

# Memorandum



**Date:** May 31, 2013

**To:** Edward Randolph  
Director, Energy Division

**From:** **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief  
**San Francisco -** Division of Water and Audits

**Subject:** 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

**Except for the issues discussed below, Southern California Gas Company (SCG) demonstrated to a reasonable degree its compliance with Commission directives respecting the 2009 and 2010 Energy Savings Assistance Program (ESAP) transactions that the Utility Audit, Finance and Compliance Branch (UAFCB) examined.**<sup>1</sup> UAFCB conducted the Financial, Management and Regulatory Compliance Examination of SCG's ESAP. This examination was limited in scope and does not provide full assurance as to SCG's compliance. UAFCB's examination included the Weatherization and General Administration cost categories, SCG's internal controls related to ESAP and its ESAP annual reports.

## **A. Summary of Examination Observations and Recommendations**

The following is a brief summary of UAFCB's observations and recommendations resulting from its examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

### **Observation 1: SCG failed to demonstrate compliance with the Uniform System of Accounts (USOA), General Order (GO) 28 and the Policy & Procedures (P&P) Manual.**

Twenty-nine percent of the customer files that 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.

**Recommendation:** SCG 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.

**Observation 2: SCG failed to demonstrate compliance with the USOA, GO 28, Public Utilities Code § 451 and its Procurement Policy.**<sup>2</sup> SCG failed to provide documentation to substantiate its contractor allocation process and the values associated with some of its ESAP contracts.

**Recommendation:** SCG should 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. SCG should maintain documentation to support how it derives amounts allocated to the contractors and the values in its contracts. UAFCB should review this area in a future audit or examination.

---

<sup>1</sup>ESAP was formerly known as the Low Income Energy Efficiency Program (LIEE).

<sup>2</sup> All statutory references are to the Public Utilities Code unless stated otherwise.

**Observation 3: SCG failed to demonstrate compliance with § 451 and the budgets authorized in D.08-11-036, as modified.** SCG executed contracts with a combined total value that exceeded its authorized budget amounts in 2009 and 2010. In 2009, SCG approved contracts totaling \$94.5 million that exceeded its authorized budget of \$62.5 million by \$32 million, or by 51%. In 2010, SCG approved contracts totaling \$78.9 million that exceeded its authorized budget of \$76.8 million by \$2.1 million, or by 3%.

**Recommendation:** SCG should strengthen its procurement practices and procedures to ensure that it operates its ESAP within the authorized budget for the program cycle. UAFCB should review this area in a future audit or examination.

**Observation 4: SCG 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, SCG 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 SCG 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, SCG did employ carry over funds to address the amounts over budget.

**Recommendation:** No later than 90 days from the issuance of this report to SCG, SCG should provide the UAFCB with a copy of its established controls for monitoring program expenditures. UAFCB may review this area in a future audit or examination.

**Observation 5: SCG failed to demonstrate compliance with the USOA, GO 28, §451 and its Procurement Policy.** SCG approved weatherization contracts containing numerous errors in the terms and conditions.

**Recommendation:** SCG 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 the necessary schedules are included. UAFCB should review this area in a future audit or examination.

**Observation 6: SCG 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, SCG allowed substantial delays in performing initial and final post inspections on weatherization measures installed during program years 2009 and 2010.

**Recommendation:** SCG should improve its contracting processes and include penalties in its contracts for contractors not completing the workflow process on a timely basis. SCG should 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. In addition, SCG should maintain the appropriate documentation demonstrating whether each post inspection is mandatory or non-mandatory. UAFCB should include this area in a future audit or examination.

**Observation 7: SCG failed to demonstrate compliance with the USOA and §§ 451, 581 and 584.** SCG recorded a 2008 expense of \$ [REDACTED] in 2009 and 2009 expenditures of \$ [REDACTED] in 2010.

**Recommendation:** SCG should strengthen its accounting controls to ensure the accuracy of its accounting information and the data it reports to the Commission. UAFCB should include this area in a future audit or examination.

**Observation 8: SCG failed to demonstrate compliance with § 451 and its procurement policies when it paid \$ [REDACTED] in invoices that were not governed by an executed contract.** SCG incurred two expense transactions in the amounts of \$ [REDACTED] and \$ [REDACTED] in [REDACTED] and [REDACTED] of [REDACTED], respectively, before the effective date of the contract on [REDACTED].

**Recommendation:** SCG should strengthen its procurement policies, management oversight over its procurement processes and strictly enforce its procurement policy. UAFCB should include this area in a future audit or examination.

**Observation 9: SCG 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.** SCG overpaid its employee's mileage reimbursement claim for travel between Downey and Ontario, California by 291 miles or \$145.50.

**Recommendation:** SCG should improve its internal controls with respect to the approval of travel expense claims and should ensure the accuracy of expense claim data reported to the Commission. UAFCB may include this area in a future audit or examination.

**Observation 10: SCG 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.** SCG credited an SCE payment of \$39,244 to general administration costs instead of joint marketing.

**Recommendation:** SCG should ensure the accuracy of data reported to the Commission by strengthening its accounting controls. SCG should ensure an appropriate management oversight over the accounting review, approval, and recording of its expenses.

**Observation 11: SCG failed to demonstrate compliance with §§ 451, 581 and 584 and the Commission's established Three Measure Minimum Rule.** SCG 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.

**Recommendation:** SCG should recover as much of the \$613,522 overcharge as possible from its contractors. SCG's shareholders should refund ESAP for any of the \$613,522 that SCG is unable to recover from its contractors. Thirty (30) days after the end of each quarter, starting from October 1, 2013 for the end of third quarter, SCG should provide the Energy Division and UAFCB progressive updates with the appropriate accounting documents to substantiate completion of the cost reimbursement to ESAP. In addition, SCG should strengthen its internal controls to prevent charging ESAP for homes that are disqualified. UAFCB should include this area in a future audit or examination.

**Observation 12: SCG failed to demonstrate compliance with §§ 581 and 584 and the Commission's guidelines and reporting requirements regarding fund shifting.** According to information reported in its annual reports, SCG overstated the amount shifted/carried forward from 2009 to 2010 by \$406,092 and from 2010 to 2011 by \$3,616,532. In addition, SCG 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, SCG reported amounts carried forward from 2009 as subtractions from its 2010 budget instead of additions to.

**Recommendation:** SCG needs to increase its accounting and reporting oversight and ensure the accuracy of data it reports to the Commission. On Table 19 of its annual reports, SCG needs to report the funds it is carrying forward to or back from the next program year. No later than 90 days after SCG receives the memo report, SCG should provide the UAFCB its

reconciliation, with supporting documentation, of the funds it spent and carried forward/backward for 2009, 2010 and 2011. The reconciliation should be between the amounts recorded in SCG's SAP for ESAP for 2009 and 2010 and the amounts reported spent and funds shifted in its annual reports in 2009, 2010 and 2011.

**Observation 13: In its Internal Audit report, dated February 22, 2012, SCG noted 12 concerns related to ESAP.** These 12 concerns involved internal control weaknesses, or a combination of control weaknesses and regulatory noncompliance, within SCG's ESAP program.

**Recommendation:** Conducting an internal audit and implementing new procedures to address the internal auditor's findings demonstrates SCG's commitment to improving its processes and oversight over ESAP. UAFCB should review the implementation of these new procedures in its next audit or examination to determine if SCG's processes and procedures implemented to address these concerns are adequate and working.

UAFCB provided a copy of its analysis, observations, and recommendations of the examination to SCG for comment. UAFCB summarized SCG's comments, including UAFCB's rebuttal to those comments, in Appendix A. SCG's response in its entirety is provided as a separate document due to size.

## **B. Examination Process**

Based on consultation with the Energy Division, UAFCB's prior experience in examining SCG's program, and the results of UAFCB's risk assessment, UAFCB focused its examination on the areas mentioned above and evaluated compliance with Commission directives and the P&P Manual, dated August 2010.<sup>3</sup> Additional details regarding UAFCB's examination processes and procedures are found in Appendix B and some pertinent information about SCG's ESAP is found in Appendix C.

## **C. Conclusion**

Except for the items discussed above, SCG demonstrated compliance with Commission directives in the areas that the UAFCB examined.

If you have any questions on UAFCB's examination, please contact Kayode Kajopaiye.

cc: Rami Kahlon, Director, Division of Water and Audits  
Hazlyn Fortune, Energy Division  
Bernard Ayanruoh, Division of Water and Audits  
Frederick Ly, Division of Water and Audits  
Gilda Robles, Division of Water and Audits

---

<sup>3</sup> Commission directives used to measure compliance included, but were not limited to, Decisions 08-11-031, as modified, and 10-12-002.

## **Appendix A**

### **Analysis and Findings**

#### **A.1 Introduction**

Except for the deficiencies described below, Southern California Gas Company (SCG) demonstrated to a reasonable degree compliance with Commission directives.<sup>1</sup> The areas that the Utility Audit, Finance and Compliance Branch (UAFCB) examined included the Weatherization and General Administration cost categories, internal controls and reporting. The directives that the UAFCB used to test compliance included, but were not limited to, Decision (D.) 08-11-031, as modified, D.10-12-002 and the Low Income Energy Efficiency Policy and Procedures (P&P) Manual.<sup>2</sup> UAFCB's scope and methodology used for this examination are described in Appendix B, Examination Elements.

