SAN DIEGO GAS & ELECTRIC COMPANY

Audit Report

CALIFORNIA ALTERNATE RATES FOR ENERGY PROGRAM

January 1, 2013, through December 31, 2015

BETTY T. YEE
California State Controller

December 2018

BETTY T. YEE
California State Controller

December 5, 2018

Kathy Wickware, Senior Energy Programs Advisor
San Diego Gas & Electric Company
8330 Century Park Court, CP 12H
San Diego, CA 92123

Dear Ms. Wickware:

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

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

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

We did not validate the effectiveness of the remediation for four of the five business issues identified in SDG&E's internal audit, which was performed as requested in a prior California Public Utilities Commission audit. We limited our follow-up to reviewing SDG&E's corrective action plans and related documentation (Objective 4).

Our audit found that five of the 44 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/ls

cc: Elaine MacDonald, Customer Programs Business Analysis Manager
San Diego Gas & Electric Company
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San Diego Gas & Electric Company
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Audit Report

Summary

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

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

Our audit found that five of the 44 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 the 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 $86.2 million in ratepayer funds to administer and implement SDG&E's CARE program budget for calendar years 2013 through 2015. Budgeted and actual amounts for the three calendar years are as follows:

Year	Budgeted	Actual
2013	$ 88,080,979	$ 67,533,411
2014	$ 89,118,738	$ 68,427,774
2015	$ 89,100,898	$ 81,795,251

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 SDG&E manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SDG&E's CARE 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 CARE program's processes, rather than the effectiveness of the internal controls, to determine whether key processes could be strengthened (Objective 3).

We did not validate the effectiveness of remediation for four of the five business issues identified in SDG&E's internal audit which was performed as requested in a prior CPUC audit. We limited our follow-up to reviewing SDG&E's corrective action plans and related documentation (Objective 4).

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

To achieve our objectives, we:

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

Upon gaining an understanding of SDG&E's 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 12 of 18,453 ($183,066 of $13,330,780) CARE program expenditure transactions, and reviewed invoices and other supporting documentation;
- Reviewed 44 of 829 CARE program customer files and records to determine compliance with applicable laws, regulations, and agreement terms and conditions;
- 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 SDG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SDG&E's CARE program was in compliance with the laws and regulations associated with the Income Qualified Assistance programs, the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and program rules and restrictions provided by SDG&E.

Conclusion

We identified one instance of non-compliance with applicable laws, regulations, and agreement terms and conditions, as described in the Finding and Recommendation section of this report. We did not identify any key control areas that needed additional financial management.

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 Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of San Diego Gas & Electric Company for the Years Ended December 31, 2007 and December 31, 2008*, dated May 13, 2011, and presented our comments in Appendix 2 of this report. We did not validate the effectiveness of remediation for the issues identified in SDG&E's internal audit which was performed as requested by CPUC.

We also reviewed SDG&E's Audit Services report for Project No. 15-263 for the period of July 1, 2014, through August 31, 2015, dated January 4, 2016, and presented our comments in Appendix 3 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.

Views of Responsible Officials

We issued a draft audit report on October 3, 2018. Brittany L. Lee, Regulatory Case Manager, responded to both the CARE and ESA program draft audit reports by letter dated October 19, 2018 (Attachment), agreeing with the audit findings. This final audit report includes SDG&E's response.

Restricted Use

This report is solely for the information and use of SDG&E, the CPUC, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 5, 2018

Finding and Recommendation

FINDING— SDG&E did not maintain current eligibility documents for post enrollment verification

Of the 829 post-enrollment verifications (PEV) performed by SDG&E in June 2013, July 2014, and January 2015, we reviewed 44 PEV customer files and records. Of the 44 customer files, 13 were from June 2013, 16 were from July 2014, and 15 were from January 2015. We determined that additional samples would not affect our finding. As we were not projecting the samples to the population, additional testing beyond the 44 was deemed unnecessary. We noted that five customer files lacked adequate documentation to support the customers' eligibility for the CARE program, as follows:

