

SOUTHERN CALIFORNIA GAS 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

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) 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 SoCalGas manages the ESA program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether SoCalGas' 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 12 of the 13 observations identified in the California Public Utilities Commission's prior examination of the ESA program and three business control issues in the prior SoCalGas internal audit. We limited our follow-up to reviewing SoCalGas' corrective action plans and related documentation (Objective 4).

Our audit did not identify any issues.

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

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Audit Report

Summary

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

The purpose of the audit was to ensure SoCalGas' 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 SoCalGas.

Our audit did not identify any issues.

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 Guideline. 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 \$121 million in ratepayer funds to administer and implement SoCalGas' 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	\$ 117,559,855	\$ 97,554,614
2014	\$ 132,417,191	\$ 93,781,355
2015	\$ 132,417,191	\$ 74,817,588

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 ESA program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SoCalGas' 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 of 12 of the 13 observations identified in the CPUC's prior examination of the ESA program and three business control issues (BCI) in the prior SoCalGas internal audit. We limited our follow-up to reviewing SoCalGas' corrective action plans and related documentation (Objective 4).

We conducted an audit of SoCalGas' ESA 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 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 SoCalGas' ESA program required by the CPUC for all energy utilities;
- Interviewed all SoCalGas ESA program employees and reviewed SoCalGas' 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 SoCalGas' administration of the ESA program, we judgmentally selected transactions using non-statistical samples; errors found were not projected to the population.¹ We:

- Selected nine of 1,370 (\$341,907 of \$20,140,059) ESA program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 17 of 21,640 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions 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' 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 SoCalGas.

Conclusion

We did not identify any instances of non-compliance with applicable laws, regulations, and agreement terms and conditions.

Follow-up on Prior Audit Findings

We reviewed CPUC's prior examination of the ESA program, *Interim Financial, Management and Regulatory Compliance Examination of Southern California Gas Company's Energy Savings Assistance Program for the Period January 1, 2009 through December 31, 2010*, dated May 31, 2013, and presented our comments in Appendix 2 of this report. Based on work performed in the current audit, we noted that SoCalGas implemented the appropriate corrective actions for Observation 3. We did not validate the effectiveness of remediation for Observations 1, 2, and 4 through 13.

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

We also reviewed SoCalGas' internal audit report for Project No. 15-227 for the period of January 1, 2014, through May 15, 2015, dated August 31, 2015. We did not validate the effectiveness of remediation for the three business control issues (BCI) regarding the sample size and timely completion of post-installation inspections (BCI No. 1), installer and inspector identification badge reconciliations (BCI No. 2), and the documentation of shared employee cost allocations (BCI No. 3).

**Views of
Responsible
Officials**

We issued a draft audit report on October 3, 2018. The report did not contain any findings related to SoCalGas' ESA program. SoCalGas did not provide any comments in response to the draft audit report.

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

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</i> . 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
Sempra Energy Supply Management & Supplier Diversity Policies and Procedures	Complied
Sempra Energy Utilities Approval and Commitment Policy	Complied
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 584	Complied

