | $ - | $ - | $ - | 0% | 0% | 0% |
| | | | | | | | | | | | | |
| **TOTAL PROGRAM COSTS [1]** | $ 81,697,051 | $ 76,017,692 | $ 157,714,743 | $ 2,251,244 | $ 1,759,859 | $ 4,011,102 | $ 2,251,244 | $ 1,759,859 | $ 4,011,102 | 3% | 2% | 3% |
| **Funded Outside of ESA Program Budget** | | | | | | | | | | | | |
| Indirect Costs | | | | | | $ - | | | $ - | | | |
| NGAT Costs | | | | | $ 320,257 | $ 320,257 | | $ 320,257 | $ 320,257 | | | |

[*] Authorized Budget: Authorized budget does not include any shifted unspent funds from previous years and/or prior program cycles. These are shown on ESA Table 1A.
[1] Reflects the authorized funding per year in D.16-11-022 and updated via Resolution G-3531 addressing PG&E Conforming Advice Letter 3830-G/5043-E and PG&E Supplemental Conforming Advice Letter 3830-G-A/5043-E-A.
[2] Reflects a new budget category and includes the primary administrative fee for Implementer(s).
[3] Program budgets have been updated by $1,783,922 to include employee benefits costs approved in the GRC (D.17-05-013) - Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2017-2019, Issue date of May 11, 2017.

Note: Any required corrections/adjustments are reported herein and supersede results reported in prior months and may reflect YTD adjustments.

Attachment 2: Appendix 2 – Summary Schedule of Prior CPUC Audit Findings

## Appendix 2—

## Summary Schedule of Prior CPUC Audit Findings

**CPUC INTERIM FINANCIAL, MANAGEMENT AND REGULATORY COMPLIANCE EXAMINATION OF PACIFIC GAS & ELECTRIC COMPANY'S ESA PROGRAM FOR JANUARY 1, 2009 THROUGH DECEMBER 31, 2010**

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 2: PG&E failed to demonstrate compliance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA), General Order (GO) 28 and its internal accounting controls. Invoices for six percent or $2.98 million of the sampled contractor invoice transactions lacked sufficient documentation.<br><br>RECOMMENDATION: PG&E should ensure that all recorded program expenditures are fully supported by sufficient appropriate documentation, including documents substantiating its performed procedures. | Not implemented | Our audit found similar issues related to program expenditures. See Finding 1. | PG&E implemented process improvements related to routing and storage of the documents since 2015. See PG&E's response to Finding 1. |
| OBSERVATION 6: PG&E failed to demonstrate compliance with general accounting best practices and § 581. PG&E reports its prime contractor costs to administer its ESAP within other cost areas such as within the measures.<br><br>RECOMMENDATION: To accurately reflect the true extent of the ESAP general administrative costs, the Commission and all four large utilities providing ESAP should devise an accounting and reporting system to capture all costs to administer ESAP in the administrative cost category whether incurred internally or by the utility or externally by a utility contractor. Within 90 days of the date of this memo, ED should provide its guidance or decision to the utilities and UAFCB on how it plans to resolve this matter. | Not implemented | Our audit found similar issues related to accounting for administrative costs. See Finding 2. | PG&E implemented process improvements to ensure prime contractor administrator costs are captured in a separate budget line item. See PG&E's response to Finding 2. |

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 7: PG&E failed to demonstrate compliance with: the USOA, GO 28, D.05-04-052 and §§ 451, 581, and 584. Thirty-nine percent of the contracted hourly rates of PG&E's implementation contractors are unidentified general administrative costs and lack proper substantiation.<br><br>RECOMMENDATION: PG&E should begin to require its contractors to provide a full breakdown and substantiation of their costs as required in D.05-04-052 and GO 28 and provide the results of such when requested to do so by the Commission. | Not implemented | PG&E stated that guidance regarding the level of detail that must be provided by its contractors is pending from the CPUC Energy Division. | PG&E agrees with the SCO's comments. |
| OBSERVATION 8: PG&E failed to demonstrate compliance with the FERC USOA, GO 28 and its own internal accounting controls. Two recorded entries from the sample reviewed were lacking supporting employee timecards.<br><br>RECOMMENDATION: PG&E should ensure all recorded program expenditures are fully supported by sufficient appropriate documentation and maintain said documentation so that UAFCB may readily examine them at its convenience. | PG&E provided SCO with documentation of its current time-entry processes. | PG&E provided the Time Administrator Training Guide, last updated July 16, 2015, and a copy of the New Time Entry Process for Customized Energy Solutions (CES) Business Operations. PG&E stated that it had implemented SAP ESS/MSS (Employee Self Service/Manager Self Service) in January 2013 to improve labor recording processes. SAP ESS/MSS provides the following functions: management employees can submit their time directly; supervisors and their delegates can approve time directly; timekeepers do not need to manually enter time or maintain timesheets in other systems; and the system validates leave balances in real time and implements general time-entry validation rules and controls.<br><br>We did not test the effectiveness of PG&E's implementation of these processes. However, we did validate that PG&E implemented SAP ESS/MSS. | SCO's comments accurately reflect PG&E's actions to address UAFCB's Recommendation. |