On February 12, 2013, UAFCB provided a copy of its analysis, observations, recommendations and its summary of SCG's 2009 and 2010 ESAP to SCG for comment. On February 28, 2013, SCG provided its comments in response to UAFCB's observations and recommendations. UAFCB includes a brief summary of SCG's comments and UAFCB's rebuttal to those comments in this appendix, and includes SCG's comments in their entirety as a separate document due to size.

#### **A.2 Weatherization**

**Observation 1: SCG 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.

**Criteria:** The USOA and GO 28 require that utilities maintain all records, memoranda and papers supporting each and every entry in its books so that the Commission may review them at its convenience. Section 2.6 of the P&P Manual requires that home ownership must be reviewed and verified in order to ensure that the legal owner signs the Property Owner Waiver. For proof of home ownership, any of the following documentation may be used:

- Current loan or mortgage documents;
- Property tax records or bills;
- Home owner property insurance (fire insurance);
- Mortgage payment invoices or book;
- Data Quick or similar title search service; and
- Deeds.

**Condition:** UAFCB found that 11, or 24%, out of the 45 from the 2009 customer files it reviewed that were provided with weatherization measures did not to contain proof of home ownership documentation. Fifteen, or 33%, out of the 45 from the 2010 customer files that the UAFCB reviewed did not contain any proof of home ownership documentation.

---

<sup>1</sup>Previously known as the Low Income Energy Efficiency Program (LIEE).

<sup>2</sup> D.08-11-031, as modified by D.09-06-026 and D.09-10-029. The applicable P&P that UAFCB used for testing compliance was dated August 2010. The updated manual for the 2009-2011 program changes was authorized by the Commission on August 31, 2010.

**Cause:** SCG's current ESAP practices and procedures only require its contractors to provide proof of home ownership documentation for appliance work.

**Effect:** The lack of evidence of home ownership may put the ESAP dollars at risk for being expended on ineligible properties and/or the legal property owner claiming that they did not provide consent for the ESAP work. In addition, UAFCB is unable to test compliance.

**SCG Comments:** Due to time and resource constraints during the examination, it was unable to provide the UAFCB the appropriate documentation requested. However, SCG requires its contractors to maintain all documentation, including subcontractor invoices, itemization of approved materials, etc. for a minimum of ten years. SCG only requires that its contractors submit proof of home ownership with invoices with respect to appliance work. Subsequent to the field work, SCG provided the UAFCB the required documentation to support the selected customer files, including proof of homeownership.

**Rebuttal:** SCG provided the appropriate documentation, including proof of customers' homeownership. However, UAFCB was unable to view the documentation at its convenience.

**Recommendation:** SCG 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.

**Observation 2: SCG failed to demonstrate compliance with the USOA, GO 28, Public Utilities Code § 451 and its Procurement Policy.**<sup>3</sup> SCG failed to provide documentation to substantiate its contractor allocation process and the values associated with some of its ESAP contracts.

**Criteria:** The USOA and GO 28 require that the utilities maintain all records, memoranda and papers supporting each and every entry in its books. Section 451 requires just and reasonable rates. SCG's Procurement Policy requires that established processes and procedures be followed in reviewing, approving, and executing terms of ESAP contracts. In addition, it requires that each business unit maintain adequate records for its contracts.

**Condition:** When determining the amounts to be allocated to each contractor, SCG indicated that it utilized contractor production data including, but not limited to, progress towards meeting unit goals, average unit cost, contractor input on production forecasts, and performance. However, SCG did not provide the UAFCB with documentation to support the contractor production data used to allocate amounts to specific contractors nor the values approved in the contracts.

**Cause:** According to SCG, the staff members responsible for reviewing and approving the contract values for the audit period are no longer with the ESAP group and the current staff are unable to locate needed documentation that would support the process of how the contract values were determined.

---

<sup>3</sup> All statutory references are to the Public Utilities Code unless stated otherwise.

**Effect:** The contracts could have been over or under-valued. The extent of the over or under-valuation could not be quantified due to the lack of documentation. Without the documentation, it is impossible to evaluate the reasonableness of the calculations.

**SCG Comments:** SCG agrees with UAFCB's recommendation. SCG implemented a process to document the allocation of units and contract values to its contractors beginning with the contracts effective January 1, 2012.

**Rebuttal:** Implementing a process is a good first step. SCG needs to ensure it enforces its new process.

**Recommendation:** SCG should 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. SCG should maintain documentation to support how it derives amounts allocated to the contractors and the values in its contracts. UAFCB should review this area in a future audit or examination.

**Observation 3: SCG failed to demonstrate compliance with § 451 and the budgets authorized in D.08-11-036, as modified.** SCG executed contracts with a combined total value that exceeded its authorized budget amounts in 2009 and 2010.

**Criteria:** Section 451 mandates that rates be just and reasonable. In D.08-11-031, Ordering Paragraph 1 (OP No. 1), the Commission authorized SCG ESAP budgets of \$49.5 million for 2009 and \$76.8 million for 2010. In addition, in OP No. 86, the Commission granted SCG's request to partially fund its 2009 ESAP budget with \$13 million in unspent funds carried forward from prior years, resulting in an authorized budget of \$62.5 million for budget year 2009.

**Condition:** In 2009, SCG approved contracts totaling \$94.5 million that exceeded its authorized budget of \$62.5 million by \$32 million, or by 51%. In 2010, SCG approved contracts totaling \$78.9 million that exceeded its authorized budget of \$76.8 million by \$2.1 million, or by 3%. In the following table, UAFCB presents a comparison between SCG's total executed contracts values and its authorized budgets for program years 2009 and 2010.

**Table A-1**  
**Comparison of Contract Values with Authorized ESAP Budgets**  
**Examination Period: January 1, 2009 through December 31, 2010**

Description	2009	2010
Authorized Budget (D.08-11-031)	\$62,571,908	\$76,872,816
Total Combined Contracts	<u>94,540,767</u>	<u>78,929,248</u>
<b>Amount Exceeding Authorized</b>	<b><u>\$31,968,859</u></b>	<b><u>\$2,056,432</u></b>

UAFCB appreciates SCG's need to enter into contracts with caps that exceed the authorized budget to appropriately manage the needs-based ESAP. However, SCG needs appropriate controls in place that are strictly enforced to ensure that SCG doesn't exceed its authorized budget and potentially increase the amount ratepayers' funding needed for the program.

SCG did not exceed its authorized budgets when it implemented ESAP in 2009 and 2010, and instead, it actually carried forward a substantial amount of unspent funds to program year 2011. However, even with this substantial carry forward, it exceeded its 2009-2011 total

program cycle authorization by almost \$6.8 million because it substantially overspent its authorized budget in 2011.<sup>4</sup> While 2011 was not part of the scope of this examination, it is clear from the amounts overspent in 2011 that SCG did not have adequate controls in place to prevent overspending.

**Cause:** According to SCG, the basis for approving contracts in excess of its authorized budgets was to provide SCG ESAP management operational and contractual flexibility in working with its contractors.

**Effect:** SCG's contracting process of entering into contracts that exceed its authorized budget can put SCG at risk for overspending its authorized budget for the program cycle.

**SCG Comments:** SCG agrees with UAFCB's recommendation. SCG aligned the total value of its contractors to equal the authorized budget beginning with the contracts effective January 1, 2012.

**Rebuttal:** This alignment is a good first step as long as SCG still has flexibility to meet the measure needs of the ESAP homes. SCG needs to continuously monitor implementation to ensure it meets its goals yet not exceed its program budgets.

**Recommendation:** SCG should strengthen its procurement practices and procedures to ensure that it operates its ESAP within the authorized budget for the program cycle. UAFCB should review this area in a future audit or examination.

**Observation 4: SCG 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, SCG 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 SCG 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, SCG did employ carry over funds to address the amounts over budget.

**Criteria:** Section 451 requires just and reasonable rates. In D.08-11-031, Attachment D, the Commission authorized SCG weatherization budgets of \$19.2 million for 2009 and \$24.9 million for 2010.

**Condition:** In program years 2009 and 2010, SCG management approved contracts for the implementation and installation of ESAP weatherization measures that exceeded its authorized budget amounts.

In 2009, according to its annual report, SCG incurred weatherization charges totaling \$25.4 million for the weatherization measures, exceeding its authorized weatherization budget of \$19.2 million by \$6.2 million, or by 32%. In 2010, SCG incurred weatherization charges totaling \$38.3 million for the weatherization measures, exceeding its authorized

---

<sup>4</sup>UAFCB did not examine whether the reported amount of overspending was accurate. However, based on information in its annual reports, SCG over spent its 2011 authorized budget and carry forwards by \$3,140,126. In addition, UAFCB found that SCG overstated its carry forward from 2010 by \$3,616,532 and UAFCB thereby derived a total overspent amount for the program cycle of \$6,756,658 (\$3,140,126+\$3,616,532).

weatherization budget of \$24.9 million by \$13.4 million, or by 54%. SCG shifted funds in 2009 and 2010 to address the deficiencies.

A detailed summary reflecting SCG's weatherization expenditures and authorized budgets are summarized in the following table.