Appendix 2— Summary Schedule of Prior CPUC Audit Findings

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

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 1: SoCalGas failed to demonstrate compliance with the Uniform System of Accounts (USOA), General Order (GO) 28 and the P&P Manual. Twenty-nine percent of the customer files that the UAFCB reviewed did not have documentation to support the customers' or landlords' legal home ownership, 24% of the 2009 files and 33% of the 2010 files.</p> <p>RECOMMENDATION: SoCalGas should improve its ESAP practices and procedures to require the inclusion of proof of home ownership and other documentation in SCG's customer files so that the Commission may view them at its convenience.</p>	<p>SoCalGas provided a corrective action plan.</p>	<p>SoCalGas stated that beginning in 2018, it requires contractors to scan all home ownership and eligibility documents at the time of invoicing, which reduces the need to request documents from the contractors during an audit. For enrollments that were not scanned under the current policy, SoCalGas stated that it continues to require that ESA contractors retain all documentation for a minimum of ten years upon termination of agreement and retain all proof of home ownership documentation per agreement with SoCalGas, in accordance with the policy and procedure (P&P) manual. We did not test the effectiveness of SoCalGas' implementation of these processes.</p>
<p>OBSERVATION 2: SoCalGas failed to demonstrate compliance with the USOA, GO 28, Public Utilities Code §451 and its Procurement Policy. SoCalGas failed to provide documentation to substantiate its contractor allocation process and the values associated with some of its ESAP contracts.</p> <p>RECOMMENDATION: SoCalGas should: (1) ensure its contract processes and procedures (e.g. reviewing, approving and executing terms of its contracts) are in compliance with its established procurement policy and procedures; and (2) maintain documentation to support how it derives amounts allocated to the contractors and the values in its contracts.</p>	<p>SoCalGas provided SCO with an example of a contract allocation plan used to develop contract allocations.</p>	<p>(1) SoCalGas stated that it performs the following functions to implement the contractor allocation process:</p> <ul style="list-style-type: none"> (a) continually monitor contractor performance and program needs; (b) conduct full review of contractor unit allocations and program requirements annually and as necessary; (c) recommend revisions to contract terms and values and identify the need to recruit or terminate contractors; and (d) develop a contract allocation plan. We did not test the effectiveness of SoCalGas' implementation of these processes. <p>(2) SoCalGas provided an example of a contract allocation plan spreadsheet that is used by the program team to develop contract allocations annually and during mid-year contract reviews. The contract allocation plan contains a uniform formula to calculate recommended allocations for all ESA contractors, incorporating treatment goals, services performed, inflation rates, and other program variables. We did not test the effectiveness of SoCalGas' implementation of this spreadsheet.</p>

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 3: SoCalGas failed to demonstrate compliance with §451 and the budgets authorized in D.08-11-036, as modified. SoCalGas executed contracts with a combined total value that exceeded its authorized budget amounts in 2009 and 2010.</p> <p>RECOMMENDATION: SoCalGas should strengthen its procurement practices and procedures to ensure that it operates its ESAP within the authorized budget for the program cycle.</p>	Implemented	We reviewed SoCalGas' 2013, 2014, and 2015 expenditures in the annual reports; their actual expenditures did not exceed budgeted amounts.
<p>OBSERVATION 4: SoCalGas failed to demonstrate compliance with §451 and the budgets authorized in D.08-11-031, as modified. In program years 2009 and 2010, according to its annual reports, SoCalGas overspent its weatherization budgets by \$6.2 and \$13.4 million, respectively. The budget for weatherization for 2009-2011 program cycle was \$69.8 million and SoCalGas was already committed to \$63.8 million at the end of 2010 after only two of the three program years of the program cycle. However, SoCalGas did employ carry over funds to address the amounts over budget.</p> <p>RECOMMENDATION: No later than 90 days from the issuance of this report to SoCalGas, SoCalGas should provide the UAFCB with a copy of its established controls for monitoring program expenditures.</p>	SoCalGas provided SCO and UAFCB with the Response to Management Corrective Action report.	We reviewed the Response to Management Corrective Action report that SoCalGas submitted to the Utility Audit Finance and Compliance Branch (UAFCB) on August 29, 2013. The report included controls that SoCalGas established to monitor program expenditures and ensure compliance with the authorized budget. We did not test the effectiveness of SoCalGas' implementation of these controls.
<p>OBSERVATION 5: SoCalGas failed to demonstrate compliance with the USOA, GO 28, §451 and its Procurement Policy. SoCalGas approved weatherization contracts containing numerous errors in the terms and conditions.</p> <p>RECOMMENDATION: SoCalGas should increase its management oversight and controls when reviewing and approving its contracts to ensure that the contract terms and conditions are proper and correct and that all necessary schedules are included.</p>	SoCalGas provided SCO with an example of the tracking spreadsheet used to facilitate the contract review process.	SoCalGas stated that since 2012, the quality control effort associated with this process has involved multiple members of ESA Operations staff and is led by the team's program manager responsible for contract administration. The program manager develops a spreadsheet grid in consultation with team members specifying the parameters of each new contract, and revisions to existing contracts. The program manager produces the contract documents from a template and passes them to team members recruited for the quality control effort. Each contract is checked by team members against the grid to confirm accurate contractor names; service types; requisition numbers; amendment numbers; enrollment goals; weatherization goals; heating, ventilation, and air conditioning (HVAC) dollar value allocations; natural gas and appliance testing dollar value allocations; and total amendments/contract amounts. SoCalGas provided the SCO with an example of a tracking spreadsheet developed by the program manager, which is used to facilitate the review process. We did not test the effectiveness of this process.

