

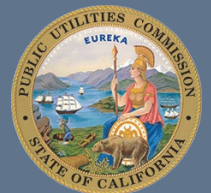


ENERGY EFFICIENCY PROGRAM PERFORMANCE AUDIT

Pacific Gas & Electric Company

January 1, 2019, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
May 24, 2023



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

May 24, 2023

Ms. Marlene Murphy-Roach, Director
Programs Delivery & Enablement
Pacific Gas & Electric Company
300 Lakeside Drive
Oakland, CA 94612

Dear Ms. Murphy-Roach:

Final Report Transmittal Letter—Audit of Pacific Gas & Electric Company’s Energy Savings Assistance Program for the period of January 1, 2019, through December 31, 2021.

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Pacific Gas & Electric Company’s (PG&E) Energy Savings Assistance program for the period of January 1, 2019, through December 31, 2021, or Program Years 2019-2021. The final audit report is enclosed.

PG&E’s response to the draft report finding and our evaluation of the response are incorporated in this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

A Corrective Action Plan (CAP) addressing the finding and recommendations is required. Please submit the CAP within 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to: UtilityAudits@cpuc.ca.gov.

We appreciate PG&E’s assistance and cooperation during the engagement and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Nichelle Jackson, Supervisor, at (916) 503-6096.

Sincerely,

Masha Vorobyova for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page (transmitted via email)

Ms. Marlene Murphy-Roach
Director of Programs Delivery & Enablement
May 24, 2023
Page 2

cc: Tina Nguyen, Expert Program Manager, PG&E
Neil Singh, Senior Program Management Manager, PG&E
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MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Jeff Walter, Lead

Cole Chev, Staff

Nancy Ta, Staff

A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

You can contact our office at:

**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Energy Savings Assistance (ESA) program's total unspent and uncommitted funds, reported by Pacific Gas & Electric Company (PG&E) for the audit period of January 1, 2019, through December 31, 2021, or Program Years (PY) 2019, 2020, and 2021.

Our audit objectives were to determine whether:

1. PG&E's total amount of unspent and uncommitted ESA funds, as defined in CPUC Decision (D.) 16-11-022 for PYs 2019, 2020, and 2021, were reported accurately in PG&E's ESA and California Alternate Rates for Energy (CARE) program Annual Report¹ (Annual Report), supported by appropriate source documents, and in compliance with applicable Public Utilities (PU) Code sections, CPUC D.16-11-022, D.17-12-009, D.19-06-022, and D.21-06-15, PG&E's policies and procedures, and other relevant criteria; and
2. The unspent and uncommitted ESA fund balances at the end of PYs 2020 and 2021 were spent in accordance with applicable PU Code sections, CPUC D.16-11-022, D.17-12-009, D.19-06-022, and D.21-06-015, PG&E's policies and procedures, and other relevant criteria.

Based on the procedures performed, samples tested, and evidence gathered, we found that PG&E spent ESA fund balances in accordance with applicable PU Code sections, CPUC decisions, and PG&E's policies and procedures. However, there was an instance of non-compliance with some of the requirements. This instance is quantified in the Summary Schedule of Audit Results and described in the Finding and Recommendations section of this audit report.

The audit finding is summarized as follows:

Finding: Overstated Expenditures in PY 2021 Annual Report

PG&E overstated expenditures for PY 2021 in its Annual Report by \$778,626 due to inadequate monitoring of its implementer, which led to PG&E reimbursing unsupported subcontractor costs.

Resulting from this finding, PG&E's total amount of unspent and uncommitted ESA funds for PY 2021 was not reported accurately due to these overstated expenditures. This overstatement resulted in the ESA unspent fund balance for PY 2021 to be understated by the same amount. The correct amount of unspent and uncommitted ESA funds for PY 2021 should be \$71,811,202, as outlined in the table on the next page:

¹ The Annual Report captures the ESA expenditures for each specific program year without considering the balances from preceding years. In addition, the Annual Report does not capture the ESA collections and interest received for the program. Therefore, to determine the total amount of unspent and uncommitted funds for the ESA program for the audit period as a whole, we obtained relevant information from PG&E's applicable balancing accounts, which includes ESA collections, expenditures, and interest.