**Table A-2**  
**Comparison of Authorized Budgets to Expenditures –Weatherization<sup>5</sup>**  
**Not Including Funds Shifted From Other Categories**  
**Examination Period: January 1, 2009 through December 31, 2010**

Description	2009	2010	Total
Authorized Weatherization Budget	\$19,242,434	\$24,913,886	\$44,156,320
Weatherization Expenditures	<u>25,444,329</u>	<u>38,355,629</u>	<u>63,799,868</u>
<b>Over/(Under) Budget</b>	<b><u>\$ 6,201,895</u></b>	<b><u>\$13,441,743</u></b>	<b><u>\$19,643,548</u></b>

Similar to the discussion in the previous observation section about the total contract amounts when compared to the authorized budgets, UAFCB appreciates SCG's need to address the weatherization needs it finds with respect to the customers' homes that it enrolls into the program. However, SCG needs appropriate controls in place that are strictly enforced to ensure that SCG doesn't exceed its total authorized budget and potentially increase the amount ratepayers' funding needed for the program.

**Effect:** Incurring weatherization expenditures in excess of authorized budgets for years 2009 and 2010 put SCG at risk for overspending its total authorized budget for the 2009-2011 program cycle.

**SCG Comments:** SCG disagrees that it failed to demonstrate compliance with the budget authorized in D.08-11-031. SCG contends that UAFCB did not take into account the authorized fund shifting of \$6,201,805 in 2009 and \$13,441,743 that occurred in 2010.

**Rebuttal:** UAFCB understands the measure mix needed to address what installers find in the field can vary tremendously from year to year and SCG will most likely need to conduct some fund shifting to address the particular customers it services with ESAP each year. While SCG shifted funds within the parameters established by the Commission for such purposes, UAFCB wants to emphasize SCG's need to constantly monitor program implementation so that it doesn't exceed its overall budget. SCG needs appropriate controls and monitoring to ensure it doesn't exceed its authorized budget.

**Recommendation:** No later than 90 days from the issuance of this report to SCG, SCG should provide the UAFCB with a copy of its established controls for monitoring program expenditures. UAFCB should review this area in a future audit or examination.

**Observation 5: SCG failed to demonstrate compliance with the USOA, GO 28, §451 and its Procurement Policy.** SCG approved weatherization contracts containing numerous errors in the terms and conditions.

**Criteria:** The USOA and GO 28 mandate that utilities maintain adequate documentation. Section 451 requires just and reasonable rates. According to SCG's procurement policy, all

<sup>5</sup>According to SCG's annual reports on LIEE.

contracts must be processed through an approved Supply Management program or authorized by Supply Management and/or Legal.

**Condition:** UAFCB found numerous errors contained in the terms and conditions of the signed weatherization contacts it reviewed. The errors, among other things, included the following:

- Incorrect contract dates;
- Incorrect installation contract periods;
- Incorrect contract amounts;
- Typographical errors in Schedule C- Compensation Schedule;
- Exclusion of Schedule C-Compensation Schedule; and
- Missing information in the contract terms and conditions.

**Effect:** Signing and approving contracts containing erroneous terms and conditions and missing supporting schedules may have adverse impacts on ESAP and SCG. In addition, maintaining contracts with errors could lead to litigation with the contractors. With missing documentation, UAFCB was unable to fully assess compliance.

**SCG Comments:** SCG agrees with UAFCB's recommendation. Beginning July 2012, SCG implemented a more rigorous review process by adding an additional reviewer to ensure that agreements and work order authorizations related to the agreements were correct.

**Rebuttal:** Adding an additional reviewer is a good first step. However, SCG needs to ensure that all contracts are thoroughly reviewed and corrected before they are signed.

**Recommendation:** SCG 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 the necessary schedules are included. UAFCB should review this area in a future audit or examination.

**Observation 6: SCG 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, SCG allowed substantial delays in performing initial and final post inspections on weatherization measures installed during program years 2009 and 2010.

**Criteria:** The USOA and GO 28 require that the utilities maintain adequate documentation. The P&P Manual, Section 8 mandates ESAP inspection policies to ensure safety and quality control with respect to the installation of measures and minor home repairs. Section 8.4.8 requires mandatory inspections be initiated within 30 calendar days from the notification of a job completion, such as the completion of attic insulation. Non-mandatory inspections are to be completed on a sample basis per Table 8-1 in Section 8.4.3 of the P&P Manual.

**Condition:** SCG experienced substantial delays in performing the initial inspections and the final post-inspections on weatherization measures installed during years 2009 and 2010. According to SCG, the post inspection can only begin after the installation contractors process the workflow in the SCG's HEAT database system. However, in some cases, the installation contractors did not begin the workflow process until more than six months to a year after the work was completed.<sup>6</sup> In addition, SCG did not maintain documentation to

---

<sup>6</sup> Per SCG's response to Data Request No. 12, Q&A 1, 2<sup>nd</sup> bullet.

distinguish which post inspections were mandatory and which were non-mandatory. A summary of average delays of inspections by SCG is provided in the table below.

**Table A-3**  
**Post Inspections Average Number of Days**  
**Examination Period: January 1, 2009 through December 31, 2010**

<b>Year</b>	<b>No. of Post-Inspections</b>	<b>Total No. of Days - Initial Post Inspection</b>	<b>Total No. of Days - Final Post Inspection</b>	<b>Avg. No. of Days - Initial Post Inspection</b>	<b>Avg. No. of Days - Final Post Inspection</b>
2009	1,841	147,097	184,467	80	100
2010	2,347	294,700	343,041	126	146
<b>Combined</b>	<b><u>4,188</u></b>	<b><u>441,797</u></b>	<b><u>527,508</u></b>	<b><u>106</u></b>	<b><u>198</u></b>

**Effect:** The lack of supporting documentation to enable UAFCB to distinguish between mandatory and non-mandatory inspections did not permit UAFCB to determine how many of the 4,188 post-inspections were mandatory. Where mandatory post inspections are required, delays in conducting initial and final post-inspections may put the health and well-being of the customers at risk. Moreover, whether the inspections were mandatory or not, the delay of the installation contractors entering their complete work information into the HEAT database system could cause SCG to inaccurately report weatherization costs and energy savings to different periods. Allowing contractors to delay inspections by substantially delaying the workflow process until six to twelve months after the work was completed does not provide timely feedback to contractors on the quality of their work and could jeopardize work being performed correctly for many other customers while the inspections are outstanding.

**SCG Comments:** In general, SCG agrees with UAFCB's recommendation. However, rather than imposing penalties, SCG provides incentives to contractors that meet key performance indicators (KPI). SCG provides incentives by allocating units and ESAP dollars to those contractors who meet and KPI and may cut units and dollars from those that don't. To further improve the operation of its existing system, SCG asserts that it is implementing a new reporting tool and dashboard which will allow it to monitor KPI on a more frequent basis to provide feedback to contractors, as well as apply consequences.

SCG indicates that it documents inspections in its HEAT system which assigns mandatory inspections automatically and picks random non-mandatory inspections.

**Rebuttal:** In some cases, when incentives don't work or aren't appropriate, penalties are needed. In the present case, because of the ramifications of not providing timely feedback to its contractors, SCG should include consequences that are more severe than the possibility that work may be curtailed. SCG didn't provide enough information in its comments on its new reporting system to determine if it is meeting UAFCB's recommendations.

**Recommendation:** SCG should improve its contracting processes and include penalties in its contracts for contractors not completing the workflow process on a timely basis. SCG should 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. In addition, SCG should maintain

the appropriate documentation demonstrating whether each post inspection is mandatory or non-mandatory. UAFCB should include this area in a future audit or examination.

### A.3 General Administration Costs

**Observation 7: SCG failed to demonstrate compliance with the USOA and §§ 451, 581 and 584.** SCG recorded a 2008 expense of \$ [REDACTED] in 2009 and 2009 expenditures of \$ [REDACTED] in 2010.

**Criteria:** As a general accrual accounting rule, expenses are recognized in the period in which they are incurred irrespective of when a payment is made. According to the Federal Energy Regulatory Commission's Natural Gas USOA,<sup>7</sup> "The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its account of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the amounts shall be estimated and appropriate adjustments made when the bills are received." Section 451 requires just and reasonable rates. Section 584 requires utilities to provide reports to the Commission as specified by the Commission and § 581 requires "... Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly ..."

**Condition:** SCG improperly recorded a 2008 invoice as part of program year 2009 and two 2009 invoices as part of program year 2010. SCG approved Invoice No. [REDACTED] dated [REDACTED] [REDACTED] for payment on [REDACTED] [REDACTED] or about 5 months after the date of the invoice. The transaction was related to [REDACTED] (an [REDACTED] contractor) with a total value of \$ [REDACTED]. SCG failed to accrue the \$ [REDACTED] as part of program year 2008's expenditures. Likewise, SCG approved Invoice No. [REDACTED] dated [REDACTED] [REDACTED] for payment on [REDACTED] [REDACTED] or about 6 months after the invoice date and Invoice No. [REDACTED] dated [REDACTED] [REDACTED] for payment on [REDACTED] [REDACTED] or more than 19 months after the date of the invoice. The latter transactions were related to the same [REDACTED] contractor with a total combined value of \$ [REDACTED] and SCG failed to accrue these transactions as part of the 2009 program year's expenditures.

**Cause:** SCG acknowledged its failure to accrue invoice No. [REDACTED] in the amount of \$ [REDACTED] in 2008 was an oversight. However, SCG failed to provide satisfactory explanations regarding the other invoices.