- Two CARE program customer files (July 2014, January 2015) lacked documentation to support that the customers were currently participating in the categorical program that granted them eligibility. SDG&E accepted California Medical Assistance Program (Medi-Cal) cards as adequate proof of enrollment in a categorical program. However, Medi-Cal cards do not indicate expiration dates or current eligibility dates. SDG&E 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;

- One CARE program customer file (July 2014) lacked PEV documentation but was recertified anyway; and

- Two CARE program customer files (June 2013, July 2014) lacked documentation to support that the customers were eligible for the CARE program when the PEV was conducted. SDG&E's database did not indicate that the customers were removed from the CARE program after the 90-day deadline to provide the necessary supporting documentation.

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, SDG&E 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.

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.

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, SDG&E stated that it uses the policies and procedures regarding program eligibility for both the ESA and CARE programs.

SDG&E's CARE Post Enrollment Verification-Completes manual states:

> CARE customers selected for PEV must submit a completed income validation form and proof of income or proof of participation in a one or more of the public assistance programs to determine their eligibility to continue their participation in the CARE program…If all requirements are not met and complete documentation is not received before 90 days after the first letter was mailed, CISCO will terminate the CARE discount on that account for non-response.

<u>Recommendation</u>

To ensure compliance with review procedures set forth by SDG&E, as well as customer eligibility requirement guidelines set forth by the CPUC, we recommend that SDG&E obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate eligibility for the CARE program.

<u>SDG&E's Response</u>

SDG&E agrees with the finding and recommendation, and stated that it revised its procedures to require current eligibility documents for determining customers' eligibility for the CARE program.

<u>SCO Comment</u>

Although SDG&E stated that it implemented corrective action regarding the finding and recommendation, we did not validate the implementation or effectiveness of this corrective action. CPUC should follow up to ensure that the corrective action was 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
SDG&E CARE Post-Enrollment Verification-Completes Manual	Did not comply; see Finding
California Statewide Energy Savings Assistance Program Policy and Procedures Manual. Section 2.2.3.2. Categorical Eligibility	Did not comply; see Finding
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 FINANCIAL, MANAGEMENT AND REGULATORY COMPLIANCE AUDIT REPORT ON THE CALIFORNIA ALTERNATE RATE FOR ENERGY PROGRAM ADMINISTRATIVE COSTS AND THE LOW INCOME ENERGY EFFICIENCY PROGRAM OF SAN DIEGO GAS & ELECTRIC COMPANY FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2008[1]

CPUC's Obsevations and Recommendations	Status	SCO Comments
FINDING VI.A.: SDG&E had not audited its Customer Assistance Reporting and Enrollments (CARE) operating system, implemented in September 2007, for integrity and reliability. RECOMMENDATION: In a future audit, UAFCB should review the effectiveness of SDG&E's actions in response to its internal audit of its CARE [Customer Assistance Reporting and Enrollments] System measuring its integrity, reliability and efficiency in qualifying and quantifying enrollment and determining whether any weaknesses exist.	SDG&E provided corrective action plans and related documentation for the SCO to review.	SDG&E modified procedure manuals and provided documentation to support corrective actions taken per the recommendations noted in the internal audit. See Appendix 3.

[1] Only the prior findings for the CARE program were reviewed from this audit. A more recent audit of the Low Income Energy Efficiency program (since renamed the Energy Savings Assistance program) was reviewed for the ESA program audit conducted by the SCO.