PY 2021	Unspent and Uncommitted ESA Funds
Reported	\$ 71,032,576
Audit Adjustment	778,626
Updated Total	\$ 71,811,202

We issued a draft report on May 1, 2023. PG&E responded by letter dated May 11, 2023, suggesting additional clarification language in the Cause and Effect sections of the Finding. PG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report. Our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Energy Efficiency Program

The Energy Efficiency (EE) programs are established to help California be more energy efficient and significantly reduce California's greenhouse gas emissions. The primary purpose of the EE programs is to develop programs and measures to meet energy savings goals and transform technology markets within California. The programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation, air conditioning, industrial manufacturers, and agriculture. The CPUC authorizes set budgets to the EE programs annually, which are funded by a small portion of electricity and gas rates included in ratepayer bills. EE programs utilize a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, and marketing.

The EE program is principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California. The four major IOUs in California are PG&E, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company.²

Energy Savings Assistance Program

The ESA program provides no-cost home weatherization services and energy efficiency measures to help qualified low-income California households: (1) conserve energy; (2) reduce energy costs; and (3) improve health, comfort, and safety. The program also provides information and education to promote energy efficient practices in low-income communities.

Originally offered as an assistance program from a few IOUs in the 1980s, the ESA program was later adopted and codified into statute in 1990. The original objective of the program was to promote equity and to help relieve low-income customers of the burden of rising energy prices.

The IOUs were directed to implement the ESA program in order to achieve statewide energy savings while improving the quality of life for low-income customers. The ESA program is funded by both participating and non-participating ratepayers as part of a statutory public purpose program surcharge that appears on monthly utility bills.

As required by D.16-11-022, Ordering Paragraph (OP) 136, PG&E shall include in its Annual Report a summary of unspent funds, identifying both funds that are carried over and funds that used to offset collections in the next program year.

PG&E files its Annual Report with the Low-Income Oversight Board. The intent of the Annual Report is to provide the CPUC with the means to monitor spending levels and achievement of program goals, including enrollment and progress toward increasing energy efficiency for households participating in ESA and CARE.

² San Diego Gas & Electric and Southern California Gas Companies are affiliated subsidiaries of SEMPRRA.

PG&E filed its Annual Report as follows: (1) PY 2019 in May 2020, (2) PY 2020 in May 2021, and (3) PY 2021 in June 2022. In Tables 1 and 1A of its Annual Report, PG&E reported expenditures based on the incurred amount by program year. The following table illustrates PG&E's calculation of total unspent and uncommitted ESA funds for the audit period based on the recorded ESA program amounts, including cumulative totals at the end of each PY, in PG&E's Public Purpose Program Low-Income Balancing Accounts (PPPLIBA-Energy (E) & PPPLIBA-Gas (G)).

Total Unspent and Uncommitted ESA Funds for PYs 2019, 2020, and 2021

ESA Program Category	Reported ¹		
	2019	2020	2021
Beginning Balance ²	\$ 250,287,117	\$ 224,633,879	\$ 197,885,073
Collections	137,985,940	119,389,687	46,507,295
Expenditures ³	(168,627,949)	(147,733,576)	(173,457,134)
Accrued Interest ⁴	4,988,771	1,595,083	97,342
Total Unspent & Uncommitted ESA Funds	<u>\$ 224,633,879</u>	<u>\$197,885,073</u>	<u>\$ 71,032,576</u>

¹ The balances are reported from PG&E's PPPLIBA-E & PPPLIBA-G accounts.

² The auditor traced beginning balances to PG&E's accounting system.

³ This table reflects total expenses reported in the Annual Report, Tables 1 and 1A, plus manual adjustments. The Annual Report for PYs 2019, 2020, and 2021, Tables 1 and Table 1A reported the amounts as \$170,951,067, \$142,431,081, and \$178,119,704 respectively. This table above represent recorded amounts verified during the audit fieldwork.

⁴ Balancing account interest is derived from PG&E's PPPLIBA-E & PPPLIBA-G accounts.

