



**California Public Utilities Commission**  
**Division of Water and Audits**

**Financial, Management and  
Regulatory Compliance Audit Report**  
on the  
**California Alternate Rate for Energy Program  
Administrative Costs**  
and the  
**Low Income Energy Efficiency Program**  
of  
**SOUTHERN CALIFORNIA GAS COMPANY  
(U-0904-G)**  
For the Years Ended  
December 31, 2007 and December 31, 2008

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**July 20, 2011**



Edited by Donna Wagoner

# Financial, Management and Regulatory Compliance Audit

## California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program

### Southern California Gas Company (U-0904-G)

For the Years Ended December 31, 2007 and December 31, 2008

## Table of Contents

<b>COMMISSION STAFF INDEPENDENT ACCOUNTANT’S REPORT.....</b>	<b>ii</b>
<b>I. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>II. AUDIT RECOMMENDATIONS .....</b>	<b>3</b>
<b>III. INTRODUCTION .....</b>	<b>4</b>
<b>IV. COMPLIANCE AUDIT .....</b>	<b>4</b>
A. AUDIT PURPOSE.....	5
B. AUDIT SCOPE.....	5
C. AUDIT OBJECTIVES.....	5
D. AUDIT TASK AREAS AND GOALS .....	6
E. AUDITING STANDARDS APPLIED .....	6
F. AUDITING PROCEDURES APPLIED .....	6
G. PRELIMINARY AUDIT FINDINGS .....	7
<b>V. LIEE AUDIT FINDINGS .....</b>	<b>7</b>
A. PROGRAM ACCOUNTING AND REPORTING .....	7
B. PROGRAM IMPLEMENTATION, PROCESS AND CONTROLS .....	9
C. PROGRAM EXPENDITURES ANALYSIS AND TESTING .....	13
D. PROGRAM OVERSIGHT.....	15
<b>VI. CARE AUDIT FINDINGS .....</b>	<b>17</b>
A. PROGRAM ACCOUNTING AND REPORTING .....	17
<b>VII. COMMENTS ON UAFCB’S DRAFT AUDIT REPORT .....</b>	<b>17</b>
<b>VIII. UAFCB REBUTTAL .....</b>	<b>18</b>
APPENDIX A .....	BACKGROUND BY AUDIT TASK AREA
APPENDIX B.....	LIST OF APPLICABLE COMMISSION DIRECTIVES
APPENDIX C .....	UTILITY COMMENTS
APPENDIX D .....	ABBREVIATIONS AND ACRONYMS



# **Financial, Management and Regulatory Compliance Audit**

## **California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program**

### **Southern California Gas Company (U-0904-G)**

**For the Years Ended December 31, 2007 and December 31, 2008**

#### **INDEPENDENT ACCOUNTANT'S REPORT**

Pursuant to Public Utilities Code § 900, the Utility Audit, Finance and Compliance Branch (UAFCB), of the Commission's Division of Water and Audits, performed a financial, management and regulatory compliance audit of Southern California Gas Company's (SCG) Low Income Energy Efficiency program (LIEE) and California Alternate Rate for Energy (CARE) administrative expenses for the years ended December 31, 2007 and December 31, 2008.

SCG's management is responsible for compliance with the requirements of Commission directives on implementing LIEE and CARE in its service area. A list of Commission directives applicable to the implementation of the LIEE and CARE is included in Appendix B, attached to this report.

The responsibility of the UAFCB is to express an opinion on SCG's compliance with the aforementioned regulations based on the UAFCB's audit of SCG's records. The UAFCB's audit was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence concerning SCG's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances. The UAFCB believes that its audit provides a reasonable basis for an opinion. UAFCB's opinion does not provide a legal determination on SCG's compliance with specified requirements.

In the opinion of the UAFCB, SCG complied, in all material respects, with the aforementioned requirements for the two years ending December 31, 2008.

The report is intended for use by the California Public Utilities Commission and the company being examined, and it is not intended to be and should not be used by anyone other than the specified parties.

Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch  
May 20, 2011



# Financial, Management and Regulatory Compliance Audit

## California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program

### Southern California Gas Company (U-0904-G)

For the Years Ended December 31, 2007 and December 31, 2008

## I. EXECUTIVE SUMMARY <sup>1</sup>

This report presents the results of the Utility Audit, Finance and Compliance Branch's (UAFCB) financial, management and regulatory compliance audit of Southern California Gas Company's (SCG) Low Income Energy Efficiency program (LIEE) and the California Alternate Rates for Energy Program's (CARE) administrative costs for calendar years 2007 and 2008. The UAFCB conducted this audit pursuant to Public Utilities Code § 900.<sup>2</sup>

The main purpose of the UAFCB's audit is to determine whether SCG implemented its LIEE program and incurred CARE administrative costs in compliance with Commission directives.

SCG's Customer Assistance Department is responsible for, among other things, the operation of its LIEE and CARE programs. With respect to LIEE and CARE, SCG's Customer Assistance Department is tasked with ensuring that its programs are properly managed and in compliance with the Commission's directives. As of December 31, 2008, SCG's Customer Assistance Department employed 32 full time employees dedicated exclusively to the LIEE and CARE programs.

The Commission authorized a budget for SCG's LIEE of \$33.4 million for 2007 and \$33.2 million for 2008.<sup>3</sup> The Commission authorized SCG to carry over funds totaling \$12.6 million from unspent LIEE funds from prior years.<sup>4</sup> Consequently, SCG's total LIEE budget for 2007 amounted to \$46 million and with unspent funds from 2007, its 2008 total budget amounted to \$52.2 million.

In the following table, UAFCB summarizes SCG's authorized budget and the amounts SCG spent for its LIEE program during the 2007 and 2008 audit period.

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<sup>1</sup> Appendix D describes the abbreviations and acronyms used in this report.

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

<sup>3</sup> See Decision D.06-12-038, as modified by D.07-06-004. All references in this report to D.06-12-038 include the modifications made by the Commission in D.07-06-004.

<sup>4</sup> See Decision D.06-12-038, Ordering Paragraph 15. However, the Commission did not permit the utilities to allocate carry-over funds to administrative overhead costs, regulatory costs or the costs of studies.

**Table I**  
**LIEE Budgets and Expenditures**

<b>Description</b>	<b>2007</b>	<b>2008</b>
2006 Amount Brought Forward	\$12,650,664	\$ 0
Carry-over from 2007	0	18,969,039
Authorized Budgets per D.06-12-038	<u>33,415,541</u>	<u>33,211,971</u>
Available Spending Amounts	46,066,205	52,181,010
<b>Less: Amount Spent By SCG</b>	<b><u>27,097,166</u></b>	<b><u>35,067,739</u></b>
Amounts Carried Forward	<u>\$18,969,039</u>	<u>\$17,113,271</u>

For CARE administrative costs, the Commission authorized SCG a budget of \$4.7 million per year for 2007 and 2008.<sup>5</sup> In both years, SCG incurred CARE administrative costs within its authorized budgets, as shown in the following table.

**Table II**  
**CARE Administrative Expenditures**

<b>Description</b>	<b>2007</b>	<b>2008</b>
Admin Expenditures	\$4,512,234	\$4,585,578
% of Authorized Admin Budget	96%	98%

UAFCB found weaknesses in SCG’s internal controls for addressing hazardous and non-hazardous post-inspection fails within the time periods required in the Statewide LIEE Program Policy and Procedures Manual (SPPM). In addition, UAFCB experienced difficulties in obtaining all necessary supporting documentation to validate some labor charges selected for testing during the audit.

UAFCB’s previous audit on SCG’s LIEE program and CARE administrative costs was completed in 2008 and addressed the period January 1 through December 31, 2006.<sup>6</sup> During this audit, UAFCB reviewed information provided by SCG on its implementation of UAFCB’s prior audit recommendations. SCG complied with all of UAFCB’s previous recommendations.

<sup>5</sup> See D.06-12-038, as modified by D.07-06-044.

<sup>6</sup> See UAFCB’s audit report entitled “Regulatory Compliance and Financial Audit of the California Alternate Rates for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of San Diego Gas & Electric Company (U-0902-E) and Southern California Gas Company (U-0904-G),” dated February 29, 2008.



## II. AUDIT RECOMMENDATIONS

UAFCB presented its draft audit report on program years 2007 and 2008 to SCG for its comments. Included in the draft report were UAFCB's preliminary findings and recommendations. As discussed in Sections V., VI. and VII. of this report, SCG agreed to implement most of UAFCB's recommendations and UAFCB does not present those recommendation here. The following UAFCB recommendations remain outstanding.