Appendix 3— Summary Schedule of Prior Internal Audit Findings

SEMPRA ENERGY AUDIT SERVICES:
SAN DIEGO GAS AND ELECTRIC COMPANY CARE PROGRAM, PROJECT NO. 15-263
FOR THE PERIOD OF JULY 1, 2014 THROUGH AUGUST 31, 2015

Business Issues and Recommendations	Status	SCO Comments
BUSINESS ISSUE NO. 1: A. FERA customers are excluded from PEV selection. Excluding FERA customers from PEV will allow ineligible customers to remain undetected. B. Customer Programs has not requested the vendor to refresh the PEV scoring files since February 2014, a period of 19 months. The file contains all 280,000 CARE customers. Approximately 1,000 customer accounts are taken from the file every few weeks, uploaded into the CARE system for PEV review. Each batch taken from the file has a lower score. New CARE customers, some with higher scores, are being excluded from PEV review. C. The CARE system PEV uploaded error report has not been reviewed and errors corrected for an indeterminate amount of time. Not correcting customer data errors may exclude customer accounts from future electronic analysis. D. CARE policies and procedures are outdated: 1. The *PEV Selection and Notification Process* policy lacks background on the PEV selection model, how the PEV file is processed, the processing intervals, how errors are handled and error definitions. 2. The *Income Calculation Procedures* state that PEVs must include an Income Calculation Sheet, however for categorically qualified customers, income calculation is not necessary. Incomplete CARE PEV policies and procedures may preclude Customer Programs management and staff from fully understanding how the recertification process works.		
RECOMMENDATIONS: A. Perform PEV on FERA enrolled customers. B. Refresh the PEV scoring file on a periodic basis, perhaps quarterly. C. Resume reviewing the PEV upload error report and correcting errors in the CARE system and CISCO. D. Update the *CARE PEV Selection and Notification Process* policy and the *CARE Income Calculation Procedures*.	SDG&E provided the SCO with updated CARE policies and procedures, and other CARE PEV documents.	A. SDG&E stated that during the second through fourth quarters of 2016, it took steps to include FERA customers within the PEV model. SDG&E stated that it began performing FERA PEVs in the first quarter of 2017. Although we performed tests of PEV, we did not verify that FERA customers were included in PEV as this process was not implemented within our audit period. B. SDG&E provided screen shots of a CARE PEV data refresh in March 2016 as an example. We did not validate the continued periodic PEV scoring file refreshes during the audit period. C. SDG&E stated that it has been working on correcting data errors from the PEV upload error report since November 25, 2015. We did not validate that SDG&E corrected all errors noted in Business Issue No. 1C. D. SDG&E provided CARE policy and procedures, and they have been updated per recommendations from the internal audit report. However, we did not validate the effectiveness of the updated policy and procedures.

Appendix 3 (continued)

Business Issues and Recommendations	Status	SCO Comments
BUSINESS ISSUE NO. 2: A. Testing of the HEU process noted the following errors: 1. Two of 20 HEU screenings tested noted the customers were not sent HEU 2nd request (342) letters 30 days after initial notice, nor incomplete documentation (312H) letters, which are sent if incomplete Income Validation Forms are received. The CARE system lacked letters and notes indicating the customer contacted SDG&E to extend the termination date. The two customers were terminated for non-response 67 and 81 days after the first letter was sent, whereas termination should occur after 60 days. 2. Two of 20 HEU screening events tested noted incorrect household sizes were entered into the CARE system based on the customer-returned documentation: a. The CARE system indicated five household members whereas the most recent Income Validation Form in the file indicated three household members. An older form indicated five members. b. The CARE system indicated seven household members, which was consistent with the Income Validation Form. The IRS Tax Script, however, indicated four exemptions for the household. 3. One of 20 HEU income screenings tested noted that the customer's income was calculated incorrectly B. Customer Programs lacks a procedure to send an "incomplete documentation" (312H) letter for discrepancies in the number of household members in customer provided documentation. C. Customer Programs does not resend the HEU request (341) / follow-up (342) letters for customers who receive an HEU incomplete letter, are terminated from CARE, and then contact Customer Programs to reinitiate their HEU screening participation. Customer notification via a second round of request and follow-up letters is necessary to communicate the required response timeframes and termination policy.		
RECOMMENDATIONS: A. Train Program Assistants. Include the observations in A, above, in the training. B. Use the 312H letter to inquire about discrepancies in household member documentation. C. Design a new letter or resend 341/342 letters to terminated HEU customers who contact Customer Programs to be reinstated in the CARE program.	SDG&E provided the SCO with updated CARE procedures and other CARE PEV documents.	A. SDG&E provided the agenda and sign-in sheet for the training on February 25, 2016. The agenda included the observations noted in Business Issue No. 2A. B. We reviewed SDG&E's HEU Incomplete Process procedures, updated February 24, 2016, which explain how to process 312H letters. Although we performed tests of PEV, we did not verify the use of the 312H letters. C. We reviewed SDG&E's HEU CARE Deleted Due to Non-Response procedures, updated February 24, 2016, which include how to process 341 and 342 letters. Although we performed tests of PEV, we did not verify the use of the 341 and 342 letters.