Audit Authority

The UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to CPUC D.16-11-022, OP 141, CPUC directed UAB to determine the audit scope and timeline for ESA and CARE program audits to address concerns regarding transparency.

Objectives and Scope

Our audit objectives were to determine whether:

1. PG&E's total amount of unspent and uncommitted ESA funds, as defined in CPUC D.16-11-022 for PYs 2019, 2020, and 2021, were reported accurately in PG&E's Annual Report³, supported by appropriate source documents, and in compliance with applicable PU Code sections, CPUC D.16-11-022, D.17-12-009, D.19-06-022, and D.21-06-15, PG&E's policies and procedures, and other relevant criteria; and

³ The Annual Report captures the ESA expenditures for each specific program year without considering the balances from preceding years. In addition, the Annual Report does not capture the ESA collections and interest received for the program. Therefore, to determine the total amount of unspent and uncommitted funds for the ESA program for the audit period as a whole, we obtained relevant information from PG&E's applicable PPPLIBA-E and PPPLIBA-Gb, which includes ESA collections, expenditures, and interest.

2. The unspent and uncommitted ESA fund balances at the end of PYs 2020 and 2021 were spent in accordance with applicable PU Code sections, CPUC D.16-11-022, D.17-12-009, D.19-06-022, and D.21-06-15, PG&E's policies and procedures, and other relevant criteria.

The scope of our audit covered the ESA program total unspent and uncommitted funds reported by PG&E for the audit period of January 1, 2019, through December 31, 2021, or PYs 2019, 2020, and 2021.

Methodology

In planning our audit, we gained an understanding of the ESA program and respective sub-programs and PG&E operations and identified relevant criteria, by reviewing applicable PU Code sections, the CPUC Energy Efficiency Policy Manual, Statewide ESA program 2017-2020 Policies and Procedures Manual, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and interviewing PG&E's personnel.

We conducted a risk assessment, including evaluating whether PG&E's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from PG&E's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objective, we:

- Reviewed PG&E's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring ESA program costs.
- Assessed whether PG&E's policies, procedures, and practices comply with ESA program requirements.
- Reviewed and reconciled expenditure totals, by budget category, recorded in PG&E's accounting system to the balances reported in PG&E's Annual Reports for PYs 2019, 2020, and 2021, Table 1 and 1A, for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and evaluating program requirements.
- Reviewed results of prior audits.
- Assessed the results of PG&E's internal review over its contract compliance relevant to the audit objectives.

- Obtained an understanding of PG&E’s key internal controls relevant to the ESA program, such as classifying and recording, monitoring, approving, and reporting ESA program expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing PG&E’s policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of ESA expenditure data;
 - evaluating and performing walkthroughs of the ESA program contracting and solicitation process;
 - performing walkthroughs of selected transactions; and
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed expenditure testing by judgmentally selecting a non-statistical sample of significant transactions. We tested \$33,451,810 of \$489,818,659 for PYs 2019, 2020, and 2021 as itemized in the table below:

Budget Category	Total Expenditures Tested	Total Expenditures Recorded for PYs 2019 - 2021	Percent Tested
Customer Enrollment	\$ 1,572,642	\$ 60,209,841	3%
Multifamily Common Area Measures	13,910,604	23,960,105	58%
Lighting	11,964,527	86,043,393	14%
Heating, Air Conditioning, and Ventilation	2,767,833	72,394,929	4%
Enclosure	2,643,524	91,754,357	3%
In-Home Education	592,680	18,869,466	3%
Other Categories Not Tested	-	136,586,568	0%
Totals	\$ 33,451,810	\$ 489,818,659	7%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in PG&E’s accounting records to supporting documentation and determined whether costs were accurate, relevant to the ESA program, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E’s policies and procedures by:
 - tracing expenditures to invoices to ensure the expenditure (1) was incurred and/or approved within PYs 2019, 2020, or 2021, (2) agreed to the invoice amount, and (3) was calculated correctly;

