

SAN DIEGO GAS & ELECTRIC COMPANY

Audit Report

ENERGY SAVINGS ASSISTANCE PROGRAM

January 1, 2013, through December 31, 2015



BETTY T. YEE
California State Controller

December 2018



BETTY T. YEE
California State Controller

December 5, 2018

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 audited San Diego Gas & Electric Company's (SDG&E) Energy Savings Assistance (ESA) program for the period of January 1, 2013, through December 31, 2015.

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

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

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

Our audit found that:

- Of the 137 ESA Home Energy Assistance Tracking system expenditure files and records tested, 18 did not have sufficient Heating, Ventilation, and Air Conditioning (HVAC) installation forms to support HVAC expenditures; and
- Due to a misclassification error, SDG&E shifted funds in the amount of \$50,156 into the In-Home Education Subcategory in its 2014 Annual Report without prior approval from the Administrative Law Judge.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

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Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Follow-up on Prior Audit Findings.....	4
Views of Responsible Officials.....	4
Restricted Use	4
Findings and Recommendations.....	5
Appendix 1—Compliance with Applicable Laws, Regulations, and Agreement Terms and Conditions	7
Appendix 2—Summary Schedule of Prior CPUC Audit Findings.....	8
Attachment—San Diego Gas & Electric Company’s Response to Draft Audit Report	

Audit Report

Summary

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

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

Our audit found that:

- Of the 137 ESA Home Energy Assistance Tracking system expenditure files and records tested, 18 did not have sufficient Heating, Ventilation, and Air Conditioning (HVAC) installation forms to support HVAC expenditures; and
- Due to a misclassification error, SDG&E shifted funds in the amount of \$50,156 into the In-Home Education Subcategory in its 2014 Annual Report without prior approval from the Administrative Law Judge.

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

Background

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

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

The CPUC requires that utility companies adhere to the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and comply with Public Utilities Code, CPUC directives, and CPUC General Orders (GO).

CPUC Decision (D.) 12-08-044 and D.14-08-030 authorized average annual budgets of approximately \$23 million in ratepayer funds to administer and implement SDG&E's ESA 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	\$ 22,140,542	\$ 17,874,649
2014	\$ 26,904,989	\$ 19,143,282
2015	\$ 23,772,250	\$ 17,355,596

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 ESA program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SDG&E's ESA program is in compliance with applicable laws, regulations, and agreement terms and conditions (see Appendix 1);
- Identify opportunities and priorities in which financial management governance may help to strengthen key controls; and
- Follow up on prior audit findings and evaluate the effectiveness of remediation.

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

We did not validate the effectiveness of remediation for two of the four observations identified in the CPUC's prior examination of the ESA program. 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 ESA 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 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 SDG&E's ESA program required by the CPUC for all energy utilities;

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

Upon gaining an understanding of SDG&E's administration of the ESA program, we judgmentally selected transactions using non-statistical samples; errors found were not projected to the intended population¹. We:

- Selected three of 166 (\$131,848 of \$3,773,956) ESA program (HEAT) system invoices, and reviewed the invoices and other supporting documents;
- Reviewed 137 of 9,511 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 findings, conclusions, and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

We did not audit 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 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 SDG&E.

Conclusion

We identified instances of non-compliance with applicable laws, regulations, and agreement terms and conditions, as described in the Findings and Recommendations section of this report.

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

**Follow-up on
Prior Audit
Findings**

We reviewed the CPUC's prior examination of the ESA program, *Interim Financial, Management and Regulatory Compliance Examination of San Diego Gas & Electric 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 SDG&E has implemented appropriate corrective actions for Observation 1 and partially implemented corrective actions for Observation 4. We did not validate the effectiveness of remediation for Observation 2, and we did not test whether SDG&E strengthened its internal controls relevant to Observation 3.

We also reviewed SDG&E's internal audit report for the ESA program, File No. 13-237 for the period of January 2012 through May 2013, dated August 31, 2015. As the finding regarding contractor background checks, health checks, and badges was not relevant to the objectives of the current audit, we did not consider follow-up to be necessary for this finding.