1. SCG should ensure its Energy Specialists adequately evaluate and determine whether door repairs and/or replacements are needed during initial in-home assessments. (Refer to Section V. B., Audit Goal 1)<sup>7</sup>
2. In a future audit, UAFCB should review SCG's implementation and effectiveness of:
  - a. SCG's enhanced internal controls, updated reports and any other additional system enhancements that it implemented in 2010 to assure hazardous and non-hazardous fails are addressed within the time periods required in the SPPM are functioning correctly. (Refer to Section V. B., Audit Goal 1)
  - b. Corrective actions that SCG put in place to ensure all supporting documentation and/or explanations that support the costs recorded for each transaction selected for testing are provided when SCG responds to audit data requests. (Refer to Section V. C., Audit Goal 1)
  - c. Updated policies and procedures for identifying and correcting posting errors in a timely manner. (Refer to Section V. C., Audit Goal 1)
  - d. The corrections SCG implemented to address the finding in its November 16, 2009 internal audit report. (Refer to Section V.C., Audit Goal 2)

After UAFCB presented its draft audit report, draft findings and recommendations for SCG's review and comments, UAFCB conducted further review and investigation into the area of furnace repair and adjustments that SCG provided in rental units. Based on its analysis in this area, UAFCB developed the following recommendations that SCG did not have an opportunity to review or comment on. It may do so at its own discretion on the final audit report.

1. If the Commission continues to permit LIEE minor repairs or adjustments to landlord-owned furnaces at a minimal cost, the Commission should establish the cap for such work at \$100.00 (One hundred dollars) or less. (Refer to Section V.B., Audit Goal 1)
2. Minor repairs and adjustments to landlord-owned furnaces should be treated similar to the way the Commission treats Natural Gas Appliance Safety Testing costs that are fully funded in regular rates. (Refer to Section V.B., Audit Goal 1)
3. SCG should reimburse the LIEE program for all instances in which it made repairs or adjustments to rental unit furnaces in excess of \$100.00 (One hundred dollars) . (Refer to Section V.B., Audit Goal 1)

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<sup>7</sup> SCG refers to its outreach workers who perform the initial home assessments as Energy Specialists.

4. SCG should have put into place a mechanism to fund other than minimal non-owner-occupied furnace and water heater repairs or adjustments from its regular GRC rates so that it didn't recover such costs twice. (Refer to Section V.B., Audit Goal 1)

### **III. INTRODUCTION**

Over time, the Commission established and updated specific directives for the four energy utilities to implement and operate LIEE and CARE. Effective with D.05-10-044, the Commission increased the income-eligibility requirements for all utilities' LIEE to match those of CARE at 200% of the federal poverty guidelines.

In D.06 -12-038, as amended by D.07-06-004, the Commission made multiple revisions to LIEE and CARE, some of which UAFCB outlines below.

#### **LIEE:**

- Authorized SCG a budget of \$33.4 million for 2007 and \$33.2 million for 2008 ;
- Authorized the carry-over as well as carry-back of funds in 2007 and 2008; and
- Directed utilities to meet on a quarterly basis with interested parties to confer on LIEE program protocols, procedures and operations between LIEE budget cycles.

#### **CARE:**

- Encouraged utilities to increase enrollment by continuing to partner with community-based organizations and increased the capitation fee from \$12 to \$15 for every new enrollee;
- Adopted Social Security Disability Income as "fixed income" for the purpose of extended recertification process;
- Required the design of the utility's websites to permit visually disabled to access the information on them;
- Required the use of Telecommunication Device for the Deaf (TDD) equipment for those with hearing disabilities for enrollment and certification to improve participation by disabled customers;
- Approved CARE categorical eligibility for the 2007-2008 program years;
- Required utilities to provide CARE discounts to common areas of non profit group living facilities without regard to metering arrangements as long as the facility meets the criteria set forth by § 739.1; and
- Set SCG's CARE administrative budget at \$4.7 million each year for the 2007 and 2008 program years.

### **IV. COMPLIANCE AUDIT**

UAFCB conducted this audit pursuant to § 900. Section 900 states that the Commission may conduct compliance and financial audits to ensure compliance with any Commission

order or resolution relating to the implementation of programs pursuant to Section 739.1, 739.2, and 2790.

On October 27, 2009, the UAFCB began its audit planning of SCG's 2007 and 2008 CARE administrative costs and LIEE expenditures. UAFCB completed its fieldwork on November 19, 2010. The audit focused on SCG's LIEE expenditures and CARE administrative costs for the period January 1, 2007 through December 31, 2008.

### **A. Audit Purpose**

The main purpose of the UAFCB's audit was to determine whether SCG implemented its LIEE program and incurred CARE administrative costs in compliance with Commission directives.

### **B. Audit Scope**

The scope of UAFCB's audit includes the following:

- (1) *Process compliance*: the SPPM, Commission decisions and directives pertaining to the LIEE and CARE programs (see Appendix C), SCG's own policies and program guidelines for the implementation of LIEE program, customer applications documentation, in-home energy education documentation, and post-inspections reports.
- (2) *Existence of safeguards* – SCG's internal controls, including its own policies and procedures.
- (3) *Integrity of Reporting* – SCG's LIEE and CARE 2007 and 2008 annual reports, SCG's SAP accounting system and SCG's LIEE /CARE balancing accounts.
- (4) *Oversight Adequacy* – SCG's Customer Assistance Department's organization chart, duties and responsibilities, internal monitoring practices over the LIEE program from January 1, 2007 through December 31, 2008, and SCG's internal audit reports on CARE and LIEE.

### **C. Audit Objectives**

The UAFCB established the following audit objectives, designed to meet the overall audit purpose.

- (1) Determine whether SCG's accounting system for capturing LIEE measure expenditures adequately produced reliable information to the Commission and would avoid any duplication of cost recovery;
- (2) Evaluate whether SCG's administrative and accounting controls protected ratepayer funds utilized for LIEE.
- (3) Determine whether SCG followed its specific program policies, procedures, processes, and Commission directives.
- (4) Ascertain and evaluate whether SCG's management exercised sufficient oversight to meet the program goals and objectives.
- (5) Determine whether SCG's CARE administrative costs were appropriate.

## **D. Audit Task Areas and Goals**

The UAFCB delineated its audit objectives into the following specific goals identified below by audit task areas.

### LIEE Accounting and Reporting:

- 1) Determine if SCG's expenditures recorded in its records and regulatory accounts were correctly recorded and reported to the Commission; and
- 2) Determine whether SCG excluded its LIEE expenditures from its general rate increase (GRC) request.

### LIEE Implementation, Processes and Controls:

- 1) Determine whether SCG's LIEE implementation and controls were in compliance with Commission directives, including but not limited to the SPPM and D.06-12-038.

### LIEE Expenditure Analysis and Testing:

- 1) Determine and test on a sample basis whether all reported charges including general administration expenses and LIEE measure expenditures were relevant to the program and were sufficiently supported with appropriate documentation.

### LIEE Oversight:

- 1) Determine if SCG's internal reporting system and management oversight processes for LIEE were properly in place, executed, and working; and
- 2) Determine whether SCG maintained adequate oversight over its LIEE.

### CARE:

- 1) Determine whether the administrative costs SCG charged to its CARE program were appropriate.

## **E. Auditing Standards Applied**

UAFCB conducted this audit in accordance with attestation standards established by the American Institute of Certified Public Accountants and accordingly, included examining, on a test basis, evidence concerning SCG's compliance with Commission directives and performing such other procedures as considered necessary in the circumstances.

## **F. Auditing Procedures Applied**

The UAFCB performed the following procedures in its audit:

### Pre-audit Procedures:

- Become familiar with SCG's LIEE programs, e.g. program processes and operations.
- Review pertinent Commission decisions, resolutions and applicable rules and regulations.

- Review prior audit reports and working papers for current audit planning purposes; discuss prior audit adjustments and issues with the previous UAFCB audit team members.
- Contact SCG regulatory personnel to set up current audit logistics and protocols.

Low Income Energy Efficiency Program Processes Review:

- Interview SCG program personnel to gain information and an understanding of SCG's LIEE operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review SCG's program policy and process manuals for compliance with regulatory directives and decisions.
- Compare actual expenditures to budget program data for variances and analyze such variances for reasonableness and allowances.

Other Procedures:

- Review the utility's accounting manual and procedures concerning the proper recording of program expenditures.
- Evaluate SCG's internal control procedures concerning expenditures for effectiveness and deficiencies; implement additional audit procedures to assess and resolve any deficiencies.
- Verify program expenditures, on a sample basis, to supporting documentation and sources to determine accuracy and the degree of any irresponsibility.
- Reconcile program databases to general ledger systems and authorized balancing accounts.
- Formulate audit findings, conclusions and recommendations.