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 6: SoCalGas failed to demonstrate compliance with the USOA and GO 28 and Commission directives, including the P&P Manual. Contrary to the requirements of the P&P Manual, SoCalGas allowed substantial delays in performing initial and final post inspections on weatherization measure installed during program years 2009 and 2010.</p> <p>RECOMMENDATION: SoCalGas should: (1) improve its contracting processes and include penalties in its contracts for contractors not completing the workflow process on a timely basis; (2) enhance its management controls to ensure post-inspections are initiated and completed timely to ensure compliance with P&P Manual and improve the accuracy of actual costs and energy savings data reported to the Commission; and (3) maintain the appropriate documentation demonstrating whether each post inspection is mandatory or non-mandatory.</p>	<p>SoCalGas provided SCO with an example of a Key Performance Indicator spreadsheet used to evaluate contractors.</p>	<p>(1) SoCalGas stated that contracts provide, in some cases, that contractors can lose their opportunities to be paid administrative fees when invoices are not properly rendered. We did not verify this provision in SoCalGas contracts.</p> <p>(2) SoCalGas provided an example of its Key Performance Indicators (KPI) spreadsheet, used to evaluate contractors for possible allocation increases. SoCalGas stated that as part of these KPIs, SoCalGas calculates "out-of-compliance" ratios for many of the performance areas requiring timely response. A contractor complying with a higher percentage of the timeliness KPIs will be first to receive contract increases and last to receive cuts, compared with a contractor that performs at a lower rate. We did not test the effectiveness of the KPI spreadsheet.</p> <p>(3) SoCalGas stated that it documents mandatory inspections through its HEAT system, which assigns mandatory inspections for attic insulation and furnace replacements in accordance with the P&P manual. The HEAT system also assigns random (non-mandatory) inspections for all jobs not involving attic insulation and furnace replacement. We did not validate this process.</p>
<p>OBSERVATION 7: SoCalGas failed to demonstrate compliance with the USOA and §§ 451, 581 and 584. SoCalGas recorded a 2008 expense in 2009 and 2009 expenditures in 2010.</p> <p>RECOMMENDATION: SoCalGas should strengthen its accounting controls to ensure the accuracy of its accounting information and the data it reports to the Commission.</p>	<p>SoCalGas provided its departmental accrual procedures.</p>	<p>SoCalGas stated that in January 2012, it strengthened its accrual process to include accrual estimates from contractors that do not perform the customary enrollment and assessment, weatherization and appliance installation, and inspection services. Each quarter, as part of the accrual process, the business analyst ensures that all invoices over the accrual threshold of \$10,000 are captured and submitted for accruals. SoCalGas provided its Departmental Accrual Procedures, effective October 2015. We did not test the effectiveness of SoCalGas' implementation of these processes.</p>

