

SOUTHERN CALIFORNIA GAS 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

Daniel J. Rendler, Director, Customer Programs and Assistance
Southern California Gas Company
555 W. 5th Street, GT19A5
Los Angeles, CA 90013

Dear Mr. Rendler:

The State Controller's Office audited Southern California Gas Company's (SoCalGas) 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 SoCalGas manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether SoCalGas' 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 two of the 15 CARE program customer files tested lacked adequate documentation regarding eligibility through categorical enrollment. The documentation provided did not clearly indicate that the customers were currently participating in a categorical program that granted them eligibility for the CARE program. 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 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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Audit Report

Summary

The State Controller's Office (SCO) audited Southern California Gas Company's (SoCalGas) 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 SoCalGas' 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*, dated July 2013, and program rules and restrictions provided by SoCalGas.

Our audit found that two of the 15 CARE program customer files tested lacked adequate documentation regarding eligibility through categorical enrollment. The documentation provided did not clearly indicate that the customers were currently participating in a categorical program that granted them eligibility for the CARE program. 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 \$146.5 million in ratepayer funds to administer and implement SoCalGas' CARE program budget for calendar years 2013 through 2015. Budgeted and actual amounts for the three calendar years are as follows:

<u>Year</u>	<u>Budgeted</u>	<u>Actual</u>
2013	\$ 146,050,266	\$ 125,388,452
2014	\$ 147,506,690	\$ 117,510,411
2015	\$ 147,510,290	\$ 109,296,227

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 SoCalGas manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SoCalGas' 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 the internal controls, to determine whether key processes could be strengthened (Objective 3).

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

To achieve our objectives, we:

- Reviewed prior audit reports of SoCalGas related to the CARE program to follow up on prior audit findings;
- Reviewed applicable laws, regulations, agreement terms and conditions, policies, and procedures related to SoCalGas' CARE program required by the CPUC for all energy utilities;
- Interviewed all SoCalGas CARE program employees, and reviewed SoCalGas' 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 SoCalGas' administration of the CARE program, we judgmentally selected transactions using non-statistical samples; errors found were not projected to the intended population.¹ We:

- Selected 27 of 19,675 (\$265,196 of \$16,680,067) CARE program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 15 of 149,597 CARE program customer files and records to determine compliance with applicable laws, regulations, and agreement terms and conditions;

¹As 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 SoCalGas' financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SoCalGas' 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 SoCalGas.

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 the CPUC's prior audit of the CARE program, *Financial, Management and Regulatory Compliance Audit Report on the California Alternate Rates for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Southern California Gas Company for the Years Ended December 31, 2007 and December 31, 2008*, dated July 20, 2011. As we identified no issues that were relevant to the CARE program, we did not consider follow-up to be necessary.

Views of Responsible Officials

We issued a draft audit report on October 3, 2018. Daniel J. Rendler, Director, Customer Programs and Assistance, responded by letter dated October 22, 2018 (Attachment), agreeing with the audit finding. This final audit report includes SoCalGas' response.

Restricted Use

This report is solely for the information and use of SoCalGas, 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—
SoCalGas did not
consistently
maintain current
CARE program
eligibility in its
post-enrollment
verification
customer files**

Of the 149,597 post-enrollment verifications (PEVs) performed by SoCalGas in calendar years 2013 through 2015, we reviewed 15 PEV customer files and records. Of the 15 customer files, five were from 2013, five were from 2014, and five were from 2015. We noted that two (2014, 2015) of the 15 program customer files lacked adequate documentation to support eligibility through categorical enrollment.

SoCalGas did not have documentation indicating that the customers were currently participating in the categorical program that granted them eligibility for the CARE program. SoCalGas accepted a California Medical Assistance Program (Medi-Cal) card as adequate proof of enrollment in a categorical program. However, Medi-Cal cards do not indicate expiration dates or current eligibility dates. SoCalGas should require additional verification to establish customers' current participation in Medi-Cal and other categorical programs if current dates are not explicitly displayed on the cards. Examples of additional verification for the Medi-Cal program include letters of acceptance and annual renewal letters.

Customers apply for the CARE program through a self-certification process. Applications for the CARE program do not require that verification documents be submitted for the application to be approved. However, SoCalGas conducts PEVs on selected customers to validate their application information, income, and eligibility in other categorical programs. If a customer passes the PEV, he or she will continue to receive program benefits. If a customer does not pass verification, he or she must be removed from the CARE program.

The *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, section 2.2.3.2, Categorical Eligibility, states that applicants using the categorical eligibility option to enroll in the ESA program must present documentation reflecting current participation in one of the CPUC-approved programs to satisfy the income documentation component. Although the manual is an ESA program manual, SoCalGas stated that it uses the policies and procedures regarding program eligibility for both the ESA and CARE programs.

As part of our PEV testing plan, we selected an initial limited number of program customer files. Based on the results of testing, we determined that testing additional files would not affect our overall conclusion that PEV documentation was not consistently maintained.

Recommendation

To ensure compliance with categorical eligibility requirements, we recommend that SoCalGas obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate current participation in a CPUC-approved program.

SoCalGas' Response

SoCalGas agrees with the finding and recommendation. SoCalGas stated that beginning in 2017, it modified its customer communications and internal procedures relating to proof of eligibility requirements of Medi-Cal and other CPUC-approved programs for PEV.

SCO Comment


Although SoCalGas stated that it 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**

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
CPUC D.08-11-031 Section 23. CARE Recertification	Complied
<i>California Statewide Energy Savings Assistance Program Policy and Procedures Manual. Section 2.2.3.2. Categorical Eligibility</i>	Did not comply; see Finding
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 584	Complied

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



A  Sempra Energy utility

Daniel J. Rendler
Director
Customer Programs & Assistance

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October 22, 2018

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau, State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

**Re: SoCalGas' Response to the Draft CARE Program Audit Report For the Period
January 1, 2013 through December 31, 2015**

Dear Mr. Finlayson,

Southern California Gas Company (SoCalGas) has reviewed the Draft California Alternate Rates For Energy (CARE) Program Audit Report of Southern California Gas Company For the Period January 1, 2013 through December 31, 2015 (Report) prepared by the State Controller's Office and provides the following response.

Audit Finding

SoCalGas did not consistently maintain current CARE program eligibility in its post-enrollment verification customer files.

Audit Finding Recommendation:

To ensure compliance with categorical eligibility requirements, we recommend that SoCalGas obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate current participation in a CPUC-approved program.

SoCalGas Response:

SoCalGas appreciates the State Controller's Office reviewing the CARE program and presenting these audit findings. SoCalGas was made aware of this finding during the audit exit conference on May 2, 2017 and accepts this audit finding.

In June 2017, in response to this audit finding, SoCalGas modified its customer communications and internal procedures relating to proof of eligibility requirements of MediCal and other CPUC-approved programs for post enrollment verification. SoCalGas currently requires that the customer submit a current letter of eligibility with a date clearly shown or a Benefits Identification card with a valid issuance date. Either document must show a date that is within

the last 12 months. By making this process modification, SoCalGas seeks to address the audit finding and recommendation to make sure that customers participating in the CARE program have appropriate documentation of their eligibility in Medi-Cal or other categorical eligibility programs for post enrollment verification.

Sincerely,


/s/ Daniel J. Rendler

Daniel J. Rendler
Director, Customer Programs and Assistance

Cc: E. Hsu
C. Sierzant
E. Brooks
Central Files

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