- tracing reported subcontractor expenditures to documentation in PG&E's Energy Insight system and to customer documentation to determine eligibility for the ESA program;
- verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm expenditure was allowable; and
- confirming payment was made for the expenditure and agreed to the invoiced amount.
- Traced interest accrued balances to supporting documentation and determined whether interest accrued was accurate by recalculating the interest amount as itemized below:

Interest Accrued	Tested	Total Interest Reported	Percent Tested
PY 2019	\$ 303,741	\$ 4,988,771	6%
PY 2020	197,500	1,595,083	12%
PY 2021	11,141	97,342	11%
Totals	\$ 512,382	\$ 6,681,196	8%

- Traced ESA program collection amounts reported in PG&E's balancing accounts to collections recorded in PG&E's accounting system for PYs 2019, 2020, and 2021.
- Calculated the total unspent and uncommitted ESA fund balance for the audit period using audited data.

We did not audit PG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that PG&E reported, incurred, and supported its ESA unspent and uncommitted funds in accordance with the applicable criteria. We considered PG&E internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements. GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found that PG&E spent ESA fund balances in accordance with applicable PU Code sections, CPUC decisions, and PG&E's policies and procedures. However, there was an instance of non-compliance with some of the requirements. This instance is quantified in the Summary Schedule of Audit Results and described in the Finding and Recommendations section of this audit report.

PG&E's total amount of unspent and uncommitted ESA fund balance for PY 2021 was not reported accurately due to overstated expenditures. PG&E overstated reported expenditures by \$778,626. This

overstatement resulted in ESA unspent and uncommitted fund balance for PY 2021 to be understated by the same amount.

The correct amount of unspent and uncommitted ESA funds for PY 2021 should be \$71,811,202, as outlined in the table below:

PY 2021	Unspent and Uncommitted ESA Funds
Reported	\$ 71,032,576
Audit Adjustment	778,626
Updated Total	\$ 71,811,202

Follow-up on Prior Audit Findings

Our prior Energy Efficiency audit report for PY 2020, covering the period of January 1, 2020, through December 31, 2020, issued on November 21, 2021, disclosed no findings.

Views of Responsible Officials

We issued a draft report on May 1, 2023. PG&E responded by email dated May 11, 2023, suggesting additional clarification language in the Cause and Effect sections of the Finding. PG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report. Our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of PG&E and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report which is a matter of public record and is available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULE OF AUDIT RESULTS

Table 1: ESA Unspent and Uncommitted Available Funds

Category	Reported ¹	Audited ⁶	Audit Adjustment ⁷
<u>PY 2019</u>			
Beginning Balance ²	\$ 250,287,117	\$ 250,287,117	\$ -
Collections ³	137,985,940	137,985,940	-
Expenditures ⁴	(168,627,949)	(168,627,949)	-
Accrued Interest ⁵	4,988,771	4,988,771	-
Total Unspent & Uncommitted Funds	<u>\$ 224,633,879</u>	<u>\$ 224,633,879</u>	<u>\$ -</u>
<u>PY 2020</u>			
Beginning Balance ²	\$ 224,633,879	\$ 224,633,879	\$ -
Collections ³	119,389,687	119,389,687	-
Expenditures ⁴	(147,733,576)	(147,733,576)	-
Accrued Interest ⁵	1,595,083	1,595,083	-
Total Unspent & Uncommitted Funds	<u>\$ 197,885,073</u>	<u>\$ 197,885,073</u>	<u>\$ -</u>
<u>PY 2021</u>			
Beginning Balance ²	\$ 197,885,073	\$ 197,885,073	\$ -
Collections ³	46,507,295	46,507,295	-
Expenditures ⁴	(173,457,134)	(172,678,508)	778,626
Accrued Interest ⁵	97,342	97,342	-
Total Unspent & Uncommitted Funds	<u>\$ 71,032,576</u>	<u>\$ 71,811,202</u>	<u>\$ 778,626</u>

1 The balances are reported from PG&E's PPPLIBA-E/G accounts.

2 The auditor traced balance to PG&E's PPPLIBA-E/G accounts.

3 The auditor traced balances to collections recorded in PG&E's PPPLIBA-E/G accounts.

4 This table reflects total expenses reported in the Annual Report, Tables 1 and 1A, plus manual adjustments. The Annual Report for PYs 2019, 2020, and 2021, Tables 1 and Table 1A, originally reported the amounts as \$170,951,067, \$142,431,081, and \$178,119,704 respectively. This table above represents recorded amounts verified during audit fieldwork.