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 8: SoCalGas failed to demonstrate compliance with § 451 and its procurement policies when it paid invoices that were not governed by an executed contract. SoCalGas incurred two expense transactions before the effective date of the contract.</p> <p>RECOMMENDATION: SoCalGas should strengthen its procurement policies, management oversight over its procurement processes and strictly enforce procurement policy.</p>	<p>SoCalGas provided a copy of its procurement policy.</p>	<p>SoCalGas stated that it complies with its internal procurement policy which states, "Purchase documents will be used for significant supply market commitments whose value meet or exceed \$10,000 per transaction and greater, or commitments involving a high level of risk regardless of dollar value" to verify that funds are used appropriately and in support of the ESA program Energy Efficiency measures. SoCalGas also stated that, for invoices relative to the main ESA in-home services processed through the HEAT system, the ESA team maintains the following internal procedures to confirm that invoices are not approved without a valid contract in place: (1) the automated email from SoCalGas' internal contract management system, ECM, is sent to the contract manager, verifying that the contract was updated; (2) the contract manager sends an email to the HEAT System Admin with the corrections and what the final total should be in HEAT, thus aligning HEAT controls with the contract; (3) the HEAT System Admin sends an email reply when HEAT had been updated; and (4) the contract manager keeps the email string as documentation. SoCalGas provided a copy of its Procurement Policy, effective December 2009, revised June 2017. We did not test the effectiveness of these</p>
<p>OBSERVATION 9: SoCalGas failed to demonstrate compliance with §§ 451, 581 and 584 when it failed to ensure that employee reimbursement claims charged to the program were proper and accurate. SoCalGas overpaid its employee's mileage reimbursement claim for travel between Downey and Ontario, California by 291 miles or \$145.50.</p> <p>RECOMMENDATION: SoCalGas should: (1) improve its internal controls with respect to the approval of travel expense claims; and (2) ensure the accuracy of expense claim data reported to the Commission.</p>	<p>SoCalGas provided its Employee Business Expense Policy.</p>	<p>(1) SoCalGas did not address how it would improve its internal controls for travel expense claim approvals. (2) SoCalGas stated that travel expenses are reviewed by managers and approved in accordance with the SoCalGas travel and expense policy, and that all receipts are reviewed and expenses verified to ensure that they are in compliance. SoCalGas provided us with its Employee Business Expense Policy, revised December 2015. We did not test the effectiveness of these processes. The employee also refunded the program \$145.50. SoCalGas posted the refund in its SAP system on December 6, 2012, and provided UAFCB with a copy of the check and a SAP display printout during UAFCB's follow-up inquiry.</p>

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 10: SoCalGas failed to demonstrate compliance with §§ 451, 581 and 584 and the USOA when it misclassified a payment from Southern California Edison (SCE) for 2010 joint marketing expenses. SoCalGas credited an SCE payment of \$39,244 to general administration costs instead of to joint marketing.</p> <p>RECOMMENDATION: SoCalGas should: (1) ensure the accuracy of data reported to the Commission by strengthening its accounting controls; and (2) ensure an appropriate management over the accounting review, approval, and recording of its expenses.</p>	<p>SoCalGas provided SCO and UAFCB with a Response to Management Corrective Action report.</p>	<p>(1) SoCalGas stated that the monthly expense validation process described in the Response to Management Corrective Action report (noted in their response to Observation 4) applies to Observation 10. The report includes controls that SoCalGas established to monitor program expenditures and ensure compliance with the authorized budget. We did not test the effectiveness of SoCalGas' implementation of these controls.</p> <p>(2) SoCalGas stated that to monitor program expenditures and credits, and to verify that appropriate internal orders are charged, it generates a detailed SAP transaction report of expenditures and credits applied to each internal order for the appropriate program managers to validate and reconcile on a monthly basis, to ensure that the costs are accurately posted. We did not test the effectiveness of SoCalGas' implementation of these controls.</p>
<p>OBSERVATION 11: SoCalGas failed to demonstrate compliance with §§ 451, 581 and 584 and the Commission's established Three Measure Minimum Rule. SoCalGas charged \$613,522 to ESAP in program years 2009 and 2010 for customers who received less than three measures which did not achieve the required energy savings.</p> <p>RECOMMENDATION: SoCalGas should: (1) recover as much of the \$613,522 overcharge as possible from its contractors; (2) refund ESAP for any of the \$613,522 that SoCalGas is unable to recover from its contractors; (3) provide the Energy Division and UAFCB progressive updates, 30 days after the end of each quarter, starting from October 1, 2013 for the end of the third quarter, with appropriate accounting documents to substantiate completion of the cost reimbursement to ESAP; and (4) strengthen its internal controls to prevent charging ESAP for homes that are disqualified.</p>	<p>SoCalGas provided SCO with the progressive updates used to substantiate the completion of the cost reimbursement to ESA program.</p>	<p>(1) Our review of the progressive updates and supporting documents provided to the CPUC Energy Division indicated that SoCalGas identified the actual ESA program overcharge to be \$162,736.87 and recovered this amount. We did not validate the overcharge or the recovery amount.</p> <p>(2) Our review of the progressive updates and supporting documents provided to the CPUC Energy Division indicated that SoCalGas refunded the ESA program for the \$162,736.87. We did not validate this assertion.</p> <p>(3) SoCalGas provided us with the quarterly reports submitted to the CPUC Energy Division to substantiate the completion of cost reimbursement to the ESA program.</p> <p>(4) SoCalGas stated that when there was a three measure minimum (3MM) requirement, it prepared and analyzed monthly reports on new enrollments that appeared to have missed the 3MM and promptly followed up to ensure that the 3MM was met or that contractors were charged back in a timely manner. SoCalGas also stated that it implemented a Joint Utility Database project with Southern California Edison, which provides more detailed and up-to-date information about joint treated homes, including helping to identify instances where the 3MM was satisfied through a combination of the two utilities' programs. After the 3MM requirement was eliminated, SoCalGas stated that it continues to monitor ESA enrollments of eligible homes to verify that charging is appropriate. SoCalGas also stated that it implemented the following controls: (a) ESA Mobile Enrollment, (b) paperless invoicing, and (c) paperless enrollment review—all of which allow for more efficient processing and review of enrollments and invoicing. We did not test the effectiveness of SoCalGas' implementation of these controls.</p>