Appendix 3 (continued)

Business Issues and Recommendations	Status	SCO Comments
BUSINESS ISSUE NO. 3: A. The CARE recertification process has not been fully documented by Customer Programs: 1. A 2007 document identifies six customer attributes but it is not known if these are actual attributes scored, nor if they were the actual attributes implemented. 2. The 2007 document does not identify if customer scores above the qualifying factor (.030) get the recertification letter or are automatically recertified. 3. The process to assign a two year or four year recertification cycle to CARE customers is not 4. Customer Programs internal policies and procedures do not fully describe the recertification process. For example, the procedures do not document the use and timing of the outgoing recertification request and reminder letters. An undocumented CARE certification process may preclude Customer Programs from: • Fully understanding how the recertification process • Assessing if it is still relevant and fair • Demonstrating compliance to outside parties B. Self-assessed – Customer Programs does not understand how data errors are handled by the CISCO Recertification routine. An example error is “value missing for a customer attribute”. Not understanding and correcting errors generated by the recertification routine may indefinitely preclude some customers from being selected for recertification. C. Recertification request (315) letter and reminder (316) letter do not disclose to the CARE customer they will be terminated if they fail to respond to the request. The lack of a disclosure is inconsistent with the CARE program guidelines and with the Post Enrollment Verification (PEV) request letter, which includes the disclosure.		
RECOMMENDATIONS: A. Fully document the recertification process including the probability model. Determine if the probability model is still relevant and fair to both CARE customers and rate payers paying the Public Purpose Program charge. Maintain the documentation as a Company Record. B. Analyze the CISCO recertification routine to understand how errors are handled. Ensure that errors are reasonably handled and do not result in a customer’s exclusion from the recertification process. C. Modify recertification request letters 315 and 316 to include the non-response termination disclosure.	SDG&E provided the SCO with updated CARE procedures and other CARE PEV documents.	A. SDG&E provided Enrollment and Recertification Process procedures and Recertification Probability Model procedures, which document the recertification process, including the probability model. We did not test the effectiveness of the implementation of these procedures. SDG&E did not address whether the probability model is relevant and fair to both CARE customers and rate payers paying the Public Purpose Program charge. B. SDG&E provided recertification procedures, which address how to handle empty entries for two fields. However, it does not address any other errors. We did not determine if errors were reasonably handled, and we did not test the effectiveness of the procedures. C. SDG&E provided a copy of the advice letter and copies of revised letters (310, 315, and 615) sent on December 7, 2015 to the CPUC. Our review of the letters showed that they include the non-response termination disclosure. We did not verify SDG&E’s use of the letters. SDG&E did not address revisions to 316 letters.

