

SOUTHERN CALIFORNIA EDISON

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

Tory Weber, Principal Manager, Residential
and Income Qualified Programs
Southern California Edison
1515 Walnut Grove Avenue
Rosemead, CA 91770

Dear Mr. Weber:

The State Controller's Office audited Southern California Edison's (SCE) 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 SCE manages the ESA program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether SCE'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 noted that SCE has not implemented corrective actions for the three Observations noted in the prior California Public Utilities Commission (CPUC) examination. Therefore, the evaluation of the effectiveness of remediation was not applicable to these three observations. We also noted three observations in the prior internal audit that were not relevant to the objectives of the current audit; we did not consider follow-up to be necessary for these three observations (Objective 4).

Our audit found that SCE overstated ESA program expenditures in its 2015 Annual Report by a net amount of \$262,637. The amount reported by SCE in its Annual Report was \$51,331,186; the amount should have been \$51,068,549. This issue was noted in a prior audit performed by the CPUC. This issue is further described in the Finding and Recommendation 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: Sheila Lee, Regulatory Case Manager
Southern California Edison
Patrick Nandy, External Audits Manager
Southern California Edison
Edward Randolph, Director
Energy Division
California Public Utilities Commission
Robert Strauss, Manager (via email)
Energy Efficiency Branch, Energy Division
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Alison LaBonte, Ph.D., Supervisor
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Barbara Owens, Director of Enterprise Risk and Compliance Office (via email)
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Utility Audits, Finance and Compliance Branch
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Audit Report

Summary

The State Controller's Office (SCO) audited Southern California Edison's (SCE) Energy Savings Assistance (ESA) program for the period of January 1, 2013, through December 31, 2015.

The purpose of this audit was to ensure SCE'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 SCE.

Our audit found that SCE overstated ESA program expenditures in its 2015 Annual Report by a net amount of \$262,637. The amount reported by SCE in its annual report was \$51,331,186; the amount should have been \$51,068,549. This issue was noted in a prior audit performed by the California Public Utilities Commission (CPUC). This issue is further described in the Finding and Recommendation 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 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 \$73 million in ratepayer funds to administer and implement SCE's ESA program budget for calendar years 2013 through 2015 budget cycle. Budgeted and actual amounts for the three calendar years are as follows:

Year	Budgeted	Actual
2013	\$ 72,640,016	\$ 55,604,816
2014	\$ 72,736,630	\$ 55,886,223
2015	\$ 72,736,630	\$ 51,331,186

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 SCE manages the ESA program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SCE'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 noted that SCE has not implemented corrective actions for the three Observations noted in the prior CPUC examination. Therefore, the evaluation of the effectiveness of remediation was not applicable to these three observations. We also noted three observations in the prior internal audit that were not relevant to the objectives of the current audit; we did not consider follow-up to be necessary for these three observations (Objective 4). We limited our follow-up to reviewing SCE's corrective action plans and related documentation (Objective 4).

We conducted an audit of SCE's ESA program for the period of January 1, 2013, through December 31, 2015.

To achieve our objectives, we:

- Reviewed prior audit reports of SCE 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 SCE's ESA program required by the CPUC for all energy utilities;
- Interviewed all SCE ESA program employees and reviewed SCE'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 SCE'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 six of 1,111 (\$117,335 of \$6,872,480) ESA program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 36 of 22,560 ESA program customer files and records to determine compliance with the Modified 3 Measure Minimum Rule;
- 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 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 SCE's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCE'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 SCE.

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.

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, *Financial, Management and Regulatory Compliance Examination of Southern California Edison Company's Energy Savings Assistance Program for the Period January 1, 2009 through December 21, 2010*, dated July 17, 2013, and presented our comments in Appendix 2 of this report. Based on work performed in the current audit, we noted that SCE has not implemented appropriate corrective actions for Observations 1, 6, and 7.

We also reviewed SCE's internal audit report for the ESA program for the period of August 1, 2012, through July 31, 2013, dated October 9, 2013. As the three observations regarding equipment installation (Observation 1), removal of user access to Energy Management Assistance Partnership System (EMAPS) (Observation 2), and justifications for Duplicate Measure Records Inquiry overrides within EMAPS (Observation 3) were not relevant to the objectives of the current audit, we did not consider follow-up to be necessary for these observations.

**Views of
Responsible
Officials**

We issued a draft audit report on October 3, 2018. Patrick Nandy, External Audits Manager, responded by letter dated October 17, 2018 (Attachment), agreeing with the finding. This final audit report includes SCE's response.