**Views of
Responsible
Officials**

We issued a draft audit report on October 3, 2018. Brittney 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 included 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

Findings and Recommendations

FINDING 1— SDG&E did not consistently maintain HVAC installation forms

We tested three of 166 HEAT system invoices, which consisted of 137 enrollment expenditures. Of the 137 files and records tested from March 2013, June 2014, and September 2015, 18 did not have sufficient documentation to support HVAC expenditures. Specifically, 13 expenditures (from March 2013) did not have HVAC Installation Forms, and five expenditures (from March 2013) did not have corrected/updated HVAC Installation Forms.

Contractors submit a manually completed ESA program HVAC Installation Form with a HEAT system-generated invoice to SDG&E as part of the supporting documentation package. The HVAC Installation Forms are the source documents from which HEAT system information is derived. The forms contain customer information and detail the types of work performed; the items installed, along with the associated costs and fees; and contractor and customer signatures, confirming the work performed and items installed. If there is a discrepancy or issue with information in the HEAT system, SDG&E refers to the HVAC Installation Form to determine what was documented at the time of installation.

During the review and approval process, SDG&E staff members are to compare the HEAT system invoice to the HVAC Installation Form. Without HVAC Installation Forms, expenditures cannot be verified for correctness and allowability.

A part of our testing plan, we selected an initial limited number of transactions. Based on the results of testing, we determined that testing additional transactions would not affect our overall conclusion that HVAC installation forms were not consistently maintained.

CPUC GO 28 requires public utilities to preserve all records, memoranda, and papers supporting all transactions so that the CPUC may readily examine them at its convenience.

Recommendation

We recommend that 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's Response

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

SCO Comment

Although SDG&E stated that it has implemented corrective actions regarding the finding and recommendation, we did not validate the implementation or effectiveness of these corrective actions. CPUC should follow up to ensure that the corrective actions were adequate and appropriate.

**FINDING 2—
A fund shift
reported in the
2014 ESA program
Annual Report
lacked required
approval**

In SDG&E's 2014 ESA program Annual Report, a fund shift of \$50,156 was carried forward from 2013, and prior-year unspent funds were shifted into the In-Home Education subcategory without prior written approval from the Administrative Law Judge. SDG&E did not request approval because it misclassified the In-Home Education funds as Customer Enrollment funds in an internal schedule that it used to determine whether fund shifts required separate approval. Customer Enrollment fund shifts do not require prior approval from the Administrative Law Judge. When the annual report tables were populated and reviewed, SDG&E did not request approval for the fund shift because of the timing of the discovery of the error and the annual report filing. SDG&E stated that it believes that the fund shift would have been uncontested, due to the in-home education that was provided as directed by the CPUC.

According to CPUC D.10-10-008, Section b.(3)ii. of Ordering Paragraph 85, the Administrative Law Judge's prior written approval is required to shift funds into or out of the In-Home Education subcategory.

Recommendation

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's Response

SDG&E agrees with the finding and recommendation, and stated that it has implemented corrective actions to avoid future misclassifications. In addition, SDG&E stated that it had filed an advice letter on February 28, 2018, explaining the fund shift activity in 2014 and the change in procedures to avoid future misclassifications.

SCO Comment

Although SDG&E stated that it has implemented corrective actions regarding the finding and recommendation, we did not validate the implementation or effectiveness of these corrective actions. CPUC should follow up to ensure that the corrective actions were adequate and appropriate.

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

APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS AND CONDITIONS	AUDIT RESULTS
CPUC GO 28. Preservation of records of public utilities and common carriers	Did not comply; see Finding 1
CPUC D.12-08-044 Section 6.2. Fund Shifting Rules	Complied
CPUC D.10-10-008 Ordering Paragraph 85, b.(3)ii	Did not comply; see Finding 2
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, 584	Complied

Appendix 2— Summary Schedule of Prior CPUC Audit Findings

CPUC INTERIM FINANCIAL, MANAGEMENT & REGULATORY COMPLIANCE EXAMINATION OF SAN DIEGO GAS & ELECTRIC COMPANY'S ENERGY SAVINGS ASSISTANCE PROGRAM FOR THE PERIOD JANUARY 1, 2009 THROUGH DECEMBER 31, 2010.