## **G. Preliminary Audit Findings**

UAFCB discussed its preliminary audit findings with SCG at an exit meeting on February 4, 2011. On February 11, 14, and 16, 2011, SCG submitted responses to UAFCB's preliminary audit findings and provided additional supporting documentation.

## **V. LIEE AUDIT FINDINGS**

### **A. Program Accounting and Reporting**

**Audit Goal 1:** Determine if the expenditures recorded in SCG's records and regulatory accounts were correctly recorded and reported to the Commission.

**Findings:**

- (1) SCG's LIEE accounting system and procedures were generally consistent with the accrual system of accounting.
- (2) SCG appropriately reported its LIEE gas expenditures in accordance with Commission directives.

**Discussion:**

SCG utilizes the System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its LIEE expenditures. SCG also utilizes several feeder operating systems that interface with SAP to help administer and manage its LIEE programs. One of the feeder operating systems that interfaced with SAP was the Home Energy Assistance Tracking (HEAT) system.

SCG pre-assigned each type of LIEE expenditure for measures and services captured in HEAT an internal order (I/O) account number in SAP. These I/O numbers were specific to the LIEE program. Once SCG reviewed and approved its LIEE expenditures in the HEAT system, SCG uploaded the charges into its SAP. On a monthly basis, SCG reviewed the expenditure amounts in the LIEE I/O account numbers in SAP, posted them to the appropriate LIEE balancing accounts, and used them in preparing its reports to the Commission.

SCG used Sempra's company-wide Workforce Information Tracking System (WITS) for capturing and recording employee labor charges. SCG transferred and uploaded the labor charges in WITS into SAP on a bi-weekly basis. SCG also used Sempra's company-wide Enterprise Contract Management (ECM) system, for administering and managing service and material contracts. The ECM system also interfaced with SAP to assist in maintaining contract information and monitoring payments to LIEE contractors.

SCG recorded total expenditures of \$27 million in its SAP accounting system for its LIEE program in calendar year 2007, which reconciled to the LIEE balancing accounts and amounts reported to the Commission. For calendar year 2008, SCG recorded a total of \$35 million in LIEE expenditures which also reconciled to its LIEE balancing accounts and amounts reported to the Commission.

**Recommendations:** None.

**Audit Goal 2:** Determine whether SCG excluded its LIEE expenditures from its general rate increase request.

**Findings:**

- (1) With the exception of minor furnace repair or adjustments made to landlord-owned furnaces, discussed in Section V.B., SCG had adequate processes in place to ensure that its LIEE expenditures were not included in rates.

**Discussion:**

UAFCB acquired and examined documentation prepared by SCG and used in the latest GRC, for test year 2007. For the most part, SCG properly excluded its LIEE expenditures from its GRC filing.

**Recommendation:** None.

**B. Program Implementation, Process and Controls**

**Audit Goal 1:** Determine whether SCG's LIEE implementation and controls were in compliance with Commission directives, including but not limited to the SPPM and D.06-12-038.

**Findings:**

- (1) SCG designed and structured its policies and procedures for the implementation of its LIEE in accordance with Commission directives, including but not limited to, the SPPM and D. 06-12-038.
- (2) SCG failed to demonstrate compliance with SPPM Section 4.5 when its LIEE Energy Specialist contractors performing the assessment failed to adequately assess the homes' needs for door repair or replacement.
- (3) UAFCB questions whether SCG complied with SPPM Section 2.7.2 when it provided a furnace repair or adjustment in a rental unit in 2008 at an amount of \$468, which UAFCB considers to be in excess of a minimal cost.
- (4) SCG failed to demonstrate compliance with SPPM Section 8.4.9 when it detected hazardous and non-hazardous fails.

**Discussion:**

UAFCB judgmentally selected and tested LIEE customer files to evaluate whether, among other things, customer applications, in-home energy education, and post-installation inspections were being processed and implemented in accordance with Commission directives, including but not limited to the SPPM and D.06-12-038. UAFCB chose 90 customer files for testing, 50 from 2007 and 40 from 2008. Fifty-nine customer files were for residential single family homes, 12 were for residential single family rentals, 16 were for multi-family rentals, and three were for residential mobile homes.

**Customer Eligibility and Enrollment:** UAFCB examined proof of income documentation for household size, housing type, proof of homeownership, and apartment or homeowner waivers for rental property. UAFCB tested whether the customer was within the income guidelines. All customers files examined qualified for the LIEE program based on their household size and income level which was within the 200% federal poverty guidelines adopted by the Commission or by categorical eligibility based on proof of participation in an approved government low-income program.



UAFCB did not find any major reportable deficiencies with SCG's implementation of its customer eligibility and enrollment processes.

***In-Home Energy Education:*** During its assessment of SCG's processes and procedures for administering in-home energy education, UAFCB analyzed and reviewed energy education materials/brochures provided to customers by SCG. SCG complied with Commission directives. SCG included the required information on water conservation and reducing greenhouse gases in its in-home energy education that it provided to its customers.

***In-Home Assessment:*** To evaluate whether in-home assessments were performed in accordance with LIEE program rules and guidelines, UAFCB examined the in-home assessment forms completed by SCG's LIEE Energy Specialists and the assessment records in the HEAT system. Of the 90 in-home assessment reviewed during the audit, UAFCB found 60 dwellings, or 67%, that were not assessed for door repairs or replacement. However, the sub-contractor performing the installation of measures determined that door repairs or replacements were feasible and provided the LIEE measure.

***Weatherization, Installation and Minor Repairs:*** UAFCB examined 30 of SCG's customer files to evaluate whether furnace repairs/replacements and/or water heater repairs/replacements were only provided to dwellings that were owner-occupied per SPPM Section 7 or fell under the provisions of SPPM 2.7.2, the Eligibility of Rental Units for Certain Measures. UAFCB reviewed 11 files that were treated in 2007 and 19 in 2008.

UAFCB found one instance in 2008 out of the 19 files it reviewed in which SCG provided a rental customer a furnace repair. This one instance represented 5% of the sample in 2008.

Upon further investigation that UAFCB conducted after SCG reviewed and commented on UAFCB's report, UAFCB developed further findings and recommendations in this area. While providing the furnace repair or adjustment was not in compliance with the feasibility criteria established in SPPM Section 7.3.17, Section 2.7.2 allows a gas technician to make minor repairs or adjustments to furnaces in rental units at "a minimal cost." In this instance, SCG billed the repair or adjustment to LIEE at \$468. UAFCB does not feel that \$468 is only a minimal cost.

UAFCB recognizes that when SCG is in a home and assesses that a furnace repair is necessary and can easily be made, from a safety standpoint, even if it is a rental home, SCG's gas personnel should make the minor repair or adjustment or take other action as necessary. However, these repairs or adjustments were not permitted from LIEE funds, unless the adjustment or repair can be made for a minimal amount. SCG should have put into place a mechanism to fund repairs or adjustments from its regular GRC rates or bill



landlords for these repairs and reimburse the LIEE program in instances when the repairs or adjustments cost more than a reasonable minimum amount.<sup>8</sup>

If the Commission continues to permit LIEE minor repairs or adjustments to landlord-owned furnaces at a minimal cost, the Commission should establish the cap for such work at \$100.00 or less. UAFCB recommends that these costs be treated similar to the policy the Commission adopted for Natural Gas Appliance Safety Testing costs. For those costs, the Commission established that utilities should not be recovering costs already provided in rates from LIEE. SCG should reimburse the LIEE program funds in all instances in which it made repairs or adjustments to rental unit furnaces in excess of \$100.00 (One hundred dollars).

***Post-Installation Inspection Process:*** SCG conducted mandatory inspections for all attic insulation installations and random non-mandatory inspections on a sample of projects not involving attic insulation as required by the SPPM.

UAFCB found that 74 out of the 90 customer files judgmentally selected for testing contained post-inspection reports. Thirty-three were random post-inspections, 28 were random furnace post-inspections and 13 were mandatory attic installation inspections. Of the 74 post-inspection reports examined during the audit, the UAFCB discovered four non-hazardous fails that were not addressed within 30 days as required per the SPPM Section 8.4.9. In addition, UAFCB found 14 hazardous fails that were not addressed within the 24 hour time period as required in Section 8.4.9 of the SPPM.

Preliminary Findings and Recommendations – Energy Specialist assessments: During the exit meeting with SCG, UAFCB recommended that SCG train and ensure Energy Specialists exercise diligence in their assessments of customer needs for door repairs and/or replacements to assure that eligible customers receive all feasible measures as required by LIEE program guidelines.