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p>OBSERVATION 12: SoCalGas failed to demonstrate compliance with §§ 581 and 584 and the Commission's guidelines and reporting requirements regarding fund shifting. According to information it reported in its annual reports, SoCalGas overstated the amount shifted/carried forward from 2009 to 2010 by \$406,092 and from 2010 to 2011 by \$3,616,532. In addition, SoCalGas failed to report funds that it was carrying forward in its annual ESAP reports on program years 2009 and 2010. In addition, on Table 19 of its report for program year 2010, SoCalGas reported amounts carried forward from 2009 as subtractions from its 2010 budget instead of additions to.</p>		
<p>RECOMMENDATION: SoCalGas should: (1) increase its accounting and reporting oversight to ensure the accuracy of data it reports to the Commission; (2) report the funds it is carrying forward to or back from the next program year on Table 19 of its annual reports; and (3) provide the UAFCB its reconciliation, with supporting documentation, of the funds it spent and carried forward/backward for 2009, 2010, and 2011, no later than 90 days after SoCalGas receives the memo report; the reconciliation should be between the amounts recorded in SoCalGas' SAP for ESAP for 2009 and 2010, and the amounts reported spent and funds shifted in its annual reports in 2009, 2010, and 2011.</p>	<p>SoCalGas provided the reconciliation that was provided to UAFCB.</p>	<p>(1) SoCalGas did not address how it planned to increase its accounting and reporting oversight to ensure the accuracy of data it reports to the Commission.</p> <p>(2) Based on our review of SoCalGas' annual reports during the audit period, SoCalGas reports the funds that it carries forward and back in Table 12 of the annual reports. Our audit did not identify any fund shifting issues.</p> <p>(3) SoCalGas provided us with the reconciliation of the funds that it spent and carried forward and backward for 2009, 2010, and 2011, which it had provided to UAFCB. We did not validate the information in the reconciliation.</p>
<p>OBSERVATION 13: In its Internal Audit report, dated February 22, 2012, SoCalGas noted 12 concerns related to ESAP implementation. These 12 concerns involved internal control weaknesses, or a combination of control weaknesses and regulatory noncompliance, within SoCalGas' ESA program.</p>		
<p>RECOMMENDATION: UAFCB should review the implementation of these new procedures in its next audit or examination to determine if SoCalGas' processes and procedures implemented to address these concerns are adequate and working.</p>	<p>SoCalGas provided a corrective action plan.</p>	<p>SoCalGas stated that before the issuance of the prior CPUC examination, it provided UAFCB with information for seven of the 12 issues noted. After reviewing SoCalGas' Internal Audits follow-up, Internal Audits determined that all 12 issues were remediated on or before July 31, 2012. We did not test the effectiveness of the corrective actions noted in the internal audit follow-up.</p>

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