Appendix 3 (continued)

Business Issues and Recommendations	Status	SCO Comments
BUSINESS ISSUE NO. 4: A. The Customer Programs employee responsible to process incoming CARE mail safeguards customer's financial and public assistance records by locking the records in a cabinet during work breaks, lunch, and non-working hours. The locking cabinet is located in conference room 2-685. If this conference room is in use during the employee's off-time, the employee hides the Hiding sensitive customer records is an inadequate method to safeguard records and may be inconsistent with regulatory requirements. B. Eight of 20 HEU screening events tested noted no or poor masking of sensitive customer information on the customer provided income support documentation. C. Customer Programs CARE procedures do not reference Customer Program's policy on safeguarding customer data and records.		
RECOMMENDATIONS: A. Configure the employee's desk with a sturdy, lockable drawer. If this is not feasible, consider: 1. Moving the filing cabinet adjacent to the employee's work area. 2. Procuring a lockable cabinet for the employee's work area. B. Determine why customer records are not being adequately masked and implement a solution. C. Cross reference the CARE procedures to Customer Programs' policy on safeguarding customer data and records.	Follow-up was not considered necessary.	Business Issue No. 4 did not relate to the audit objectives. Therefore, we did not consider follow-up to be necessary.

Appendix 3 (continued)

Business Issues and Recommendations	Status	SCO Comments
<u>BUSINESS ISSUE NO. 5</u>: A. Testing noted instances of a second PEV reminder request (311) letter being sent to CARE customers. An examination of the CARE system and CISCO CCON's noted the absence of customer contacts indicating the customer asked for a PEV extension of time. What triggered the 2nd reminder letter to be sent was not determined. The two customers were non-responders and were terminated in approximately 120 days instead of the policy-specified 90 days as a result of the second reminder letters. The same situation existed for recertification requests where two customers were terminated after 120 days, instead of 90 Not terminating non-respondent CARE customers on a timely basis overstates CARE enrollment, may be contrary to regulatory requirements, and increases the Public Purpose Program charge. B. Customer Program's CARE Post Enrollment Verification: Completes, Active & Deleted policy: 1. Lacks instruction on: a. PEV and recertification extensions. b. Adding a customer contact notation in the CARE system or in CISCO for customer requests for c. Sending a second letter for PEVs and recertifications. 2. Incorrectly states the PEV reminder letter is sent 45 days after the initial letter. The letter is actually sent approximately 60 days (the correct timeframe) after the initial letter.		
<u>RECOMMENDATIONS</u>: A. Determine the cause of the duplicate letters and take corrective actions. B. Update the CARE Post Enrollment Verification: Completes, Active & Deleted policy for the items noted above.	SDG&E provided the SCO with updated procedures.	A. SDG&E did not address the cause of the duplicate letters. However, SDG&E states that it has changed its processes such that letters will be sent out of the CARE system rather than the CISCO system to prevent duplicate letters. We did not test the effectiveness of this process. B. Per review of SDG&E's Enrollment and Recertification Process procedures, revised March 14, 2016, and CARE Post Enrollment Verification – Incomplete procedures, revised March 14, 2016, there are instructions for extension notations (Business Issue No. 5B1a) and sending second letters (Business Issue No. 5B1c). Business Issue No. 5B1b did not relate to the audit objectives. Therefore, follow-up was not considered necessary for that issue. In addition, the above noted procedures state that letters will be sent 60 days after the initial letter. We did not test the effectiveness of remediation for these procedures.

Appendix 3 (continued)

Business Issues and Recommendations	Status	SCO Comments
BUSINESS ISSUE NO. 6: A. Five of 13 paper CARE applications tested (38%) were processed untimely. The duration of days to process ranged from 31 to 52 days. B. Customer Program's CARE Enrollment and Recertification Process procedures are incomplete. The procedures lack: 1. Instructions for working the CARE system electronic application queue. 2. The regulatory prescribed 30 day requirement to process customer CARE applications. 3. A statement that the CARE system automatically calculates customer eligibility based on the data entered into the system.		
RECOMMENDATIONS: A. Determine the root cause of the untimely processed customer CARE applications. Consider using an aging report to identify untimely processing. B. Update Customer Program's CARE Enrollment and Recertification Process procedures for the items in B., above.	SDG&E provided the SCO with updated procedures.	A. SDG&E stated that the cause of the untimely processed CARE applications was due to inexperienced staff. SDG&E stated that a training session was conducted the week of December 14, 2015. We did not validate the training session. B. Per review of Enrollment and Recertification Process procedures, items B2 and B3 are included. SDG&E did not provide instructions for working the CARE system electronic application queue (B1).