Following the exit meeting, SCG indicated that its Energy Specialists are provided the training and tools to qualify eligible customers and assessing all feasible measures to install under program guidelines. SCG indicated that Energy Specialists are provided a 5-day Enrollment and Assessment training course to cover required LIEE program elements and company policies and must successfully pass a basic skill pre-assessment test. In addition, SCG indicated that it provided on-site refresher training to Energy Specialists during 2007 and 2008 at various LIEE contractor locations and currently continue to do so. SCG also indicated that Section 8.3 of the SPPM permits installation crews to make final determination on whether or not a measure meets the program criteria for installation in order to assure that eligible customers receive all feasible measures as required by the program.

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<sup>8</sup> By law, landlords are responsible for maintaining the furnaces.

In its comments on UAFCB's draft report, SCG agreed with UAFCB's recommendation that door repairs and replacements should be addressed during the initial in-home assessments. UAFCB emphasizes the importance of Energy Specialists making the initial recommendation for door repair and replacements. Doing so serves as a check and balance on whether a door repair or replacement is needed.

Preliminary Findings and Recommendations – Post-inspections: During the exit meeting, UAFCB also recommended that SCG enhance its internal controls to ensure corrections from post-inspection hazardous and non-hazardous fails be addressed within the time period as required in the SPPM. In response, SCG agreed with UAFCB's recommendation to enhance its internal controls for non-hazardous and hazardous fails and comply with the SPPM. SCE indicated that it enhanced its internal controls in 2010 and those new controls should ensure that non-hazardous and hazardous fails are addressed within the time periods required by the SPPM.

SCG stated that the enhanced internal controls implemented in 2010 include:

... the inspector notifies SoCalGas of a hazardous fail while still at the customer's home. If notification occurs after regular office hours, the inspector is required to leave a message at the DAP 1-800 phone number. DAP notifies the affected contractor of the hazardous fail by the next business day. Notes will be documented on the enrollment in the HEAT database to indicate when the notification took place and who was notified at the contractor's office. An email notification is sent to the affected contractor and LIEE program management staff. Once the results are recorded into the HEAT database, an email notification is automatically generated and distributed to all involved parties. All hazardous fails, once recorded in HEAT, are populated onto HEAT's homepage which prioritizes the hazardous fail and makes it more visible to the contractor. The posted hazardous fails are only visible to the affected contractor and LIEE staff. If a contractor fails to complete non-hazardous and/or hazardous fail corrections within the specific timeline, SoCalGas also has the ability to re-assign the correction to a 3<sup>rd</sup> party and chargeback the affected contractor for the associated costs.

SCG also indicated that the 2010 internal control enhancements included the replacement of existing reports with new, updated reports and that it is initiating plans for additional system enhancements to require its LIEE staff to proactively monitor hazardous and non-hazardous fails through enhanced reports to ensure outstanding issues are addressed in a timely manner by the affected contractor.

UAFCB did not have the opportunity to evaluate new controls and enhancements and it should include an assessment of these in its next audit.

**Recommendations:**

- 1) SCG should require its Energy Specialists to assess door repairs and/or replacements during initial in-home assessments and follow up with any Energy Specialists who fail to do so.
- 2) If the Commission continues to permit LIEE minor repairs or adjustments to landlord-owned furnaces at a minimal cost, the Commission should establish the cap for such work at \$100.00 (One hundred dollars) or less.

- 3) Minor repairs and adjustments to landlord-owned furnaces should be treated similar to the way the Commission treats Natural Gas Appliance Safety Testing costs that are fully funded in regular rates.
- 4) SCG should reimburse the LIEE program funds in all instances in which it made repairs or adjustments to rental unit furnaces in excess of \$100.00 (One hundred dollars).
- 5) SCG should have put into place a mechanism to fund other than minimal non-owner-occupied furnace and water heater repairs or adjustments from its regular GRC rates so that it didn't recover such costs twice.
- 6) SCG's enhanced internal controls implemented in 2010, updated reports and any other additional system enhancements for assuring hazardous and non-hazardous fails are addressed within the time periods required in the SPPM should be evaluated in a future audit.

### **C. Program Expenditures Analysis and Testing**

**Audit Goal 1:** Determine and test on a sample basis whether all reported charges including general administration expenses and LIEE measure expenditures were relevant to the program and were sufficiently supported with appropriate documentation.

#### **Findings:**

- (1) SCG's LIEE expenditures, for the most part, were relevant to the LIEE program and sufficiently supported with appropriate documentation.
- (2) However, SCG failed to provide UAFCB with all supporting documentation for 84 of the 413 administrative transactions selected for testing.
- (3) In addition, UAFCB found posting errors for 10 expenditure transactions, for nine of which SCG took over two years to correct.

#### **Discussion:**

UAFCB judgmentally selected and tested 1,020 energy efficiency expenditure transactions from invoices recorded in SCG's accounting records totaling \$5,930,891 for calendar years 2007 and 2008. Of the 1,020 expenditure transactions selected for testing, 607 transactions were for LIEE measure and service charges from contractors totaling \$4,956,352, representing approximately 84% of total expenditures tested during the audit. UACFB also tested 413 transactions related to general and other administrative costs totaling \$974,539, or 16% of total expenditures.

During its testing of SCG's expenditure transactions for LIEE measures and services provided by contractors, UAFCB found SCG's charges, for the most part, to be relevant to the program, sufficiently supported with appropriate documentation, and accurately recorded in SCG's records.

For its testing of general administration and other administrative costs, UAFCB examined 196 non-labor transactions and 217 labor transactions. Of the 217 labor transactions

selected and tested, UAFCB found 35 labor transactions that failed to reconcile between amount recorded in SCG's SAP accounting records and amounts calculated based on the employee pay rates provided by SCG. In addition, UAFCB was not initially provided labor rates for 44 labor transactions and thus was initially unable to determine the accuracy of the amounts charged to the program.

Preliminary Findings and Recommendations – Supporting Documentation: Initially, during its examination of 196 non-labor expenditure transactions, UAFCB found 9 instances of posting errors that were not corrected until May and June of 2010. In addition, UAFCB found two charges for catering services and three charges for writing training that failed to include appropriate supporting documentation to verify charges were related to the LIEE program. UAFCB also found one transaction that appeared to be for San Diego Gas & Electric Company (SDG&E) but was recorded as expenditure to SCG's LIEE program.

At the exit meeting, SCG disputed (1) the findings for the missing documentation, stating that they were sent in previous Data Request (DR) responses to the UAFCB auditor and (2) the cost of the writing course, stating that it was necessary for DAP Field Specialist reporting requirements. UAFCB requested, and SCG agreed, to resubmit the DR responses with the support that was missing for the 44 labor transactions and the 2 catering services transactions that had been submitted previously, and to provide the writing course description and the job duties of the DAP Field Specialist to support justification of the cost for the writing courses.

UAFCB reviewed the documentation submitted by SCG following the exit meeting and has since revised its audit recommendation.

Preliminary Findings and Recommendations – Posting Errors: Initially, UAFCB recommended that SCG enhance its controls and processes to identify posting errors and make corrections in a timely manner. In response, SCG stated that in 2009 it implemented procedures to allow for posting errors to be identified and corrected in a timely manner. UAFCB requested and SCG agreed to provide the policy to support its newly implemented processes for identifying and correcting posting errors timely. SCG also satisfactorily clarified the supporting documentation provided for the transaction that appeared to be for SDG&E.

Upon review of SCG's updated policies and procedures for identifying and correcting posting errors in a timely manner, UAFCB has since revised its audit recommendation for this issue.

Preliminary Findings and Recommendations – Labor Transactions: During the exit meeting, SCG did not dispute the discrepancies that UAFCB found for the 35 labor transactions and explained that there were additional documents to support the recorded costs and agreed to provide the documents.

On February 4<sup>th</sup>, 10<sup>th</sup>, and 14<sup>th</sup>, SCG submitted the additional documentation which satisfactorily addressed the initial findings. For example, SCG provided the additional supporting documentation for the 35 labor discrepancies which included, among other things, additional employee premium rates for being bilingual, rate adjustments for overtime, union employee rates, and retroactive pay rate amounts. The documentation satisfactorily supported and explained the differences. However, as discussed with management during the exit meeting, this documentation should have been provided initially during the audit.

**Recommendations:**

- 1) During future audits, SCG needs to provide all supporting documentation and applicable explanations to support the recorded costs for each transaction selected for testing.
- 2) UAFCB should review the effectiveness of SCG's updated policies and procedures for identifying and correcting posting errors in a timely manner.

**D. Program Oversight**

**Audit Goal 1:** Determine if SCG's internal reporting system and management oversight processes for LIEE were properly in place, executed, and working.