**Effect:** Improper cost accounting for the 2008 expenditures resulted in an understatement in 2008 costs and an overstatement for same amount in 2009. Likewise, the improper accrual of the 2009 expenses resulted in an understatement of 2009 costs and an overstatement for the same amount in 2010. If program costs are not recorded and reported in the appropriate program years, the annual reports may not be reliable. If these errors are widespread, the annual report data for 2009 and 2010 cannot be relied on and the value of the reports would be lost.

**SCG Comments:** SCG agrees with UAFCB's recommendation. SCG asserts that beginning 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

---

<sup>7</sup> Code of Federal Regulations, Title 18, Part 201-Uniform System of Accounts Prescribed for Natural Gas Companies, General Instructions, No. 11.

appliance installation and inspection services. SCG indicated that it will continue to include these contractors in its quarterly accrual process.

**Rebuttal:** Strengthening its accrual processes may prevent costing and reporting these services in the wrong year if it strictly enforces and monitors the implementation of its new processes for accuracy.

**Recommendation:** SCG should strengthen its accounting controls to ensure the accuracy of its accounting information and the data it reports to the Commission. UAFCB should include this area in a future audit or examination.

**Observation 8: SCG failed to demonstrate compliance with § 451 and its procurement policies when it paid \$ [REDACTED] in invoices that were not governed by an executed contract.** SCG incurred two expense transactions in the amounts of \$ [REDACTED] and \$ [REDACTED] in [REDACTED] and [REDACTED] of [REDACTED], respectively, before the effective date of the contract on [REDACTED]

**Criteria:** Section 451 requires just and reasonable rates. SCG's Approval and Commitment Policy requires that purchases over \$10,000 must be supported by an approved purchase order and follow SCG's procurement policy. SCG's procurement policy requires that established processes and procedures be followed in reviewing, approving, and executing terms of ESAP contracts. In addition, it requires that contractors not be allowed to commence work until a valid contract is in place and indicates that a letter of intent is insufficient.

**Condition:** SCG approved [REDACTED], SCG's [REDACTED] contractor, Invoice Nos. [REDACTED] and [REDACTED], dated [REDACTED] and [REDACTED] respectively, for payment on [REDACTED]. However, Agreement No. [REDACTED] to which SCG charged the invoices did not take effect until [REDACTED]. SCG initially billed the invoices to contract No. [REDACTED] with an effective period from [REDACTED] through [REDACTED]. However, SCG crossed out No. [REDACTED] and charged the invoices to contract No. [REDACTED].

**Cause:** SCG's procurement practices and procedures are not stringent enough.

**Effect:** Weaknesses in SCG's procurement practices and procedures allowed SCG to incur expenses before the effective date of the relevant contract, No. [REDACTED]. This undermined its contract oversight and vigilance. Because SCG paid these invoices without following its procurement policy and without a contract in place, the rates paid to the contractors may not have been appropriate.

**SCG Comments:** SCG agrees with UAFCB's recommendation. SCG plans to immediately change its approval process to ensure that a valid contract exists before the approval of invoices takes place.

**Rebuttal:** If SCG makes this change, it may prevent future occurrences of this type of error.

**Recommendation:** SCG should strengthen its procurement policies, management oversight over its procurement processes and strictly enforce its procurement policy. UAFCB should include this area in a future audit or examination.

**Observation 9: SCG 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.** SCG overpaid its employee's mileage reimbursement claim for travel between Downey and Ontario, California by 291 miles or \$145.50.

**Criteria:** Section 451 requires just and reasonable rates. Section 584 requires utilities to provide reports to the Commission as specified by the Commission and § 581 requires "... Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly ..."

**Condition:** On one of the nine expense claims that UAFCB reviewed, or 11%, SCG's employee entered 323 miles instead of the usual 32 miles for the distance between Downey and Ontario, California in the mileage Expense Summary form. This resulted in an excess claim of 291 miles at a reimbursement rate of \$0.50 per mile.

**Cause:** SCG failed to detect the erroneous claim during its review process.

**Effect:** SCG overstated the total amount reported to the Commission as a result of the over reimbursement to the employee mileage expense.<sup>8</sup> While the amount is insignificant, this error demonstrates a lack of adequate controls. If such errors are widespread, SCG's controls could be weak or unenforced and amounts reported to the Commission may be overstated.

**SCG Comment:** SCG agreed with UAFCB's recommendation. SCG indicated that plans to immediately reinforce proper review of reimbursable expense forms with periodic training for approvers.

**Rebuttal:** Proper training is only a first step.

**Recommendation:** SCG should improve its internal controls with respect to the approval of travel expense claims and should ensure the accuracy of expense claim data reported to the Commission. UAFCB should include this area in a future audit or examination.

**Observation 10: SCG 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.** SCG credited an SCE payment of \$39,244 to general administration costs instead of to joint marketing.

**Criteria:** Section 451 requires just and reasonable rates. Section 584 requires utilities to provide reports to the Commission as specified by the Commission and §581 requires "... Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly ..." The USOA prescribes the accounts certain expenditures should be recorded in.

---

<sup>8</sup>During UAFCB's follow-up inquiry, SCG indicated that it notified its subject employee about the error and the employee refunded SCG's program with a personal check of \$145.50. SCG posted the refunds in its SAP system on December 6, 2012. SCG provided a copy of the check and a SAP display printout as evidence of the recorded refund.

**Condition:** SCG has agreements with other utilities for certain projects whereby SCG initially underwrites certain joint costs and is later reimbursed by the other utilities for their share of the joint costs. Initially, SCG paid for invoice Nos. 63258 and 102759 and charged the associated costs to Marketing and also paid for invoice No. 103151 and charged its cost to General Administration. These invoices were for the cost of energy education materials shared by SCG and SCE. However, when SCE paid SCG \$41,461 for its share of the costs, SCG incorrectly credited the entire amount to General Administration. The correct entries should have been a credit of \$2,217 to General Administration and a credit to Marketing for the remaining balance of \$39,244.

**Cause:** The incorrect credit accounting entries were due to apparent weaknesses in SCG's accounting controls. Rigorous accounting oversight in the reviewing and posting of entries could have prevented such errors.

**Effect:** SCG overstated its 2010 General Administration expense by \$39,244 and understated its marketing expense by the same amount. If these types of errors were widespread, SCG's annual reports may not be reliable.

**SCG Comments:** In general, SCG agrees with this finding and will take additional steps effective immediately to ensure that charges and credits are applied to the appropriate internal order. However, SCG notes that the correct amount of the credit that should have been applied to the General Administration category is \$ [REDACTED] per [REDACTED] Invoice Number [REDACTED]

**Rebuttal:** SCG did not indicate the steps it plans to take in its comments so that the UAFCB can comment on them.

**Recommendation:** SCG should ensure the accuracy of data reported to the Commission by strengthening its accounting controls. SCG should ensure an appropriate management oversight over the accounting review, approval, and recording of its expenses.

#### A.4 Modified Three Measure Minimum Rule

**Observation 11: SCG failed to demonstrate compliance with §§ 451, 581 and 584 and the Commission's established Three Measure Minimum Rule.** SCG 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.

**Criteria:** Section 451 requires just and reasonable rates. Section 584 requires utilities to provide reports to the Commission as specified by the Commission and § 581 requires "... Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly ..." Section 2.9 of the P&P Manual reiterates the Three Measure Minimum Rule provision as set forth in D.08-11-031, as revised in D-09-06-026. This allows the utilities to install only one or two measures in a home as long as the measures achieve energy savings of at least either 125 kWh annually or 25 therms annually.

**Condition:** In response to UAFCB's inquiries, SCG disclosed that it enrolled a total of 2,257 customers in 2009 and 2010 who were disqualified from the program for not meeting the Three Measure Minimum Rule. The total cost to the program for these disqualified customers was \$613,522, as shown in the following table.

**Table A-4**  
**Disqualified Rendered Services**  
**Examination Period: January 1, 2009 through December 31, 2010**

<b>Program Year</b>	<b>Amount</b>	<b>No. of Customers Disqualified</b>
2009	\$199,735	637
2010	<u>413,787</u>	<u>1,620</u>
<b>Total</b>	<b><u>\$613,522</u></b>	<b><u>2,257</u></b>

SCG indicated that it plans to address and recover these costs in the following manner:

- a. Will charge back to contractors customer enrollments that failed to meet the three measure minimum requirement.
- b. May not be able to charge back fees to contractors who are no longer in the program.
- c. No charge back if a customer has moved.
- d. No charge back if a customer refused a measure from being installed after work had been started on the home.

**Cause:** SCG provided the following reasons for failing to meet the Three Measure Minimum requirement.

- a. A measure failed inspection due to improper installation practices and therefore was not paid; in some instances the contractor corrected the error but never re-billed for the measure thereby resulting in less than three measures.
- b. A measure was billed but not installed in the home and, therefore, charged back to the contractor resulting in less than three measures being installed.
- c. A customer refused a measure after the work had been started at the home.

**Effect:** SCG overcharged ESAP and overstated total program costs as reported in budget years 2009 and 2010 by \$613,522.

**SCG Comments:** SCG agrees with the UAFCB recommendation and will assess each enrollment representing the \$613,522 potential overcharge to ascertain the correct amount of total overcharge. SCG asserts that it will recover as much of the overcharge once it is determined from its contractors and that shareholders should refund ESAP for the amount SCG is unable to recover from contractors.

**Rebuttal:** UAFCB is not sure what SCG means when it says the \$613,522 is only a potential overcharge. SCG previously told UAFCB that the \$613,522 was incurred for providing 2,257 customers in 2009 and 2010 who were disqualified from the program for not meeting the Three Measure Minimum Rule. SCG should provide proof of the ESAP funds recovered and the subsequent refunds to ratepayers.