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 9: PG&E failed to demonstrate compliance with §§ 451, 581, and 584. PG&E overpaid one of its contractors by $8,272.<br><br>RECOMMENDATION: PG&E should: (1) revise the terms of its existing contracts to include a provision requiring a detail-level hours worked schedule from its vendors; (2) refund ESAP funds with either (a) a charge against its investors' account or (b) a recovery from the contractor in question; and (3) ensure accurate and complete vendor billing support before making payments. Within 90 days after the UAFCB provides its Energy Division Director memo and Appendix A and C to PG&E, it should provide the UAFCB with a summary of the steps it has taken to resolve this matter. | PG&E provided a corrective action plan. | PG&E stated that: (1) It will include the detail level of hours worked requirement in all subsequent contracts with Direct Technologies. We did not verify this update to the contracts. (2) A recovery from the contractor was not warranted because the revised support for the invoice reconciled with the invoice total. We validated this assertion; however, our review of the revised invoice support differed from the invoice total by $3. (3) It provided UAFCB with evidence that all program managers in ESAP on June 27, 2013, completed an invoice review refresher training program to ensure accurate and complete vendor billing support before making payments. | PG&E respectively disagrees with the SCO's comment to the extent SCO found invoices did not support $3 in contractor costs. PG&E's review of the revised invoices shows that the invoices accurately reflect all costs.<br>PG&E will provide a second copy of this information to the SCO through a separate communication. |

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 10: PG&E failed to demonstrate compliance with the USOA, GO 28 and §§ 451, 581, and 584. UAFCB was unable to determine the accuracy of invoices totaling $266,036.<br><br>RECOMMENDATION: PG&E should: (1) revise its existing contracts to include a provision requiring a detailed level, as opposed to the summary level, of hours worked from its vendors; (2) review the recorded expense entries discussed above against a to-be-recalculated amount that is to be based on a detailed level of hours worked and, if the entries do not reconcile, make restitution to the program balancing account with either (a) a charge against its investors' account or (b) a monetary recovery from the vendor; and (c) ensure accurate and complete vendors billing support before making payments. Within 90 days after the UAFCB provides its Energy Division Director memo and Appendix A and C to PG&E, it should provide UAFCB with: (1) copies of the detail-level schedules of hours worked for the invoices in question or evidence of making restitution to the program and (2) a copy of a revised contract requiring the contractor to provide a detail-level schedule of hours worked in addition to the summary. | PG&E provided a corrective action plan. | PG&E stated that: (1) it included the detail level of hours worked requirement in all subsequent contracts with Direct Technologies. We did not verify this update to contracts. (2) A recovery from the contractor was not warranted because the revised support for the invoices reconciled with the invoice totals. We validated this assertion; however, our review of the revised invoice support differed from the invoice total by $88. | SCO's comments accurately reflect PG&E's actions to address UAFCB's Recommendation. PG&E implemented invoice validation process improvements since the 2009-10 audit report to address accuracy of invoicing; CES Invoice Validation Standard (Utility Standard: CUST-4015S). |

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 11: PG&E did not demonstrate compliance with §§ 581 and 584. PG&E improperly accounted for or improperly accrued some of its employee's hours.<br><br>RECOMMENDATION: PG&E should ensure proper accounting for its labor hours to ensure accurate data reporting and program labor costing. | PG&E provided SCO with documentation of its current time-entry process. | PG&E stated that it provided staff with a Time Administrator Training Guide, last updated July 16, 2015, and a copy of the New Time Entry Process for CES Business Operations. PG&E stated it implemented SAP ESS/MSS in January 2013 to improve labor recording processes. SAP ESS/MSS provides the following: management employees can submit their time directly; supervisors and their delegates can approve time directly; timekeepers do not need to manually enter time or maintain timesheets in other systems; and the system validates leave balances in real time and implements general time-entry validation rules and controls.<br><br>We did not test the effectiveness of PG&E's implementation of these processes. However, we did validate that PG&E implemented SAP ESS/MSS. | SCO's comments accurately reflect PG&E's actions to address UAFCB's Recommendation. |
| OBSERVATION 14: PG&E failed to demonstrate compliance with FERC USOA, GO 28 and its own internal controls and procurement policies and procedures. Over 34% of the payments to contractors that UAFCB sampled lacked proper supporting documentation.<br><br>RECOMMENDATION: PG&E should (1) adhere to and enforce the terms of its existing contracts and (2) preserve all the required documentation supporting all of its recorded expenses in a manner such that UAFCB may readily examine the same at its convenience. (3) If PG&E changes the way it conducts business during an active contract period, PG&E should amend its contracts with its direct service providers and ensure that the terms of the executed contract are adhered to. | PG&E provided a corrective action plan. | For (1) and (3), PG&E stated that it will update Section 8 – Work Authorization Form of the Repair and Replacement contracts to clarify that the information is to be submitted electronically for any new contracts or existing contracts when they are renewed. We did not verify this update to the contracts. For (2), PG&E stated that it continues to require its contractors to electronically enter the Work Authorization Form details directly into the Energy Partners Online database. We did test the effectiveness of this process. | PG&E agrees with the SCO's comments. PG&E believes the last sentence of SCO's comment is intended to read: "We did NOT test the effectiveness of this process." |

| CPUC's Observations and Recommendations | Status | SCO Comments | PG&E Comments |
|---|---|---|---|
| OBSERVATION 15: PG&E failed to demonstrate compliance with §§ 451, 581 and 584. Five of the sampled transactions regarding payments to PG&E's direct service providers that UAFCB reviewed had inconsistent accounting for rendered services and allocations between its gas and electric programs.<br><br>RECOMMENDATION: UAFCB should review PG&E's new controls and their implementation in this area in a future audit or examination. | PG&E did not provide a corrective action of their Energy Partner Online plan. | Based on interviews ansd flowcharts provided by PG&E of their Energy Partner Online process, any corrections necessary to invoices are sent back to contractors to revise and resubmit for payment. We did not test the effectiveness of PG&E's implementation of this process. | PG&E agrees with the SCO's comments |

**State Controller's Office**
**Division of Audits**
**Post Office Box 942850**
**Sacramento, CA  94250**

**http://www.sco.ca.gov**

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