5 Balancing account interest is derived from PG&E's PPPLIBA-E/G accounts.

6 Expenditures include minor adjustments in rounding errors.

7 This adjustment represents overstated expenditures totaling \$778,626 (See Finding and Recommendations).

FINDING AND RECOMMENDATIONS

Finding: Overstated Expenditures in PY 2021 Annual Report

Condition:

PG&E overstated expenditures for PY 2021 in the HVAC program in its Annual Report by \$778,626. PG&E engages implementers to oversee and conduct work on behalf of the ESA program. The implementers may engage subcontractors to perform work, such as weatherization and installation of energy efficient appliances in low-income households. Subcontractors then upload work-related documentation to PG&E's Energy Insight system. After completing a project, implementers are responsible for verifying that expenditures charged to the program are appropriately substantiated prior to requesting reimbursement from PG&E.

Beginning in April 2022, PG&E initiated an internal review of ESA program implementers for the period of January 2019 to March 2022 as part of its routine contract monitoring procedures. The internal review revealed that one of the implementers failed to require invoice verification for emergency water heater and furnace-related installations from subcontractors, resulting in overcharged costs to the ESA program totaling \$778,626 for the time period reviewed⁴ by PG&E. The implementer has agreed to reimburse PG&E for the cost of the internal review as well as unallowable ESA program costs totaling \$778,626. The implementer has also agreed to improve its controls and will require invoice documentation for emergency installation transactions moving forward.

Criteria:

PU Code sections 581, 582, and 584 require that the utility provide timely, complete, and accurate data to the CPUC.

Cause:

While PG&E has established policies and procedures for contract monitoring, PG&E demonstrated inadequate monitoring controls that would help ensure PG&E personnel and ESA program implementers follow contract guidelines and established policies and procedures. As a result, the implementer did not obtain sufficient supporting documentation from its subcontractors to ensure expenditures were appropriately substantiated prior to requesting reimbursement from PG&E.

Effect:

Failure to follow contract monitoring procedures resulted in unallowable expenditures of \$778,626 billed to the ESA program, which understated the available balance of unspent and uncommitted ESA funds in PY 2021. Inadequate contract monitoring could inadvertently lead to misuse of ESA funding and could adversely affect qualified low-income customers who could benefit from the program. It is critical that ESA program costs are appropriately substantiated to ensure transparency and accuracy in capturing program performance. Furthermore, an overstatement of expenditures can inflate authorized budget amounts in future years, as prior year costs often influence prospective budget amounts.

⁴ The internal review methodology included selecting a sample of claimed costs and extrapolating the discrepancies to the entire sample population, as a whole. The review did not quantify discrepancies by transaction date. It is not possible to segregate the total variance by program year. Therefore, the total adjustment of \$778,626 is reported in PY 2021.

Recommendations:

PG&E should continue conducting internal reviews of implementer transactions, as part of its routine contract monitoring process, to ensure accuracy of the billed ESA expenditures and implementer compliance with ESA program policies and procedures. PG&E should also strengthen its monitoring controls to timely identify inaccurate and/or unsubstantiated costs from being reimbursed by subcontractors in the future.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



Memorandum

Date: May 11, 2023

To: Angie Williams, Director, Utility Audits, Risk and Compliance Division

From: Marlene Murphy-Roach, Director, Programs Delivery & Enablement

Subject: Pacific Gas and Electric Company's Response to the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) Audit of the PG&E Energy Savings Assistance (ESA) Program (January 1, 2019 – December 31, 2021)

Pacific Gas & Electric Company (PG&E) received the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) draft audit report on May 1, 2023. PG&E appreciates the work of the UAB in auditing the Energy Savings Assistance (ESA) program for the period of January 1, 2019 through December 31, 2021.