Attachment—
San Diego Gas & Electric Company's Response to Draft Audit Report

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October 19, 2018

Andrew Finlayson
Chief, State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
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Dear Mr. Finlayson:

San Diego Gas & Electric Company (SDG&E) hereby responds to the State Controller's Office draft audit report dated October 3, 2018 of SDG&E's Energy Savings Assistance (ESA) Program and California Alternate Rates for Energy (CARE) Program for the period of January 1, 2013 through December 31, 2015. The audit was conducted pursuant to an inter-agency agreement between the State Controller's Office and the California Public Utilities Commission (CPUC or Commission), where the Commission requested the audit of the ESA and CARE programs for the four investor-owned utilities.

The objectives of the audit for the ESA and CARE programs were to: (1) determine whether SDG&E manages the ESA and CARE programs in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether SDG&E's ESA and CARE programs are 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.

Herein, SDG&E provides comments and/or additional information to the draft audit report findings and recommendations for inclusion in the final report.

<u>Draft Audit Findings and Recommendations</u>

<u>ESA Program</u>

- *Draft Audit Finding 1*

"SDG&E did not consistently maintain heating, ventilation, and air conditioning (HVAC) installation forms to support HVAC expenditures."

- *Draft Audit Recommendation for Finding 1*

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

- *SDG&E Comments to Draft Audit for Finding 1*

SDG&E agrees with the audit finding recommendation concerning appropriate documentation to support contractor invoices. In 2018, SDG&E implemented a new system which requires HVAC, Appliance Installation, Weatherization, and Natural Gas Appliance Test (NGAT) contractors to upload all supporting documentation for each enrollment workflow step prior to payment. Thereafter, SDG&E's invoice processing team reviews each enrollment on an invoice to verify the appropriate documentation is attached prior to payment. Also, SDG&E is in the process of implementing this requirement for all Outreach and Assessment (O&A) contractors by 2019 and continues to conduct internal audits in the interim to make sure proper documentation is being collected by O&A contractors.

- *Draft Audit Finding 2*

"A fund shift reported in the 2014 ESA Program Annual Report lacked required approval."

- *Draft Audit Recommendation for Finding 2*

"To ensure compliance with the fund shifting rules set forth by the CPUC, we recommend that SDG&E obtain prior approval from the Administrative Law Judge, if required, for shifting of funds. We also recommend that SDG&E modify its procedures for reviewing and processing fund shifts to avoid future misclassifications."

- *SDG&E Comments to Draft Audit for Finding 2*

SDG&E agrees with the audit finding recommendation to obtain prior Commission approval, if required, prior to shifting of funds and to modify its procedures to avoid future misclassifications. On February 12, 2018, SDG&E filed Advice Letter 3184-E/2650-G which reflected its 2014 through 2017 fund shifting activities for In-Home Education under the ESA Program. In its advice letter, SDG&E explained the fund shift activity that occurred in 2014 and the change in procedures for reviewing and processing fund shifts to avoid future misclassifications.

<u>CARE Program</u>

- *Draft Audit Finding*

"SDG&E did not maintain current eligibility documents for post enrollment verification."

- *Draft Audit Recommendation for Finding*

"To ensure compliance with review procedures set forth by SDG&E, as well as customer eligibility requirement guidelines set forth by the CPUC, we recommend that SDG&E obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate eligibility for the CARE program."

- *SDG&E Comments to Draft Audit for Finding*

SDG&E agrees with the audit finding recommendation and has revised its procedures to require current eligibility documents for determining customers' eligibility in the CARE Program.

Sincerely,

Britt L Lee

Brittney L. Lee
Regulatory Case Manager

cc:

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