CPUC's Observations and Recommendations	Status	SCO Comments
<p><u>OBSERVATION 1:</u> SDG&E failed to demonstrate compliance with Commission directives, including the P&P Manual. Beginning in 2007 through 2011, SDG&E provided \$1.2 million of ineligible gas and electric measure to some of its ESAP [Energy Savings Assistance Program] customers and also ineligible customers. In June of 2012, SDG&E's shareholders reimbursed its ESAP for the ESAP provided to ineligible customers and for ineligible measures provided to ESAP participants.</p> <p>RECOMMENDATION: SDG&E should adhere to the Commission's directives or ensure that shareholders provide funds for any ineligible measures that are provided to its ESAP customers or for ESAP that is provided to customers who are over the income guidelines. To minimize risk of these costs being charged to ESAP, SDG&E shareholders should pay for the ineligible measure or program provided to ineligible customers at the time of deployment. SDG&E should submit corrected annual reports to Energy Division, if it has not already done so.</p>	Implemented	SDG&E has settled the balance with shareholder funds. SDG&E submitted corrected annual reports to the CPUC Energy Division.
<p><u>OBSERVATION 2:</u> SDG&E failed to demonstrate compliance with its Procurement Policy when it failed to update certain contracts for fee increases.</p> <p>RECOMMENDATION: SDG&E should enforce its existing procurement policy and procedures. Furthermore, SDG&E should develop policy and procedures on the 'change controls' in its HEAT database system to prevent unauthorized changes or changes that lack supporting documentation or contract amendment.</p>	SDG&E provided procedures for HEAT access request approvals.	SDG&E created a Systems Compliance section in late 2011; it was later renamed Customer Programs Systems Support (CPSS). CPSS uses an internal SDG&E SharePoint site to process all user access requests for the HEAT system. Online procedures for HEAT access requests and HEAT access approval have been established. We did not test the effectiveness of the new procedures.

Appendix 2 (continued)

CPUC's Observations and Recommendations	Status	SCO Comments
<p><u>OBSERVATION 3:</u> SDG&E failed to demonstrate compliance with the P&P Manual, Section 7.3.21, when it replaced a central air conditioner in a customer dwelling that was located in an unfeasible climate zone.</p> <p>RECOMMENDATION: SDG&E should strengthen its internal controls relevant to its ESAP processes and activities to ensure compliance with the P&P Manual.</p>	<p>SDG&E reimbursed the ESA program for the cost of the air conditioner.</p>	<p>SDG&E reimbursed the ESA program for the cost of the air conditioner. The replacement measure was for the health, safety, and comfort of an elderly customer. We did not test whether SDG&E strengthened its internal controls relevant to its ESA program process and activities.</p>
<p><u>OBSERVATION 4:</u> SDG&E failed to demonstrate compliance with Public Utilities Code § 584, when it erroneously reported a \$71,715 fund shift from Gas Appliance to Electric Appliances in its 2009 LIEE annual report that didn't occur. A change to the ESAP annual reporting templates could enhance the usefulness of the annual reports.</p> <p>RECOMMENDATION: SDG&E should strengthen its internal processes to ensure that its Annual Reports are correct before it submits them and it should ensure that it supports any fund shifting in its annual reports with reference to the Commission authority allowing for the fund shifting. Energy Division should modify the template for LIEE Table 19 of the Annual Report by changing the title of the last column to Commission Authority. SDG&E should submit a corrected annual report to Energy Division, reflecting the changes to LIEE Table 19.</p>	<p>Partially Implemented</p>	<p>SDG&E stated that it provided a revised LIEE Table 19 to the Utility Audit Finance and Compliance Branch, which corrected the error as recommended. During our review of the fund shifts, all fund shifts were referenced to the applicable commission authority. However, our testing noted a similar issue regarding fund shifting authorization. See Finding 2.</p>

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



Brittney L. Lee
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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.

Draft Audit Findings and Recommendations

ESA Program

- *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.

CARE Program

- *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.

Page 3 of 3

Sincerely,



Brittney L. Lee
Regulatory Case Manager

cc:

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