Restricted Use

This report is solely for the information and use of SCE, 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—
SCE overstated
ESA program
expenditures
reported in its 2015
Annual Report**

SCE overstated ESA program expenditures in its 2015 Annual Report by a net amount of \$262,637. The amount reported by SCE in its Annual Report was \$51,331,186; the amount should have been \$51,068,549. This issue was noted in a prior audit performed by the CPUC.

According to SCE, two different data sources were used to complete ESA Table 1 and ESA Table 2 for the Annual Report. The two data sources were ESA program expenditures from the General Ledger and program installation data and costs from SCE's Energy Management Assistance Partnership System. ESA Table 1 is used to report program expenditures, and ESA Table 2 is used to report ESA program installation costs by the types and units of measures installed. During preparation of the 2015 ESA program Annual Report, SCE inadvertently used the installation costs reported in ESA Table 2 as the program expenditures for the Energy Efficiency cost category in ESA Table 1.

SCE indicated that it modified its reconciliation process to include an additional enhanced review of its final reconciled number, and that it will continue to perform this final review and reconciliation on all reports submitted to the CPUC. This process should be followed up on during the next audit.

Public Utilities Code sections 581 and 584 require that the utility provide complete and accurate data to the CPUC.

Public Utilities Code section 581 states:

Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission.

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. The commission may require any public utility to file monthly reports of earnings and expenses, and to file periodical or special reports, or both, concerning any matter about which the commission is authorized by any law to inquire or to keep itself informed, or which it is required to enforce.

Recommendation

We recommend that SCE monitor the reconciliation process to ensure that it is working as designed, and that the ESA program expenditures are reported correctly in the Annual Report.

SCE's Response

SCE agrees with the finding and recommendation. SCE stated that it had filed an Errata with the CPUC to correct the overstated expenditures in the 2015 ESA Annual Report and updated its processes to include additional enhanced reviews to prevent these types of errors in the future.

SCO Comment

Although SCE 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 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	Complied
CPUC D.12-08-044 Section 6.2. Fund Shifting Rules	Complied
CPUC D.08-11-031 Section 20. Fund Shifting	Complied
<i>California Statewide Energy Savings Assistance Program Policy and Procedures Manual. Section 2 Customer and Structural Eligibility</i>	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
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 581	Did not comply; see Finding
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 584	Did not comply; see Finding

Appendix 2— Summary Schedule of Prior CPUC Audit Findings

CPUC INTERIM FINANCIAL, MANAGEMENT AND REGULATORY COMPLIANCE EXAMINATION OF SOUTHERN CALIFORNIA EDISON COMPANY'S ENERGY SAVINGS ASSISTANCE PROGRAM FOR PERIOD JANUARY 1, 2009 THROUGH DECEMBER 31, 2010

CPUC's Observations and Recommendations	Status	SCO Comments
<p><u>OBSERVATION 1:</u> SCE failed to demonstrate compliance with Public Utility Code §§ 581 and 581. In its 2009 annual report SCE overstated the ESAP expenditures reported by a net amount of \$51,345.</p>		
<p>RECOMMENDATION: SCE should reconcile all data and ensure that its reports are accurate before submitting them to the Commission.</p>	Not implemented	We noted a similar issue in the current audit (see Finding).
<p><u>OBSERVATION 6:</u> SCE failed to demonstrate compliance with D.08-11-031, as modified, with respect to its Energy Education. SCE provided and charged ESAP for energy education that was part of its door-to-door canvassing outreach activities. SCE's failure to demonstrate compliance was previously discussed by the UAFCB in its prior examination report and SCE continued these activities either from 2007 or before.</p>		
<p>RECOMMENDATION: SCE should ensure strict adherence with Commission directives. SCE provided energy education to customers whose dwellings didn't qualify for ESAP and therefore should refund ESAP with shareholder funds for the amount it expended providing only the energy education from 2007 to 2011 program years. If SCE does not refund the monies voluntarily, the Energy Division or the Commission should require it to do so. If SCE included the customers who only received energy education as treated, it should re-file its annual report, corrected to remove these customers from the treated category. If SCE doesn't voluntarily do so, Energy Division or the Commission should require it to do so.</p>	Not implemented	SCE asserted that it complied with Commission directives for providing energy education to customers and disagreed with the recommendation that it refund the ESA program with shareholder funds. The CPUC did not require SCE to comply with these recommendations.
<p><u>OBSERVATION 7:</u> SCE failed to demonstrate compliance with the fund shifting requirements in D.08-11-031, as modified. SCE failed to request and receive authorization to shift \$4.5 million in funds from the 2009 through 2011 cycle to program year 2008.</p>		
<p>RECOMMENDATION: SCE should ensure strict adherence with Commission directives. SCE inappropriately carried back \$4.5 million of funds from 2009 into 2008 when it didn't have Commission authorization to do so, and need to refund ESAP with shareholder funds for the \$4.5 million it transferred without authorization. If SCE does not refund the monies voluntarily, Energy Division or the Commission should require it to do so.</p>	Not implemented	SCE asserted that it complied with CPUC directives on fund shifting and disagreed with the recommendation that it refund the ESA program with shareholder funds. The CPUC did not require SCE to comply with these recommendations. During our testing of fund shifting, no issues were identified.