**Recommendation:** SCG should recover as much of the \$613,522 overcharge as possible from its contractors. SCG's shareholders should refund ESAP for any of the \$613,522 that SCG is unable to recover from its contractors. Thirty (30) days after the end of each quarter, starting from October 1, 2013 for the end of third quarter, SCG should provide the Energy Division and UAFCB progressive updates with appropriate accounting documents to substantiate completion of the cost reimbursement to ESAP. In addition, SCG should strengthen its internal controls to prevent charging ESAP for homes that are disqualified. UAFCB should include this area in a future audit or examination.

## A.5 Fund Shifting

**Observation 12: SCG 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, SCG overstated the amount shifted/carried forward from 2009 to 2010 by \$406,092 and from 2010 to 2011 by \$3,616,532. In addition, SCG 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, SCG reported amounts carried forward from 2009 as subtractions from its 2010 budget instead of additions to.

**Criteria:** Section 584 requires utilities to provide reports to the Commission as specified by the Commission. Section 581 requires that "... Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly ..." The Commission requires the utilities to report all carry back and carry forward funds on Table 19 of the utilities' annual ESAP reports.

**Condition:** In its 2010 report, SCG reports that it carried forward \$13,876,121 from 2009 to 2010, but incorrectly showed it as a subtraction from 2010 instead of an addition. In its 2011 report, SCG reports that it carried forward \$20,833,453 from 2010 to 2011. As shown in the following table, when comparing its authorized budgets to its reported spending, SCG overstated its carry forward in each of the 2009 and 2010 program years by a significant amount.

**Table A-5**  
**Fund Shifting as Reported**  
**Examination Period: January 1, 2009 through December 31, 2010**

Description	2009	2010	2011
Reported Carry Forward		\$13,876,121	\$20,833,453
Authorized Budget <sup>9</sup>	<u>\$62,571,908</u>	<u>76,872,816</u>	<u>78,256,269</u>
Available for Spending	62,571,908	90,748,937	99,089,722
Reported Spent	<u>49,101,879</u>	<u>73,532,016</u>	<u>102,229,848</u>
Reported Under (Over) Spent	13,470,029	17,216,921	( <u>\$ 3,140,126</u> )
Reported Carry Forward <sup>10</sup>	<u>13,876,121</u>	<u>20,833,453</u>	
<b>Under(Over) Reported Carry-forward</b>	<b>(<u>\$ 406,092</u>)</b>	<b>(<u>\$3,616,532</u>)</b>	

SCG did not report the remaining funds in each of the program years that it was carrying forward to the next program year. When reporting on 2011, SCG did not report how much of the next program cycle funds it carried back to 2011.

**Cause:** SCG lacks proper accounting controls and oversight for ensuring the accuracy of data reported to the Commission.

**Effect:** SCG's annual reports for its 2009 and 2010 LIEE are inaccurate and incomplete. Inaccurate and incomplete reporting lessens the usefulness of the information reported in the annual reports. Overstating the amount carried forward to 2011 and not reporting the carry forward to or carry back from 2012 means that SCG's report on program year 2011 is also inaccurate and incomplete.

<sup>9</sup> Authorized budget includes amounts carried forward from 2008.

<sup>10</sup> SCG only reported its 2009 carry forward in its 2010 report and its 2010 carry forward in its 2011 report.

**SCG Comments:** In general, SCG believes that dollar amounts discussed in Observation 12 are not necessarily being interpreted correctly. SCG asserts that the dollars discussed in this Observation did not accurately represent the fund shifting authorized by the Commission. SCG provided its version of Table A-5 which includes \$17.5 million carried over from 2008 to the 2009-2011 program cycle.

SCG acknowledges that the Annual Reports for 2009, 2010 and 2011 should have included the actual dollars that were carried-forward or carried-back. SCG noted that it will ensure that in the 2012 Annual ESAP Report, any carried-forward or carried-back funds will be properly documented in the report beginning in 2013.

**Rebuttal:** UAFCB is addressing the reporting of the fund shifting only and not the propriety of the fund shifting that occurred.

**Recommendation:** SCG needs to increase its accounting and reporting oversight and ensure the accuracy of data it reports to the Commission. On Table 19 of its annual reports, SCG needs to report the funds it is carrying forward to or back from the next program year. No later than 90 days after SCG receives the memo report, SCG should provide the UAFCB its reconciliation, with supporting documentation, of the funds it spent and carried forward/backward for 2009, 2010 and 2011. The reconciliation should be between the amounts recorded in SCG's SAP for ESAP for 2009 and 2010 and the amounts reported spent and funds shifted in its annual reports in 2009, 2010 and 2011.

## A.6 Other Observations:

**Observation 13: In its Internal Audit report, dated February 22, 2012, SCG noted 12 concerns related to ESAP implementation.** These 12 concerns involved internal control weaknesses, or a combination of control weaknesses and regulatory noncompliance, within SCG's ESAP program:

1. Audit Services noted that a comprehensive accrual for estimated contractor work is only processed at year end. Interim quarterly accruals include invoices received but not paid, but exclude contractor work completed but not invoiced.
2. Roles and responsibility have not been defined for critical security processes required to ensure the protection of customer data. Audit Services noted security testing had not been performed on the HEAT application.<sup>[11]</sup>
3. Until Q4 2011, management has not effectively performed cost projections to ensure annual expenditures will be consistent with expected targets for the program year.
4. Certain post-installation inspection procedures were not consistently followed. Exceptions noted include untimely data entry, untimely completion of post-inspections, incomplete forms and inadequate inspection sample sizes.
5. A potential conflict of interest exists with regard to the performance of Natural Gas Appliance Testing. Currently procedures allow testing of the appliance to be completed by the same contractor who performs the repair and replacement work.

---

<sup>[11]</sup> HEAT System is a comprehensive web-based application utilizing workflow to automate the tracking, authorization, and documentation of the program components including outreach, enrollment, assessment, installation, inspection, and contractor payments. It is used by all ESAP contractors as well as all the utilities that provide ESAP.

6. Current ESAP service contracts include a fixed price for furnace replacements that is greater than the limit specified in the P&P.
7. Table included in the Annual and Monthly Reports submitted to the CPUC have overstated totals for certain measures installed as a result of erroneous source data which contained duplicate enrollment numbers.
8. Post-installation inspection service contracts do not contain a clause requiring employee background checks and drug screenings.
9. Controls are not in place to ensure that all identification badges are collected from terminated ESAP contract employees.
10. No tracking mechanism exists to ensure that Energy Education provided to customers by SCG is not a duplicate effort of that provided by Southern California Edison. This can occur when the utilities have different enrollment contractors. As such, there is a potential that a customer may receive Energy Education twice.
11. Evidence of the review and approval by the Director of SCG Customer Programs and Assistance of the Monthly and Annual Reports submitted to the CPUC is not maintained.
12. SCG Customer Programs and Assistance management implemented a method to facilitate Program enrollment by qualifying all units within a multi-unit building for Self Certification enrollment as long as one unit meets the criteria. This is not documented in the P&P.

**SCG Comments:** SCG recommends that UAFCB's report be updated to acknowledge that SCG had already provided some of the information to UAFCB. SCG points out that it has taken corrective actions to address the internal control weaknesses issues mentioned in the SCG' Internal Audit Report, dated February 22, 2012.

**Rebuttal:** Conducting an internal audit and implementing new procedures to address the above issues demonstrates SCG's commitment to improving its processes and oversight over ESAP.

**Recommendation:** UAFCB should review the implementation of these new procedures in its next audit or examination to determine if SCG's processes and procedures implemented to address these concerns are adequate and working.

## Appendix C Program Compendium

### C.1 Introduction

On November 6, 2008, the California Public Utilities Commission (Commission) issued Decision (D.) 08-11-031, which, among other things, authorized Southern California Gas Company (SCG) a total budget of approximately \$217.7 million in ratepayer funds to administer and implement its Energy Savings Assistance Program (ESAP) for the 2009-2011 program budget-cycle. Subsequently, the Commission modified D.08-11-031 by D.09-06-026 and D.09-10-029 and also issued D.09-10-012 which additionally provided guidance on the 2009-2011 program cycle.

### C.2 ESAP Funding Components

Based on Attachments A and D to D.08-11-031, as modified, of the authorized \$217.7 million budget for the 2009-2011 program cycle, the Commission earmarked \$191.3 million, or 87.9%, for energy efficiency measures and \$16.3 million, or 7.5%, for General Administration. The Commission allocated the remaining \$10.1 million, or 4.6%, among the following six cost categories: (1) Training Center; (2) Inspections; (3) Marketing; (4) Measurement and Evaluation; (5) Regulatory Compliance; and (6) CPUC Energy Division. In the following table, UAFCB shows the amounts carried forward, authorized budgets, funds available for spending and expenditures for SCG during budget years 2009 and 2010, as reported in SCG's ESAP annual reports.