PG&E takes this opportunity to submit comments concerning the Finding and Recommendations section of the draft audit report.

In the Cause and Effect section, PG&E would like to consider including the following language in red:

Cause:

While PG&E has established policies and procedures for contract monitoring, PG&E demonstrated inadequate monitoring controls that would help ensure PG&E personnel and ESA program implementers follow contract guidelines and established policies and procedures. As a result, the implementer did not obtain sufficient supporting documentation from its subcontractors to ensure expenditures were appropriately substantiated prior to requesting reimbursement from PG&E.

To reduce the risk of this issue in the future, PG&E has taken steps to implement two new quarterly procedures requiring implementers to provide detailed invoices. The procedures will ensure implementers' adherence to PG&E's process of internal control by two concurrent pathways:

- 1) A sampling of non-supplied measures with costs of over \$100 and,
- 2) A sampling of PG&E approved overspend on larger repair and replacement measures such as furnaces and water heaters, also known as the "override process."

PG&E began implementing these new procedures in September 2022, by informing contractors to upload all receipts of materials purchased in support of installation of the subset of measures. The vast majority of measures supporting ESA program have established pricing through negotiations, therefore do not require supporting invoices.

Goals for new quarterly procedures:

- Confirm that all subcontractors are providing required documentation and receipts to support reimbursements of measures submitted with a material or support material costs of \$100 or greater.
- Confirm that subcontractors are billing to correct exception measure codes.



- Confirm that subcontractors are obtaining written permission from PG&E to override maximum costs for measure codes.
- Confirm that subcontractors are either not exceeding the amount authorized; or, if the authorized amount is exceeded, that there is justification and approval documented.

Effect:

Failure to follow contract monitoring procedures resulted in unallowable expenditures of \$778,626 billed to the ESA program, which understated the available balance of unspent and uncommitted ESA funds in PY 2021. Inadequate contract monitoring could inadvertently lead to misuse of ESA funding and could adversely affect qualified low-income customers who could benefit from the program. It is critical that ESA program costs are appropriately substantiated to ensure transparency and accuracy in capturing program performance. Furthermore, an overstatement of expenditures can inflate authorized budget amounts in future years, as prior year costs often influence prospective budget amounts. PG&E demonstrated prior to the audit report that PG&E had already taken steps to “claw back” from implementers the ESA over payment and collected \$540,000 through April 2023. The remaining balance will be repaid by implementers before the end of 2023.

PG&E appreciates the work of the UAB in auditing the ESA program and looks forward the final audit report.

If there are any follow up questions concerning this response, please contact Neil Singh at N2S4@pge.com

As the accountable Director for the ESA Program, I certify that the above information is accurate.

Marlene Murphy-Roach

Marlene Murphy-Roach, Director, Programs Delivery & Enablement

cc: Neil Singh, Senior Program Management Manager, PG&E
 Cathleen Monahan, Senior Program Management Manager, PG&E
 Cassandra Gardner, ESA Pilots and Studies Manager, PG&E
 Tina Nguyen, Expert Program Manager, PG&E
 Masha Vorobyova, Assistant Director, UAB, CPUC
 Nichelle Jackson, Program and Project Supervisor, UAB, CPUC
 Cole Chev, Senior Management Auditor, UAB, CPUC
 Nancy Ta, Regulatory Analyst IV, UAB, CPUC
 Jeff Walter, Regulatory Analyst III, UAB, CPUC

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate PG&E's comments submitted on May 11, 2023. In its response, PG&E suggested additional language to be included in the Cause and Effect paragraphs of the Finding and Recommendations section. Specifically, PG&E suggested to include the list of steps PG&E has taken to mitigate the risks noted in the Finding. We appreciate PG&E's efforts to plan and implement new procedures to reduce the risk of similar occurrences in the future. However, we believe that the description and implementation dates of these planned and/or implemented procedures should be included in PG&E's Corrective Action Plan that PG&E should submit to UAB within 45 days of the issuance of this audit report.

The finding and recommendations remain unchanged.