**Findings:**

- (1) Overall, except for the incidences noted in other findings, SCG's internal reporting system and management oversight processes for LIEE were adequate.

**Discussion:**

SCG prepares a monthly internal report known as Program Activity Summary Report that updates the Director of Customer Assistance and higher level management on key program achievements. The report summarizes the LIEE program activities for installation, energy savings and expenditures of all four major energy utilities.<sup>9</sup> The Director is also provided a monthly report on the LIEE contractor activity which shows the number of homes treated and weatherized and contractor expenditures for the current month and year-to-date.

Updates on the LIEE program development and progress monthly internal reports are regularly channeled to SCG's executive level. In addition, SCG conducts internal audits of LIEE.

**Recommendations:** None.

**Audit Goal 2:** Determine whether SCG maintained adequate oversight over LIEE.

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<sup>9</sup> The four energy utilities consist of Pacific Gas & Electric Company, Southern California Edison Company, San Diego Gas and Electric Company, and SCG.

**Findings:**

- (1) SCG's management maintained adequate oversight over LIEE.
- (2) UAFCB was initially unable to assess the adequacy of SCG's corrective actions in response to SCG's internal audit report.

**Discussion:**

UAFCB obtained and reviewed an internal audit report on SCG's LIEE program issued on November 16, 2009. The internal audit report addressed SCG's business controls surrounding the LIEE program and compliance with the SPPM for the period January 1, 2008 through June 30, 2009.

The internal audit report addressed the following areas:

1. Administration, Accounting, and Reporting.
2. Contractor Administration.
3. Customer Outreach.
4. Customer Enrollment and Eligibility.
5. Premise Eligibility and Assessment
6. Premise Inspection.
7. Financial Management
8. Records Management.
9. Application Controls within the HEAT System.

The internal audit report indicated that SCG's LIEE program needed improvement in the following areas:

1. SCG's post-installation inspection process.
2. Controls for eligibility and enrollment processing.
3. Controls over customer complaint resolution.
4. Controls to update the status of its contractors with the California Contractors State License Board (CLSB) standing.

SCG provided a summary of the status on the corrective actions it took to address the above internal audit findings. UAFCB found SCG's overall responses to be acceptable. However, SCG did not include samples of the specific reports or policies, and the UAFCB was unable to determine the adequacy of the corrective actions taken by SCG.

Preliminary Findings and Recommendations: At the exit meeting, UAFCB requested that SCG provide additional documentation and information to evaluate whether SCG addressed the recommended corrections identified in the internal audit report. Subsequent to the meeting, SCG provided the additional documentation. UAFCB determined that SCG adequately addressed the areas needing improvement as recommended in the November 16, 2009 internal audit report.



**Recommendations:**

- 1) In a future audit, UAFCB should review the effectiveness of the corrections SCG implemented to address the findings in the November 16, 2009 internal audit report.

## **VI. CARE AUDIT FINDINGS**

### **A. Program Accounting and Reporting**

**Audit Goal 1:** Determine whether SCG's administrative costs charged to its CARE program were appropriate.

**Findings:**

- (1) In general, SCG's CARE administrative costs were appropriate.
- (2) SCG incurred total CARE administrative expenses of \$4.5 million for calendar year 2007 and \$4.5 million in 2008, both years were within its authorized budget.

**Discussion:**

Although total CARE administrative costs remained fairly consistent over calendar years 2007 and 2008, UAFCB found that consultant charges for two companies had significant fluctuations from 2007 to 2008. One consultant's charges increased by approximately 87%, going from \$90,345 in 2007 to \$698,610 in 2008 and the other charges decreased by approximately 70%, going from \$326,301 in 2007 to \$97,365 in 2008.

Preliminary Findings and Recommendations: During the exit meeting, UAFCB recommended that SCG provide a detailed explanation for these two fluctuations. In response, SCG explained that the fluctuations were due to neither consulting company providing a full-year of service in 2007 or 2008. For one consultant, charges increased because the amounts it charged in 2007 only included services that started in September 2007. For the other consultant, the charges decreased because SCG cancelled its contract in March 2008 due to the contractor's failure to meet the contract terms. UAFCB was satisfied with the explanations provided by SCG.

**Recommendation:** None.

## **VII. COMMENTS ON UAFCB's DRAFT AUDIT REPORT**

On April 29, 2011, the UAFCB submitted a copy of its draft audit report to SCG for its review and comments. The draft report included Sections I through VI, as well as the UAFCB's draft audit findings and recommendations.

SCG provided timely comments to UAFCB's draft audit report on May 20, 2011. In its comments, SCG provided some clarifications and corrections to UAFCB's draft audit report, but did not dispute any of its audit findings and recommendations. A copy of SCG's comments on UAFCB's draft audit report, in its entirety, is included in Appendix C.

## **VIII. UAFCB REBUTTAL**

In consideration of SCG's comments, UAFCB made minor edits and corrections to its draft audit report as appropriate. In addition, UAFCB made minor edits throughout its report to improve clarity or to correct minor errors.

Based on further investigation after the draft report issued for SCG's review and comments, UAFCB expanded its findings and recommendations in the area of furnace repair and adjustments provided in rental units. SCG did not have an opportunity to review or comment on UAFCB's expanded findings and recommendations. It may do so at its own discretion on the final audit report.

UAFCB appreciates SCG's willingness to accept UAFCB's findings and implement its recommendations on:

- Training of Outreach Specialists, see Section V.A., Audit Goal 1;
- Additional internal controls for addressing hazardous and non-hazardous fails, see Section V.B., Audit Goal 1;
- Additional reports and system enhancements to timely address hazardous and non-hazardous fails, see Section V.B., Audit Goal 1; and
- Providing all supporting documentation and/or explanations during audits.

UAFCB reserves the right to evaluate SCG's effectiveness in addressing these issues during future audits.



## Appendix A Background by Audit Task Area<sup>10</sup>

### **A. Program Accounting and Reporting**

SCG uses Sempra's company-wide System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its Low Income Energy Efficiency (LIEE) revenues and expenditures. SCG also utilizes additional feeder operating systems that interface with SAP to help manage and implement its LIEE programs.

One feeder operating system that interfaces with SAP and is used by SCG to assist in the administration and management of its LIEE program, is called the Home Energy Assistance Tracking (HEAT) system. HEAT is a database system used for gathering and maintaining LIEE customer application and enrollment information, tracking contractor service workflow, tracking program measure costs and installations, and tracking results from inspections. The HEAT system processes charges invoiced to SCG for measures and services provided to LIEE customers. Each type of measure and service captured in HEAT is linked to pre-assigned Internal Order (I/O) account numbers in SAP specific to the LIEE program. Once invoices are reviewed and approved by appropriate SCG management, the charges are then entered into SAP and processed for payment.

For capturing and recording employee labor charges related to its LIEE program, SCG uses Sempra's company-wide Workforce Information Tracking System (WITS). The data and information included in WITS is transferred and uploaded into SAP on a bi-weekly basis.

Another Sempra company-wide feeder operating system used by SCG is the Enterprise Contract Management System (ECM), which is used for the administration and management of service and material contracts. Implemented in February 2005, this system is linked to SAP to assist in maintaining contract information and monitoring payments to LIEE contractors.

On a monthly basis, Sempra's Utility Accounting – Regulatory Reporting Department reviews the LIEE expenses charged to the LIEE program SAP I/O accounts and posts the charges to the appropriate LIEE balancing accounts. SCG records its LIEE revenues and expenditures in the Gas Public Purpose Programs Low Income Balancing Account (Gas PPPLIBA).

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<sup>10</sup>A comprehensive summary of all aspects of the LIEE was included in UAFCB's report entitled "Regulatory Compliance and Financial Audit of the California Alternate Rates for Energy Program Administrative Costs and the LIEE of San Diego Gas & Electric Company (U-0902-E) and Southern California Gas Company (U-0904-G) for the Year Ended December 31, 2006," dated February 29, 2008.

**B. Program Implementation, Processes and Controls**

For the program years 2007 and 2008, SCG’s LIEE provided gas measures and services to eligible customers which included, but not limited to, attic insulation &/or venting, caulking, door repair/replacement, furnace repair/replacement, low-flow showerhead, miscellaneous minor home repairs, water heating repair/replacement, weather-stripping, and window repair/replacement.

In accordance with Commission D.06-12-038, SCG added one new measure, tankless water heaters, for inclusion to its LIEE program for calendar years 2007 and 2008.