**Table C-1  
 Summary of Ratepayer-Funded ESAP Program, As Reported  
 Examination Period: January 1, 2009 through December 31, 2010**

Description	2009	2010	Total
Carryover from Prior years <sup>1</sup>	\$13,000,000	\$13,470,029	\$26,470,029
Authorized Budget per D.08-11-031	<u>49,571,908</u>	<u>76,872,816</u>	<u>126,444,724</u>
Funds Available for Spending	62,571,908	90,342,845	152,914,753
Actual ESAP Expenditures	<u>49,101,879</u>	<u>73,532,016</u>	<u>122,633,895</u>
<b>Amounts Carried Forward</b>	<b><u>\$13,470,029</u></b>	<b><u>\$16,810,829</u></b>	<b><u>\$16,810,829</u></b>

### C.3 Weatherization Cost Category

In D.08-11-031, the Commission authorized a cumulative budget of \$44.2 million for weatherization measures for program years 2009 and 2010. For the same years, SCG reported expenditures of \$63.8 million in the weatherization subcategory for the installation and/or replacement of weatherization measures provided by ESAP contractors. SCG overspent its authorized weatherization budget by a combined total of \$19.6 million, or 44%, for program years 2009 and 2010. In the following table, UAFCB provides a summary of the budgets and reported expenditures for the period under examination.

<sup>1</sup> Per D.08-11-031, Ordering Paragraph (OP) 86, the Commission authorized SCG to carry forward the balance of \$13.0 million in unspent funds from prior years.

**Table C-2**

**Budget and Expense Summary—Weatherization, As Reported**  
**Examination Period: January 1, 2009 through December 31, 2010**

<b>Weatherization Measures</b>	<b>2009</b>	<b>2010</b>	<b>Total</b>
Authorized Amount	\$19,242,434	\$24,913,886	\$44,156,320
Expenditures	<u>25,444,239</u>	<u>38,355,629</u>	<u>63,799,868</u>
<b>Amount Spent Over Budget</b>	<b><u>\$6,201,805</u></b>	<b><u>\$13,441,743</u></b>	<b><u>\$19,643,548</u></b>
<b>Overspending in %</b>	<b><u>32%</u></b>	<b><u>54%</u></b>	<b><u>44%</u></b>

In the following table, UAFCB provides itemized expenses and percentage by types of measures for the Weatherization subcategory that SCG reported for program years 2009 and 2010.

**Table C-3**

**Weatherization Expenditures by Measure, As Reported**  
**Examination Period: January 1, 2009 through December 31, 2010**

<b>Description</b>	<b>2009</b>		<b>2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Envelope and Air Sealing	\$15,308,806	60	\$24,474,470	64
Duct Sealing & Testing	1,701,808	7	2,302,566	6
Attic Insulation	3,684,324	15	5,961,893	16
Furnace Clean & Tune	139,778	1	724,545	2
Fuel Surcharge & Trip Charge	1,425,878	6	0	0
Water Heating Conservation	<u>3,183,644</u>	<u>11</u>	<u>4,851,776</u>	<u>12</u>
<b>Total</b>	<b><u>\$25,444,239</u></b>	<b><u>100</u></b>	<b><u>\$38,355,629</u></b>	<b><u>100</u></b>

**C.4 General Administration Cost Category**

SCG's Direct Assistance Program (DAP) section directly administers the ESAP. DAP is comprised of three major groups dedicated to ESAP: (1) DAP Office, (2) Program Management and (3) Field Operations. The DAP Office runs the program's toll-free hotline and reviews and processes contractor invoices. The Program Management group oversees program implementation, planning, budgets, contract management, database management, contractor invoice approval, regulatory compliance, program goals and production. The Field Operations group is responsible for outreach and assessment training, contractor paperwork auditing, and quality assurance on weatherization installation.

SCG recorded all costs associated with the ESAP program administration to the General Administration cost category. The recorded expenses represent 62% and 98% of the respective 2009 and 2010 budget years. In the following table, UAFCB summarizes SCG's General Administration budgets and expenditures.

**Table C-4**

**Budget and Expense Summary-General Administration Costs**  
**Examination Period: January 1, 2009 through December 31, 2010**

<b>Description</b>	<b>2009</b>	<b>2010</b>
Authorized Budget	\$5,645,874	\$5,430,964
Less: Expense	<u>3,515,772</u>	<u>5,298,646</u>
<b>Underspent Amount</b>	<b><u>\$2,130,102</u></b>	<b><u>\$ 132,318</u></b>
<b>Expense to Budget</b>	<b><u>62.3%</u></b>	<b><u>97.6%</u></b>

SCG utilizes over 75 cost elements in its General Administration cost category. UAFCB presents the general administration cost groupings based on all associated cost elements, both for labor and non-labor, in the following table.

**Table C-5  
 General Administration Cost Summary  
 Examination Period: January 1, 2009 through December 31, 2010**

General Administration Costs	2009		2010	
	Expenditure	% of Total	Expenditure	% of Total
<u>Labor</u>				
Salaries-Management	\$1,289,196	36.7%	\$1,598,036	30.2%
Salaries-Clerical	52,177	1.5%	45,082	0.9%
Salaries-Union	628,521	17.9%	960,388	18.1%
Salaries-Temp	29,021	0.8%	73,402	1.4%
Other Salaries & Admin Costs	15,350	0.4%	0	0.0%
Taxes, Pensions & Benefits	594,845	16.9%	737,151	13.9%
Shared Svcs/Affiliated Billings	<u>16,453</u>	<u>0.5%</u>	<u>4,107</u>	<u>0.1%</u>
Subtotal Labor	2,625,563	74.7%	3,418,166	64.5%
<u>Non-Labor</u>				
Employee Travel	40,507	1.2%	36,519	0.7%
Materials	71,467	2.0%	26,480	0.5%
Services-Temp Agency Labor	106,219	3.0%	331,282	6.3%
Services-Consulting	544,716	15.5%	1,129,916	21.3%
Services-Other	174,937	5.0%	417,401	7.9%
Market Research	24,232	0.7%	54,359	1.0%
Telecommunications	13,657	0.4%	34,394	0.6%
Miscellaneous	1,169	0.0%	2,476	0.0%
Miscellaneous Reimbursements <sup>2</sup>	(86,695)	-2.5%	0	0.0%
Credit for Cash Collection <sup>3</sup>	<u>0</u>	<u>0.0%</u>	<u>(152,347)</u>	<u>-2.9%</u>
Subtotal Non-Labor	<u>890,209</u>	<u>25.3%</u>	<u>1,880,480</u>	<u>35.5%</u>
<b>Total Gen Admin Costs</b>	<b><u>\$3,515,772</u></b>	<b><u>100.0%</u></b>	<b><u>\$5,298,646</u></b>	<b><u>100.0%</u></b>

SCG spent about 74% and 65% of its General Administration expenses in 2009 and 2010, respectively, on management and staff salaries, taxes, pensions, and benefits. Also, SCG utilized agency labor (outside hired labor) which accounts for three and six percent of the total General Administration costs for the respective budget years. UAFCB did not examine any utility or agency labor costs because previous UAFCB audits did not yield any material exceptions.

### C.5 Three-Measure Minimum Rule

In D.08-11-031, Ordering Paragraph No. 47, the Commission indicates:

We eliminate the 3 Measure Minimum rule (which prohibits IOUs from installing measures in a home that does not require at least three measures) in favor of a rule that allows IOUs to install one or two measures in a home, as long as the

<sup>2</sup>Miscellaneous Reimbursements and Credit for Cash Collections are reimbursements by other utilities to SCG for their respective share of the cost of research projects that were originally recorded and paid under the General Administration Cost category.

<sup>3</sup>Ibid.

measures achieve energy savings of at least either 125 kWh/annually or 25 therms/annually.

The Commission provided further clarification in D.09-06-026 and the revised Attachment G to reflect the adopted modifications to the modified Three Measure Minimum Rule. For SCG, specific measures included, but were not limited to: furnaces, duct sealing, attic insulation, gas water heaters, high efficiency washers, air-sealing envelope repair, and water heating conservation. UAFCB included this rule as one of its criterion in its examination of SCG's ESAP compliance.

## **C.6 Fund Shifting**

In D.08-11-031, as modified in D.10-10-008, the Commission established fund shifting/fund carry-forward guidelines for the 2009-2011 program cycle. UAFCB summarizes the guidelines below:

1. The utilities were permitted to shift funds from one year to another within the 2009-11 cycle without prior approval.
2. Except for carry-forward shifting, an Administrative Law Judge's prior approval was required for the shifting of funds within or out of cycle under the following conditions:
  - a. Shifting of funds into or out of different program categories, including but not limited to administrative overhead costs, regulatory compliance costs, measurement and evaluation, and the cost of pilots and studies;
  - b. Shifting of funds into or out of the education subcategory;
  - c. Shifting of funds between gas and electric programs; and
  - d. Shifting of funds totaling 15% or more of the then total current program budget.
3. Carry-back fund shifting – the utilities were permitted to shift and borrow from the next budget cycle without prior approval when the next budget cycle was approved by the Commission; and such shifting was necessary to avoid an interruption of those programs continuing into the next cycle and for start-up costs of new programs.
4. Carry-forward fund shifting – the utilities were permitted to carry-over all remaining, unspent funds from program year to program year or budget cycle to budget cycle and were to include all anticipated carry-over funds in their upcoming budget applications.

The utilities report their fund shifting in Table 19 of the Annual Report.