**Attachment—
Southern California Edison's Response to
Draft Audit Report**

Mr. Andrew Finlayson, SCO

October 17, 2018

Re: Southern California Edison Company Response to State Controller's
Office Audit Report on 2013-2015 Energy Savings Assistance (ESA)
program

On October 9, 2018, the Southern California Edison Company (SCE) received a copy of the Draft Audit Report entitled, "ENERGY SAVINGS ASSISTANCE PROGRAM January 1, 2013, through December 31, 2015" (Draft Report) dated October 3, 2018. SCE is hereby providing detailed comments on the finding and recommendation in the Draft Report. SCE reserves the right to submit additional comments if there are other comments or input that materially changes or adds to the finding or recommendation in the Draft Report.

SCE appreciates the opportunity to review and provide comments on the Draft Report. Furthermore, we would be happy to discuss our comments in more detail with the State Controller's Office (SCO) or the California Public Utilities Commission (Commission) if that would be beneficial to the parties. If you have further questions, please contact Elizabeth Leano at (626) 302-3662.



Michael Bushey
Director of Program Operations

**Southern California Edison Company
2013-2015 Energy Savings Assistance Audit
Response to Draft Audit Report Dated October 03, 2018**

I. Introduction

SCE appreciates the opportunity to work with outside auditors to demonstrate and improve its compliance practices. SCE believes that the finding and recommendation are generally minor with minimal or no impact to customers overall. As noted below, SCE has submitted an errata to its 2015 Annual Report and has updated its reconciliation process to prevent such errors from happening in the future.

SCE greatly appreciates the professional manner in which the State Controller's Office (SCO) conducted the 2013-2015 Energy Savings Assistance (ESA) program Audit.

II. Audit Timeline

The 2013-2015 ESA audit officially commenced with an entrance conference with the SCO in January 2017. The SCO auditors completed their fieldwork in June 2017, and conducted an exit conference on July 21, 2017 where they presented their draft audit findings. This response is to the Draft Audit Report that SCE received on October 9, 2018. SCE believes that the approximately 20 months it took to complete this audit was greater than expected and far longer than previous audits.

While the Commission has sought to catch up on these biannual audits, this audit is being completed over five years after the audit period began. Delays in conducting such audits makes responding to data requests more difficult since percipient subject matter experts may have left SCE or their memories of specific situations may have faded. And delays in audit completion means that implementation of any responsive corrective actions is also significantly delayed. Ideally, these audits should commence no later than several months following the close of the audit record period and be completed within one year.

III. Comments on the 2013-2015 Audit Finding and Recommendation

SCE has reviewed the finding and recommendation provided in this Draft Report and provides its comments below.

Finding: ESA Program Overstated program expenditures reported in its 2015 Annual Report

“Southern California Edison overstated the ESA Program expenditures in their 2015 Annual Report by a net amount of \$262,637. The amount reported was \$51,331,186 when it should have been \$51,068,549. SCE used two different data sources to complete ESA Table 1 and Table 2 for the Annual Report. During the preparation of the Annual Report, SCE inadvertently used the installation cost reported in ESA Table 2 as the program expenditures for Energy Efficiency cost category in ESA Table 1. ”

Recommendation

“We recommend that SCE monitor the reconciliation process to ensure that it is working as designed, and that the ESA program expenditures are reported correctly in the Annual Report.”

SCE agrees with the finding and recommendation. On November 15, 2017, SCE filed an Errata with the Commission to correct the overstated expenditures in the 2015 ESA Annual Report. SCE has also updated its reconciliation process to include an additional enhanced review of its final reconciled number to prevent these types of errors in the future.

**State Controller's Office
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