Southern California Edison (SCE) is responsible for providing LIEE electric measures and services to eligible customers in SCG’s service territory. For the overlapping service territories, SCG and SCE have a contractual agreement in which SCG is responsible for the task of providing LIEE in-home energy education and materials to customers in SCE’s service territory. In addition, SCG is also responsible for determining if a customer is an eligible residential customer based on the general procedures in the Weatherization Installation Manuals and the SPPM.<sup>11</sup>

For calendar years 2007 and 2008, SCG administered and implemented its LIEE program with assistance from Community Based Organizations (CBOs) and private contractors. In calendar year 2007, SCG contracted with 27 private contractors and 35 private contractors in 2008. UAFCB provides a summary of LIEE measures provided by contractors in the following table.

**Table A-I  
 LIEE Contractors by Measure Type**

<b>Measure Type</b>	<b>2007</b>	<b>2008</b>
Education Workshops	1	1
Enrollment & Assessment Only	3	6
Heating Systems	5	5
Weatherization, Water Heating & Heating Systems	13	11
Inspections	2	1
Inspection, Weatherization, Water Heating Measures	0	1
Water Heating Measures, Weatherization	<u>3</u>	<u>10</u>
<b>TOTAL</b>	<b><u>27</u></b>	<b><u>35</u></b>

SCG’s LIEE contractors assessed customer eligibility, assisted in customer enrollment, provided in-home energy education, conducted in-home assessments, provided measure installation and services, and performed post inspections.

<sup>11</sup> SCG 0708LIEE-01 Q15

To ensure that the LIEE program was being administered and implemented in accordance with program guidelines, SCG employed field operations staff dedicated to conducting outreach and installation training, performing audits and field observations, correspond with contractors on a daily basis, and monitor the quality of work and customer service levels provided by its contractors. In addition, SCG utilized its HEAT system to track and monitor contractor production and expenditures ensuring that the contractors are performing work in accordance with contract terms and conditions.

During the audit, the UAFCB judgmentally selected and tested 90 customer files to ensure measures and services provided by contractors were in compliance with the LIEE Policy and Procedures Manual. In addition, UAFCB closely examined the design and structure of SCG's processes and controls for administering their LIEE program. Processes and controls examined by the UAFCB included: customer eligibility and enrollment, weatherization, installation and minor repairs, and post installation inspections.

***Customer Eligibility and Enrollment:*** Customer eligibility is generally based on 200% of the federal income guidelines, number of household members, participation in government low-income programs, and geographical location in SCG's service territory. Customers may enroll in the LIEE program by Categorical Eligibility, Self-Certification, or Full Documentation. Enrollment through categorical eligibility requires customers to provide proof of participation of a household member in any of the following government programs in the last 12 months: Aid to Families with Dependent Children; Temporary Assistance for Needy Families (TANF); Food Stamps; Healthy Families A or B; Low Income Home Energy Assistance Program (LIHEAP); Medi-Cal; and, Special Nutrition Program for Women, Infant, or Children (WIC).

Enrollment through self-certification only requires that a customer self-certifies based on the PRIZM code for the customer's address<sup>12</sup>. SCG accepts self-certification enrollment from customers in PRIZM codes 46 through 49 and 52 through 66.<sup>13</sup> Release of proof of income by the customer at the time of enrollment is optional for categorical eligibility and self-certification. By signing the enrollment form, the customer certifies that the household income is within the LIEE guidelines and agrees to provide proof of eligibility upon request by SCG for audit process.

In order to verify customer program qualifications, UAFCB examined the selected customers' enrollment applications (Customer Agreement form), number of occupants, household income sheet, proof of income, proof of participation in government low-income program, PRIZM code, and HEAT records.

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<sup>12</sup> The PRIZM coding system was developed by Nielsen Claritas to group consumers into segments. There are 66 segments of neighborhood or households identified based on geographical location, demographics and lifestyle behaviors (such as household income, age of resident, family size & children, homeownership, etc.).

<sup>13</sup> SDGE 0708LIEE-02 Q12; see Appendix B

***Weatherization, Installation and Minor Repairs***

Rental units are not eligible for major furnace repair or replacement and water heater major repair or replacement.

***Post-Installation Inspections***

UAFCB reviewed the following types of post-installation inspections performed for the LIEE program:

1. Attic Inspections –Mandatory inspections of installed attic/ceiling insulations performed at 100% by SCG contractors.
2. Random Inspections – Non-mandatory inspections which include minor repairs such as door weatherstripping & repairs, caulking, water heater repairs, installation of showerheads, etc.
3. Furnace Inspections –Non-mandatory inspections on furnace repairs and replacements.

UAFCB judgmentally selected and tested a total of 74 post-inspection records. Of the 74 post-inspection records examined, UAFCB reviewed 33 random post-inspections, 28 furnace post-inspections, and 13 attic installation post-inspections. From the 74 post-inspection records examined, UAFCB found a total of 15 that passed post-inspection, 32 included non-hazardous fails, and 27 included hazardous fails. In the following table, UAFCB provides a detailed breakdown of the post-inspection results from the 74 post-inspections selected and tested.

**Table A-II  
 Post-Inspection Results Selected for Testing**

Inspection Type	Pass	Fail	Hazard Fail	Total
Attic	4	3	6	13
Furnace	3	13	12	28
Random	<u>8</u>	<u>16</u>	<u>9</u>	<u>33</u>
Total	<u>15</u>	<u>32</u>	<u>27</u>	<u>74</u>

**C. Program Expenditure, Analysis and Testing**

For the analysis and testing of the LIEE program for the years 2007 and 2008, UAFCB segregated its testing into three groups based on the nature of the charge: (1) measure/invoice-energy efficiency expenses, (2) general administration expenses, and (3) other administrative costs and other non-energy efficiency expenses. UAFCB analyzed the monthly expenditures for the three major cost categories and identified the months with the highest program costs, with the exception of the month of December. Based on the information provided by SCG, the months of May, August, and November 2007, and July, September, and October 2008 had the highest LIEE

expenditures totals for all three major cost categories. UAFCB judgmentally selected expenditure transactions for testing, totaling \$5.9 million, or 9.5% of the combined program costs for the years 2007 and 2008. In the following table, UAFCB provided a detailed breakdown of the expenditure amounts selected for testing based on the three major cost categories.

**Table A-III  
 LIEE Expenditures Selected for Testing**

<b>Type of Expenditure</b>	<b>2007 &amp; 2008 Total Expenditures</b>	<b>Amount Tested</b>	<b>Percentage (%) Tested</b>
Measure/Invoice-Energy Efficiency	\$53,230,509	\$4,956,352	9.3%
General Administration	4,372,047	446,557	10.2%
Other Administration	<u>4,562,354</u>	<u>527,982</u>	<u>11.6%</u>
<b>Total Program Cost</b>	<b><u>\$62,164,910</u></b>	<b><u>\$5,930,891</u></b>	<b><u>9.5%</u></b>

For the measure/invoice energy efficiency expenditure category, UAFCB selected a total of 607 transactions from SCG's SAP accounting system and requested the supporting invoices for the charges. Invoices included charges for gas appliances, weatherization, outreach and assessment, and in-home energy education. For the general administration expense category, UAFCB selected a total of 235 transactions from SCG's SAP accounting system pertaining to management/clerical salaries, contract services, materials, and employee travel. For the other administrative and non-energy efficiency expense category, UAFCB selected a total of 178 transactions from SCG's SAP accounting system that included charges for inspections, marketing, regulatory compliance, and the Commission's Energy Division.

In the following table, UAFCB provides a detailed breakdown of the LIEE expenditures and percentage tested by cost category for the years 2007 and 2008.