# ATTACHMENT A



Joy C. Yamagata  
Regulatory Manager  
Southern California Gas Company  
jyamagata@semprautilities.com  
(858) 654-1755



February 28, 2013

Bernard Ayanruoh – Program and Project Supervisor  
Utility Audit, Finance and Compliance Branch  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Re: SoCalGas Comments on Utility Audit, Finance and Compliance Branch Draft Interim Examination Report on Energy Savings Assistance Program for Program Years 2009 and 2010

Dear Mr. Ayanruoh:

Southern California Gas Company (SoCalGas) has reviewed the Draft Interim Examination Report (Report) prepared by the Utility Audit, Finance and Compliance Branch in response to the review of SoCalGas' Energy Savings Assistance (ESA) Program for 2009 and 2010. SoCalGas provides the following comments/corrections.

#### A.1 Introduction

In this section at line 5, it should be revised to correct an error in the referenced decision number. The report references "D.08-11-036". However, the correct reference is "D.08-11-031" which is the CPUC decision which authorized investor-owned utilities (IOUs) 2009-2011 Low Income Applications.

Also in review of footnote 2 at page 1, SoCalGas provides a clarification regarding the ESA Program Policy and Procedures Manual. In Ordering Paragraph 97 of Decision 08-11-031, the CPUC directed the IOUs to "coordinate with the Energy Division to incorporate all changes we make to the LIEE program in the LIEE P&P manual within 180 days of the effective date of this decision." Accordingly in compliance with this directive, the IOUs submitted the proposed revisions to the P&P Manual on May 5, 2009 for Commission review and approval. On August 31, 2010, a Joint Ruling of Assigned Commissioner and Administrative Law Judge was issued approving the P&P Manual.

SoCalGas recommends footnote #2 should be revised as follows to ensure the accuracy of the report:

D.08-11-031, as modified by D.09-06-026 and D.09-10-029. The applicable P&P Manual that UAFCB used for testing compliance was adopted by a Joint Assigned Commissioner and Administrative Law Judge Ruling dated August 31, 2010. The P&P Manual was submitted to the Commission for review and approval on May 5, 2009 ~~wasn't fully updated~~ for the 2009-2011 program changes and it was adopted by the Commission on ~~until~~ August 31, 2010.

## A.2 Weatherization

### Response to Observation 1

SoCalGas' standard service agreement with its ESA Program contractors requires that a "Contractor shall retain copies of all invoices, back-up documentation, subcontractor invoices, itemization of approved materials, etc. for a minimum of ten (10) years after termination of this Agreement." SoCalGas does not require all documentation associated with an enrollment to be submitted with the contractor invoice. In reference to proof of home ownership documentation, SoCalGas only requires that it be submitted with invoices for appliance work. In all other instances, the contractor is required to retain proof of home ownership documentation per the above-referenced terms of its agreement with SoCalGas which is in accordance with the P&P Manual.

Due to time and resource constraints associated with providing documentation electronically when the auditors were on-site in San Diego, SoCalGas was only able to provide weatherization documentation that it had in its possession and included in its response to data request "SCG-ESAP0910-004". However the responses to subsequent data requests "SCG-ESAP0910-009" and "SCG-ESAP0910-010" did include proof of home ownership documentation (retained by ESA Program contractors) that was not previously included in its response to "SCG-ESAP0910-004".

### Response to Observation 2

SoCalGas agrees with this recommendation. SoCalGas implemented a process to document the allocation of units and contract values to its contractors beginning with the contracts effective as of January 1, 2012.

### Response to Observation 3

SoCalGas agrees with this recommendation. SoCalGas aligned the total value of its agreements with its ESA Program contractors to equal the authorized budget beginning with the contracts effective on January 1, 2012.

### Response to Observation 4

SoCalGas disagrees with the observation that it failed to demonstrate compliance with the budgets authorized in D.08-11-031.

In D.08-11-031, the California Public Utilities Commission (“Commission”) continued its policy of allowing the IOUs flexibility in shifting authorized LIEE program funds, and provides the IOUs with specific guidelines for: 1) fund shifting from one year to another within the 2009-11 cycle; 2) fund shifting into future cycles (“carry forward” funding); 3) spending of next cycle funds in the current budget cycle (“carry back” funding); and 4) fund shifting among program categories. With respect to fund shifting among program categories, OP 85 states:

- ◆ LIEE: Fund shifting among program categories. Allowed except that IOUs may not shift additional funds to administrative overhead costs, regulatory compliance costs, measurement and evaluation, or the costs of pilots and studies. In addition, moving funds into or out of the Education subcategory of the Energy Efficiency program category requires a Tier 2 Advice Letter. Transactions must be well documented and reported on in monthly reports relevant to the period in which they took place. A Tier 2 Advice Letter is required if IOU wishes to transfer funds into or among the administrative overhead, regulatory compliance, measurement and evaluation, or pilots and studies categories.
- ◆ LIEE Limitation: IOUs must receive the Administrative Law Judge's (ALJ) written approval for how to allocate funds in the up-to-15% range if IOU proposes to allocate them to different program categories or to administrative overheads. IOUs may therefore shift up to 15% of LIEE funds among budget categories with the exception that allocations may be to program areas only, not administrative overhead, regulatory compliance, measurement and evaluation, or pilots and studies categories.

In accordance with the fund shifting provisions, SoCalGas is able to shift funds among the subcategories under the Energy Efficiency category up to 15% of total budget. SoCalGas used prior years unspent (carry forward) funds to provide more weatherization measure installation for program year 2009 and 2010 which is authorized under D.08-11-031 and as modified by D.10-10-008. In summary, SoCalGas did not overspend its weatherization budget. The Report did not take into account authorized funds shifted. Table A-2 of the Report should be corrected as follows:

Table A2		
Description	2009	2010
Authorized Weatherization Budget	\$19,242,434	\$24,913,886
<b>Authorized Fund Shift<sup>1 2</sup></b>	<b>\$6,201,805</b>	<b>\$13,441,743</b>
Weatherization Expenditures	\$25,444,239	\$38,355,629
<b>Over/Under Budget</b>	<b>\$0</b>	<b>\$0</b>

Also the above corrected Table A2 will necessitate that Table C-2 at page 15 and other references or calculations in the Report narrative be revised accordingly.

Response to Observation 5

SoCalGas agrees with this recommendation. For its agreements beginning on July 1, 2012, SoCalGas simplified its agreement templates to ensure consistency and to minimize the potential for error. Beginning in July 2012, SoCalGas implemented a more rigorous review process by adding an additional reviewer to ensure that agreements and work order authorizations related to the agreements were correct.

Response to Observation 6

In general, SoCalGas agrees with this recommendation. Although SoCalGas does not have specific penalties in its agreements with ESA Program contractors, completing the workflow process within a specified time period is a key performance indicator (KPI) for contractors. This KPI (among others) is used as a basis to allocate ESA Program units and dollars to weatherization contractors. Contractors who do not meet certain KPI thresholds may have their unit and contract values reduced and/or may jeopardize their future participation in SoCalGas' ESA Program. SoCalGas is implementing a new reporting tool and dashboard in mid-2013 which will allow it to monitor KPI's on a more frequent basis to be able to provide contractors with feedback on their performance and, in turn, apply consequences to contractors that fail to meet KPI thresholds on a more frequent basis.

In reference to the statement under the Recommendation section “. . . SCG should maintain appropriate documentation demonstrating whether each post inspection is mandatory or non mandatory”, SoCalGas 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 job not involving attic insulation and furnace replacement.

<sup>1</sup> Administrative Law Judge's Ruling Dated 8/24/10 Granting SoCalGas Motion to Shift Funds

<sup>2</sup> Unspent Funds from 2009

#### Response to Observation 7

SoCalGas agrees with this recommendation. Beginning in December 2012, SoCalGas ESA Program Management revised its accrual process to include accrual estimates from contractors that it oversees that do not perform the customary enrollment and assessment, weatherization and appliance installation and inspection services. SoCalGas will continue to include these contractors in its quarterly accrual process.

#### Response to Observation 8

SoCalGas agrees with this recommendation and plans to mitigate this by immediately changing its approval process to ensure that a valid contract exists prior to approval of invoices.

#### Response to Observation 9

SoCalGas agrees with this recommendation and plans to immediately reinforce proper review of reimbursable expense forms submitted for review with periodic training for approvers in the ESAP Department.

#### Response to Observation 10

In general, SoCalGas agrees with this finding and will take additional steps effective immediately to ensure that charges and credits are applied to the appropriate internal order. However, please note that the correct amount of the credit that should have been applied to the General Administration category is [REDACTED]

#### Response to Observation 11

SoCalGas agrees with the Recommendation and will assess each enrollment representing the \$613,522 potential overcharge. SoCalGas believes the overcharge identified may be adjusted downward, however this will be fully determined once the review of the enrollments have been completed. If required, SoCalGas will provide progressive updates with the appropriate accounting to Energy Division and UAFCB.

#### Response to Observation 12

In general, SoCalGas believes that dollar amounts discussed in Observation 12 are not necessarily being interpreted correctly. This may have occurred because SoCalGas did not reflect the total carry forward amount from one year to the next in its Annual Report. In addition

the dollars discussed in this Observation did not accurately represent the fund shifting authorized by the Commission.

In the Table below, SoCalGas has reconciled the dollars for the appropriate program years. SoCalGas believes this reconciliation will cause Table C-1 at page 14 and other references or calculations in the Report narrative to be revised accordingly.

In review of Table A-5 under Observation 12, the dollars do not appear to be interpreted correctly as it does not reflect the total carry forward dollars instead it only reflects the amounts that were shifted as shown in Table 19 of the applicable Annual Report. Table 19 in the Annual Report only reflects the dollars that were shifted and it is not representative of the total unspent (carry forward) funds. SoCalGas believes the reconciliation below will cause Table A-5 to be revised accordingly.