**Table A-IV  
 LIEE Expenditures and Percentages Tested By Category**

A	B	C	D = B+C	E	F	G = E + F	H = G/D*100
Category	Expenditures Per Annual Report (in dollars)			Amount Tested (in dollars)			% Tested to Total
	2007	2008	Total	2007	2008	Total	
Gas Appliances	4,168,813	5,412,432	9,581,245	420,532	983,147	1,403,679	14.6%
Weatherization	13,167,029	16,510,796	29,677,825	1,230,118	1,270,121	2,500,239	8.4%
Outreach and Assessment	5,433,697	7,207,649	12,641,346	475,392	476,560	951,952	7.5%
In-Home Energy Education	497,445	832,644	1,330,089	51,105	49,380	100,485	7.5%
<b>Total for Measures</b>	<b>23,266,984</b>	<b>29,963,517</b>	<b>53,230,505</b>	<b>2,177,147</b>	<b>2,779,208</b>	<b>4,956,355</b>	<b>9.3%</b>
General Administration	1,798,220	2,573,825	4,372,045	118,179	328,389	446,568	10.2%
Inspections	1,330,885	1,698,937	3,029,822	223,936	154,527	378,463	12.4%
Marketing	308,650	297,843	606,493	26,528	65,922	92,450	15.2%
M&E Studies	4,277	135,640	139,917	0	0	0	0%
Regulatory Compliance	237,493	211,968	449,461	20,977	12,459	33,436	7.4%
Training Center	125,952	166,926	292,878	7,864	12,068	19,932	6.8%
Energy Division	24,705	19,078	43,783	2,452	1,650	4,102	9.3%
<b>Total Admin</b>	<b>3,830,182</b>	<b>5,104,217</b>	<b>8,934,399</b>	<b>399,936</b>	<b>575,015</b>	<b>974,951</b>	<b>10.9%</b>
<b>Grand Total</b>	<b>27,097,166</b>	<b>35,067,734</b>	<b>62,164,904</b>	<b>2,577,083</b>	<b>3,354,223</b>	<b>5,931,306</b>	<b>9.5%</b>

***Measure/Invoice – Energy Efficiency Expenses:***

During its testing of the measure/invoice - energy efficiency expenditure category, UAFCB judgmentally selected transactions by invoice and category in SCG's SAP report with a combined total of \$4,956,355 or 9.3% of the \$53,230,505 total energy efficiency expenditures for 2007 and 2008. The purpose of this test was to evaluate whether the charges were appropriate and relevant to the LIEE program by reviewing the invoices for accuracy, tracking measure costs on invoice to customer records, and reviewing documentation, including contracts, employee labor rates and approved hours. For additional testing of the measure/invoices selected for testing, UAFCB also sampled 52 invoices from the total invoices provided by SCG and selected one customer from each of the 52 invoices and evaluated whether the measures that the contractor billed for that customer agreed with what was in the customer's file.

***General Administration Expenses***

SCG recorded \$1,798,222 and \$2,573,825 for general administration expenses for years 2007 and 2008, respectively. UAFCB judgmentally selected 129 transactions totaling \$118,169 from SCG's 2007 SAP data dump and 106 transactions totaling \$328,388 from SCG's 2008 SAP data dump for a combined total of 235 transactions totaling \$446,557 for 2007 and 2008. The LIEE general administration expenditures consisted of (1) salaries, (2) payroll taxes & additives, vacation & sick, (3) service - contract labor, (4) employee travel, and (5) other materials and services. Of the total for 2007 and 2008 expenditures, 90% and 88%, respectively, represented labor charges. UAFCB requested

documents to support the selected transactions which consisted of invoices and documentation to support labor hours and rates.

***Other Administration and Non-Energy Efficiency Expenses***

SCG recorded \$2,031,962 and \$2,530,392 for other administration and non-energy efficiency expenditures for 2007 and 2008 respectively. UAFCB judgmentally selected 75 transactions totaling \$281,758 from SCG's 2007 SAP data dump and 103 transactions totaling \$246,224 from SCG's 2008 SAP data dump for a combined total of 178 transactions totaling \$527,982 for both 2007 and 2008. The category of LIEE other administration and non-energy efficiency expenditures consisted of costs for the Commission's Energy Division, Inspections, Measurement and Evaluation Studies, Marketing, and Regulatory Compliance. UAFCB requested documents to support the selected transactions which consisted of invoices and documentation to support labor hours and rates.

**D. Program Oversight**

Among other things, SCG's Director of Customer Assistance is responsible for the overall management and implementation of SCG's LIEE Program. The Director's responsibilities include, oversight and management of the program's day-to-day operations to ensure that the program meets Commission goals and objectives; working with SCG's executive management to set program policies and goals; representing SCG at various regulatory and legislative proceedings; working and negotiating with interested parties to resolve LIEE related issues and concerns; and serving as the energy utility representative on the Low Income Oversight Board on a rotational basis with the other energy utilities.

The Customer Assistance Manager (Programs) reports directly to SCG's Director-Customer Assistance. The position is responsible for developing and implementing program plans and budgets, working with and negotiating contracts with CBOs, contractors and other vendors who perform various implementation services, developing collateral materials and management of the HEAT database.

The Customer Assistance Manager also attends biweekly and monthly meetings to ensure the executive management has sufficient and reliable information on the LIEE and CARE Programs.

SCG prepares a monthly internal Program Activity Summary Report that is used to update the Director of Customer Assistance and higher level management on key program achievements. The report summarizes the program activities of the LIEE and CARE programs as well as the other energy utilities' customer assistance programs. SCG also prepares a monthly internal Dashboard report which is provided to the Director of Customer Assistance and other executive level management. The monthly Dashboard report includes information on LIEE contractor activities for the number of homes treated



and weatherized, the amount of expenditures for the current month and year-to-date, and CARE program cost, discounts and enrollments.

### **E. California Alternate Rates for Energy (CARE) Program**

As stated in D.02-07-033, the statewide goal of the Commission and utilities is to enroll 100% of all qualified customers and housing facilities to the CARE program. Pursuant to D.01-06-010, CARE provides a 20% discount to qualified residential customers and housing facilities that provide housing to low income individuals or households.

Customers may directly apply for the CARE discount with the utilities. In D.02-07-033, the Commission authorized automatic enrollment by allowing eligible customers to be automatically enrolled in the CARE program without requiring income verification.

Customers enroll by self-certification based on household size and income level or by categorical eligibility based on their participation in federal or state assistance programs such as Medi-Cal, Food Stamps, LIHEAP, WIC, TANF and Healthy Families A & B. The customer is enrolled in the program effective the next billing period once the application is approved.

Qualified housing facilities include group living facilities, hospices, homeless shelters, women's shelters with tax exempt status, non-profit migrant farm worker housing centers, etc. Facilities have to recertify their CARE eligibility annually.

CARE customers residing in mobile home parks and sub-metered apartments with master-metered accounts should be billed by their landlord at the discounted rate. Most residential customers are required to recertify every two years or four years if they pass the probability model. Fixed income customers must recertify their CARE eligibility every four years and sub-metered customers must recertify every year.

Since income verification is not required, SCG performs post-enrollment verifications by randomly selecting customers and requesting that they provide proof of eligibility. This random verification process is administered by SCG's CARE department.

To assist in the administration of the CARE program, SCG implemented the Customer Assistance Reporting and Enrollments in September 2007 to help manage the major aspects of the CARE program. The CARE system functions both as a reporting and processing tool and also tracks and reports enrollment activity for the program.

SCG records reflected CARE administrative costs totaling \$4.5 million in 2007 and \$4.5 million in 2008. In the following table, UAFCB provides a detailed breakdown of the CARE administrative expenditures for 2007 and 2008.



**Table A-V**  
**CARE Administrative Costs by Major Cost Category**

<b>Expenditures</b>	<b>2007</b>	<b>% to Total Admin Cost</b>	<b>2008</b>	<b>% to Total Admin Cost</b>
Outreach	\$ 2,448,688	54.27%	\$2,347,745	51.20%
Processing	957,800	21.23%	1,050,483	22.91%
Billing System	264,556	5.86%	362,492	7.91%
M&E	15,099	0.33%	10,669	0.23%
Regulatory Compliance	224,221	4.97%	220,025	4.80%
General/Other Admin	544,224	12.06%	549,648	11.99%
Energy Division	<u>57,646</u>	<u>1.28%</u>	<u>44,516</u>	<u>0.97%</u>
<b>Total Administrative Cost</b>	<b><u>\$4,512,234<sup>14</sup></u></b>	<b><u>100%</u></b>	<b><u>\$4,585,578</u></b>	<b><u>100%</u></b>

Of these CARE administrative costs incurred by SCG for calendar years 2007 and 2008, over 80% of those expenditures were for management/clerical salaries, advertising, consulting, print/graphics and postage. The remaining administrative expenditure amounts incurred were for employee travel and other materials and services. In the following table, UAFCB provides a detailed breakdown of SCG's CARE administrative charges by cost element type and their percentages to total administrative costs for calendar years 2007 and 2008.

**Table A-VI**  
**CARE Administrative Expenditure by Cost Element**

<b>Cost Element</b>	<b>2007</b>	<b>% to Total Admin Cost</b>	<b>2008</b>	<b>% to Total Admin Cost</b>
Labor	\$1,492,772	33.08%	\$1,664,973	36.31%
Consulting	707,113	15.67%	933,833	20.36
Postage	727,843	16.13%	530,584	11.57%
Advertisement	369,184	8.18%	331,930	7.24%
Print/Graphics	394,768	8.75%	322,862	7.04%
Other *	<u>820,554</u>	<u>18.19%</u>	<u>801,395</u>	<u>17.48%</u>
<b>Total Administrative Cost</b>	<b><u>\$4,512,234<sup>15</sup></u></b>	<b><u>100%</u></b>	<b><u>\$ 4,585,578</u></b>	<b><u>100%</u></b>

\*Other consists of multiple cost elements, i.e. travel, benefits, M&E, regulatory compliance, etc. all of which individually represent less than of 7% of total cost.

During the audit, the UFACB performed an analysis of SCG's CARE balancing account and found that monthly debit and credit entries for CARE administrative expenditures, program discounts, revenue shortfalls, recorded gas surcharges remitted to the BOE,

<sup>14</sup> Off by \$1 due to rounding

<sup>15</sup> Off by \$1 due to rounding

reimbursement of surcharges, and earned interest were made in accordance with its Preliminary Statement filed with the Commission.

SCG's California Alternate Rates for Energy Account (CAREA) balancing account consists of two subaccounts – (1) The CARE subaccount is used to balance CARE program expenses incurred against gas surcharge funds reimbursed from the State of Board of Equalization (BOE) and (2) The CARE/TANF (Temporary Assistance for Needy Families) Subaccount which is used to record actual expenses incurred by SCG for implementing the CARE/TANF Leveraging Program as adopted by the Commission in Rulemaking (R.) 10-02-005.<sup>16</sup>

(END OF APPENDIX A)

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<sup>16</sup> There are no entries in the CARE/TANF subaccount during 2007 and 2008. CAREA balancing account was revised to include the CARE/TANF subaccount effective April 22, 2010. Rulemaking 10-02-005 addresses the Residential Disconnection Settlement Agreement.

## Appendix B Applicable Commission Directives

<b>LIEE Income Guidelines</b>	
<b>Directive</b>	<b>Directive's Highlights</b>
D.01-06-010	Set the income guidelines at 175% of Federal Poverty Guidelines (FPG) for LIEE: Handicapped and seniors qualify at 200% of FPG.
D.05-10-044	Expanded eligibility for LIEE and CARE from 175% of FPG to 200% of FPG effective November 1, 2005.

<b>LIEE - Funding Levels and Budgets</b>	
<b>Directive</b>	<b>Directive's Highlights</b>
PUC § 382	Established Minimum Funding Levels
PUC § 2790	<ol style="list-style-type: none"> <li>1. Mandated direct assistance to low income customers in the form of feasible energy efficiency measures and education;</li> <li>2. Feasible energy efficiency measures include weatherization services and energy efficient appliances</li> </ol>
D.03-11-020	<ol style="list-style-type: none"> <li>1. Refined the measures offered by LIEE</li> <li>2. Ordered unspent funding from prior years to be carried forward</li> </ol>
D.04-08-010	Implemented PUC § 890 establishing a natural gas surcharge to fund gas related PPP.
D.06-12-038	Established Funding Levels and Budgets for 2007-2008 Program Years and list of allowable measures.
D.07-06-004	Minor corrections to D.06-12-038 granting one year deferral for the third party administrator competitive bidding process.

<b>LIEE Measurement and Evaluation</b>	
<b>Directive</b>	<b>Directive's Highlights</b>
D.07-06-004	Established the LIEE Measurement and Evaluation budget at \$260,000 for each program year 2007 – 2008.

<b>LIEE Reporting Requirements</b>	
<b>Directive</b>	<b>Directive's Highlights</b>
D.00-09-036	Standardized LIEE by adopting the first Statewide Weatherization Installation Standards Manual (WIS). Ordered the development of a Statewide Policy and Procedures Manual (SPPM).
D.01-03-028	<ol style="list-style-type: none"> <li>1. Adopted a Reporting Requirements Manual.</li> <li>2. Adopted a Statewide SPPM and revised the original WIS manual</li> </ol>
D.01-12-020	Standardized LIEE reporting methodology and expanded the WIS and SPPM adopted earlier.

<b>CARE Policies and Procedures</b>	
<b>Directive</b>	<b>Directive's Highlights</b>
D.89-09-044	<ol style="list-style-type: none"> <li>1. Implemented the Low Income Energy Rate Assistance (LIRA) Program, providing a 15% discount on energy bills to residential customers with total household income below 150% of FPG.</li> <li>2. Only incremental administrative costs are permitted to be booked to the balancing accounts. Administrative costs are to be allocated between gas and electric in the same proportions as gas and electric program discounts.</li> </ol>
D.95-10-047	Made changes to LIRA including changing the name to CARE.
D.99-12-001	Described the types of income used to determine eligibility.
D.01-06-010	Set the income guidelines at 175% of Federal Poverty Guidelines (FPG) for both LIEE and CARE: Handicapped and seniors qualify at 200% of FPG.
D.02-07-033	<ol style="list-style-type: none"> <li>1. Set participation goals of 100% and adopted automatic enrollment from certain social programs.</li> <li>2. Adopted improvements to the annual estimation of eligible customers.</li> </ol>
D.02-09-021	Authorized the recovery of CARE administrative costs through a balancing account, subject to the Commission's determination that such costs are reasonable and in compliance with the revisions to PUC § 739.1.
D.05-10-044	Expanded eligibility for LIEE and CARE from 175% of FPG to 200% of FPG effective November 1, 2005.
D.06-12-038	Established Funding Levels and Budgets for 2007-2008 Program Years and list of allowable measures.

(END OF APPENDIX B)

July 14, 2011

## Appendix C



Joy C. Yamagata  
Regulatory Manager  
Southern California Gas Company  
8330 Century Park Court  
San Diego, CA 92123-1530

May 20, 2011

A. 08-05-025

Bernard Ayanruoh – Program and Project Supervisor  
Utility, Audit, Finance and Compliance Branch  
California Public Utilities Commission  
505 Van Ness Avenue, 3<sup>rd</sup> Floor  
San Francisco, CA 94102

**Re: SoCalGas Comments on Draft Financial, Management and Regulatory Compliance Audit Report on the California Alternate Rates for Energy Program Administrative Costs and Low Income Energy Efficiency Program**

Dear Mr. Ayanruoh:

Southern California Gas Company (SoCalGas) has reviewed the draft report prepared by the Utility, Audit, Finance and Compliance Branch (UAFCB); in response to the audit of SoCalGas' low income programs for 2007 and 2008. SoCalGas provides the following comments/corrections for consideration and potential incorporation into the "final" version of the audit report and findings.

**Section III – Introduction**

Page 3 – CARE Seventh Bullet: The text states "Set the CARE administrative budget at \$4.5 million and \$4.6 million for 2007 and 2008 program years, respectively." The dollar amounts should be corrected to \$4.7 million and \$4.7 million per year in accordance with Decision (D.) 07-06-044 which made minor corrections to D. 06-12-038.

**Section V – LIEE Audit Findings**

Page 7 – Section A. Accounting and Reporting Audit Goal 1 Discussion:

There is a typographical error in the third paragraph, third line. The text states "...uploaded into SAP on a b-weekly basis." Text should be corrected to "...uploaded into SAP on a bi-weekly basis."

Pages 10 and 11 – Section B. Program, Implementation, Process and Controls Audit Goal 1 Discussion Recommendations 1 -3:

SoCalGas agrees with the recommendations.

Page 12 – Section C Program Expenditures Analysis and Testing Audit Goal 1 Recommendation 1:

SoCalGas agrees with the recommendation.

Page 13 – Section D Program Oversight Audit Goal 1 Discussion:

The verbiage states “SCG’s Customer Assistance Manager has direct responsibility for the day-to-day operations of Sempra’s Customer Assistance programs including the LIEE and CARE programs.” In the context in which this is written, the statement is incorrect and should be revised to state “SCG’s Customer Assistance Manager has direct responsibility for the day-to-day operations of SCG’s LIEE program.”

If you have any questions, please do not hesitate to contact me.

Sincerely,



Joy C. Yamagata  
Regulatory Manager

cc: K. Nakamura – CPUC  
G. Robles – CPUC  
H. Vaughn – CPUC  
K. Hassan – SCG  
Central Files

(END OF APPENDIX C)

July 14, 2011

## Appendix D Abbreviations and Acronyms

CARE	California Alternate Rate for Energy
CBOs	Community Based Organizations
D.	Decision
ECM	Enterprise Contract Management
GRC	General Rate Case
HEAT	Home Energy Assistance Tracking
I/O	Internal Order
LIEE	Low Income Energy Efficiency Program
LIHEAP	Low Income Home Energy Assistance Program
SAP	Systems and Applications Products Accounting System
SCE	Southern California Edison Company
SCG	Southern California Gas Company
SDG&E	San Diego Gas and Electric Company
SPPM	Statewide LIEE Program Policy and Procedures Manual
TANF	Temporary Assistance for Needy Families
UAFCB	Utility Audit, Finance and Compliance Branch
WIC	Women, Infant and Children
WITS	Workforce Information Tracking System

(End of Appendix D)