Description		Decision 08-11-031		
		2009	2010	2011
Authorized Annual Budget = [A]	[A]	\$62,571,908 [1]	\$76,872,816	\$78,256,269
Carry forward from prior Years = [B]	[B]	\$4,113,270 [2]	\$17,583,299	\$20,924,100
Total Budget (including carry forward from prior years) = [C] = (A + B)	[C]	\$66,685,178	\$94,456,115	\$99,180,369
Annual Expenditures = [D]	[D]	\$49,101,879	\$73,532,016	\$102,229,848
Carry forward / Carry back [E] = (C - D)	[E]	\$17,583,299	\$20,924,100	\$(3,049,479)
Additional Budget needed <sup>[3]</sup>				\$(361,542)
Carry back funds <sup>[4]</sup>				\$(3,411,021)

[1] 2009 total authorized budget is \$62,571,908 which includes \$13M in unspent funds from 2008 to partially offset its ESAP revenue requirement for 2009 as authorized in D.08-11-031.

[2] The total unspent carry over funds from 2008 was \$17,113,270 minus \$13,000,000 = \$4,113,270 carry forward into 2009.

[3] Pursuant to Section 20 of the Fund Shifting Rules in D.08-11-031 and D.10-10-008, SCG is authorized to shift funds into or out of certain categories such as General Administration, Regulatory Compliance, etc. with prior written authorization from the ALJ. However since the budget shortfall occurred at the end of program year 2011, SCG did not seek such authorization.

[4] SCG carried back funds from 2012 (specifically from Gas Appliances subcategory) into 2011 to accommodate the budget shortfall which is consistent with the funding provisions authorized in Section 20.

SoCalGas agrees that the Annual Reports reflecting the program activity for 2009, 2010, and 2011 should have included the actual dollars that were carry forward or carry back to serve ESA Program customers. In the Annual Report of 2012 ESA Program Activity,<sup>3</sup> SoCalGas will ensure that any carry forward or carry back funds are properly documented in the Report beginning in 2013.

<sup>3</sup> The Commission directs the IOUs to file an Annual Report by May 1 of each year.

Response to Observation 13

SoCalGas recommends that the Report be updated to acknowledge that SoCalGas already provided responses to 7 of the 12 Business Controls as reflected in its response to data request "SCG-ESAP0910-002" Question 2 dated May 3, 2012. The response to Question 2 of the data request included the final approved responses to Business Control numbers 1, 3, 4, 7, 9, 11, and 12. At the time that SoCalGas responded to Question 2 of the data request, the remaining Business Controls were not yet due or completed. However as attached herein, SoCalGas provides a complete copy of the Internal Audit Report which addresses all 12 of the Business Controls. Some of the data contained in **SoCalGas' Internal Audit Report below is considered Confidential Pursuant to General Order 66-C and Section 583 of the Public Utilities Code..**



09-10 CPUC Audit -  
SCG Response to Obsr

If you have any questions or require additional information regarding these comments/corrections, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joy C. Yamagata", with a long horizontal flourish extending to the right.

Joy C. Yamagata  
Regulatory Manager

cc: Frederick Ly – CPUC  
Gilda Robles – CPUC  
Kim Hassan – SoCalGas  
Central Files

## **Business Control Status**

### Business Control Issue No. 1

Audit Services noted that a comprehensive accrual for estimated contractor work is only processed at year end. Interim quarterly accruals include invoices received but not paid, but exclude contractor work completed but not invoiced. *Due April 30, 2012*

Status: Internal Auditing extended the MCA due date 90 days until after the second quarter (July 30, 2012) to review the actual second quarter accrual process before the issue would be closed. Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on July 30, 2012.

The data contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
1\_update July 2012.c

### Business Control Issue No. 2

Roles and responsibilities have not been defined for critical security processes required to ensure the protection of customer data. Audit Services noted security testing had not been performed on the HEAT application. *Due June 22, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on June 22, 2012.

The data contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control  
Issue No 2.docx

### Business Control Issue No. 3

Until Q4 2011, management has not effectively performed cost projections to ensure annual expenditures will be consistent with expected targets for the program year. Management will make additional refinements to the report

developed for the year-end projections and will begin a process to analyze the budget on a monthly basis. *Due March 30, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on March 30, 2012.

The data contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
3.doc

Business Control Issue No. 4

Certain post-installation inspection procedures were not consistently followed. Exceptions noted include untimely data entry, untimely completion of post-inspections, incomplete forms and inadequate inspection sample sizes. *Due March 30, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on March 30, 2012.

The employee names contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
4.doc

Business Control Issue No. 5

The response and attached file below could create an unfair business advantage and/or disadvantage and is marked CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.

[Redacted text block]

1. [Redacted list item]



Business Control No  
5 FINAL.docx

Business Control Issue No. 6

Current ESAP service contracts include a fixed price for furnace replacements that is greater than the limit specified in the P&P.

1. Management will keep the current contract pricing in place until the end of the bridge funding period in June 2012. In the interim management will work on revising the new contracts to match P&P pricing structure. Those new contracts will become effective July 1, 2012, pending CPUC approval of the 2012-2014 application filings.

2. Alternatively, management may explore (seek CPUC approval) the possibility of increasing the furnace cap in the P&P manual. *Due July 31, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on July 31, 2012.

The contract contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
6.docx

Business Control Issue No. 7

Tables included in the Annual and Monthly Reports submitted to the CPUC have overstated totals for certain measures installed as a result of erroneous source data which contained duplicate enrollment numbers.

Status: Internal Auditing closed Business Control Issue #7 regarding the duplicate reporting of treated homes. Management has properly identified, quantified, and will be reporting the issue to the CPUC. Closed on April 30, 2012.



Business Control No  
7.pdf

### Business Control Issue No. 8

Post-installation inspection service contracts do not contain a clause requiring employee background checks and drug screenings. Management will revise its inspection contract template to ensure all inspection contracts have clause requiring a drug and criminal background screening. *Due July 31, 2012.*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on July 31, 2012.

The contract contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
8 draft.docx

### Business Control Issue No. 9

Controls are not in place to ensure that all identification badges are collected from terminated ESAP contract employees. Management is currently developing a reconciliation process where, on a quarterly basis, the Field Operations group will reconcile “active” contractors listed in HEAT to contractor records and ensure badges are returned for employees no longer participating in the program. *Due March 30, 2012.*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on March 30, 2012.

The employee names contained in the file below is CONFIDENTIAL pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
9.doc

#### Business Control Issue No. 10

No tracking mechanism exists to ensure that Energy Education provided to customers by SoCalGas is not a duplicate effort of that provided by Southern California Edison. This can occur when the utilities have different enrollment contractors. As such, there is a potential that a customer may receive Energy Education twice. SoCalGas will continue to work with Edison to improve their current efforts to leverage enrollments in their joint service territory.

SoCalGas has been in discussions with Edison regarding setting up an automated data exchange that will assist contractors with identifying shared customers who have received energy education. In addition, SoCalGas is working with Edison to align goals in the shared service territory. Also, until the automated data exchange can be implemented, SoCalGas is considering a change to its contracts that will further align its contractor network so that it limits the amount of contractors that do not have contracts with Edison from enrolling customers in the shared service territory. *Due July 31, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on July 31, 2012.



Business Control No  
10 draft.docx

#### Business Control Issue No. 11

Evidence of the review and approval by the Director of SoCalGas Customer Programs and Assistance of the Monthly and Annual Reports submitted to the CPUC is not maintained. Program Support will implement a formal process for retaining evidence of the Director's review and approval of the Monthly and Annual reports either through SharePoint, a shared folder on the network, or by some other means which has yet to be determined. *Due March 30, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on March 30, 2012.



Business Control No.  
11.pdf

### Business Control Issue No. 12

SoCalGas Customer Programs and Assistance management implemented a method to facilitate Program enrollment by qualifying all units within a multi-unit building for Self Certification enrollment as long as one unit meets the criteria. This is not documented in the P&P. Management will discontinue the current practice of qualifying all units based on one unit qualifying as a Self Certification PRIZM code. *Due March 30, 2012*

Status: Internal Auditing concluded that the MCA responses and revised policies have met the commitments stated in the MCA and it was closed by Internal Auditing on March 30, 2012.

The employee names contained in the file below is **CONFIDENTIAL** pursuant to General Order 66-c and California Public Utilities Code Section 583.



Business Control No  
12.doc

### **Business Enhancement Status<sup>1</sup>**

#### Business Enhancement No.1

Documentation to support the selection and review of eligible PRIZM codes for ESAP Self Certification is not retained.

Status: At this time, there is no estimated completion date for this business enhancement issue.

#### Business Enhancement No.2

Data was not entered into HEAT correctly and certain program requirements were not followed.

Status: SoCalGas continues to reinforce the importance of accurate paperwork with its contractor network.

#### Business Enhancement No.3

The current backup strategy could be improved to ensure the integrity of Company records.

---

<sup>1</sup> Management is not required to report business enhancements. Audit Services will follow up on such enhancements during subsequent audits. (Audit Report 09-323 Executive Summary at p.2)

Status: At this time, there is no estimated completion date for this business enhancement issue. This enhancement would require an enhancement to the HEAT system that has not been assessed at this time.