



**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  
**Pacific Gas and Electric Company  
(U-039-E)**  
For the Years Ended  
**December 31, 2007 and December 31, 2008**

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**April 21, 2011**



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**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 (DWA), performed a financial, management and regulatory compliance audit of the Low Income Energy Efficiency program (LIEE) and the California Alternate Rate for Energy (CARE) administrative expenses administered by Pacific Gas and Electric Company (PG&E), for the years ended December 31, 2007 and December 31, 2008.

PG&E's management is responsible for compliance with the Commission's directives when implementing LIEE and CARE in its service area. UAFCB includes a list of Commission directives applicable to LIEE and CARE in Appendix B, attached to this report.

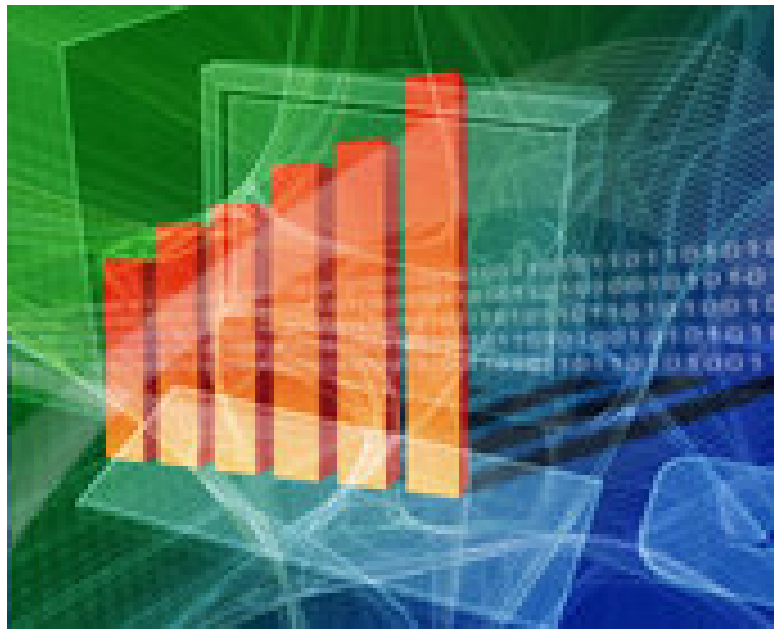
The responsibility of the UAFCB is to express an opinion on PG&E's compliance with the aforementioned regulations based on the UAFCB's audit of PG&E's records. The UAFCB's audit was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included examining, on a test basis, evidence concerning PG&E'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 PG&E's compliance with specified requirements.

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

The report is intended for the information and 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.

*Donna Wagons, for*

Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch  
March 7, 2011



# **Financial, Management and Regulatory Compliance Audit of the California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program of Pacific Gas and Electric Company (U-039-E)**

**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 Pacific Gas and Electric Company's (PG&E) Low Income Energy Efficiency program (LIEE) and its California Alternate Rates for Energy Program's (CARE) administrative costs for calendar years 2007 - 2008.<sup>2</sup> The UAFCB conducted this audit pursuant to Public Utilities Code § 900.<sup>3</sup>

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

PG&E's Customer Energy Efficiency unit is responsible for, among other things, the operation of its LIEE and CARE and ensuring that its programs are properly managed and in compliance with the Commission's directives. As of December 31, 2008, PG&E's Customer Energy Efficiency unit employed 10 full time employees dedicated exclusively to the LIEE/CARE programs.

The Commission authorized a budget for PG&E's LIEE of \$77.7 million for each year for 2007 and 2008.<sup>4</sup> The Commission authorized PG&E to carry over LIEE funds totaling \$2.97 million from existing unspent LIEE funds from prior years.<sup>5</sup> Consequently, as approved in AL-2864-G/3114-E, PG&E's total LIEE budget for 2007 amounted to \$80.7 million.

PG&E spent \$150.6 million on LIEE over the two-year period, well within its authorized budget of \$158.4 million, including unspent funds carried forward from 2006. PG&E had a substantial amount of unspent funds at the end of 2008, almost \$7.9 million. In the

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

<sup>2</sup> The energy utilities also offer an energy efficiency program to all of their customers through a program referred to as the Energy Efficiency Program. The UAFCB uses the term energy efficiency programs throughout this report to refer exclusively to LIEE services.

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

<sup>4</sup> See D.06-12-038, as modified by D.07-06-004. Future references to D.06-12-038 include any modifications approved in D.07-06-004.

<sup>5</sup> See D.06-12-038, Order Paragraph (OP) 15.

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following table, UAFCB summarizes PG&E's budgets authorized by the Commission and amounts spent by PG&E for its LIEE program during program years 2007 and 2008.

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

LIEE Budgets	2007	2008
Amount Brought Forward	\$ 2,972,592	\$ 5,369,154
Authorized Budgets per D.06-12-038	<u>77,733,500</u>	<u>77,733,500</u>
Available Spending Amounts	80,706,092	83,102,654
Less Amount Spent	<u>75,336,938</u>	<u>75,245,556</u>
Amounts Carried Forward	<u>\$ 5,369,154</u>	<u>\$ 7,857,098</u>

For CARE administrative costs, the Commission authorized PG&E a budget of \$7.5 million for 2007 and \$7.43 million for 2008.<sup>6</sup> PG&E's 2007 CARE administrative costs totaling \$7.0 million in 2007 were within its authorized budget. However, in 2008, PG&E exceeded its authorized budget for CARE administrative expenses by \$7,976.

**Table D**  
**CARE Administrative Costs Budgets and Expenditures**

Description	2007	2008
Budgets	\$7,557,000	\$7,432,000
Spent	<u>7,003,732</u>	<u>7,439,976</u>
Overspent	<u>\$ 0</u>	<u>\$ 7,976</u>

UAFCB found weaknesses in PG&E's internal controls and its policies and procedures which require attention. These include: the lack of internal controls to ensure customer applications are processed in accordance with program guidelines and the lack of internal and external reports to effectively monitor and evaluate performance, budgets, goals and objectives of the LIEE program. The latter may have contributed to PG&E under-spending its authorized LIEE funding each year, with an overall increase in unspent funds from \$2.9 million in 2006 to almost \$7.9 million by the end of 2008. UAFCB presents a summary of its audit recommendations to address these deficiencies in Section II below.  
<sup>7</sup>

UAFCB affirmed that PG&E accepted and applied in 2007 and 2008 all of the accounting policy and procedure changes recommended by the UAFCB in its LIEE audit report on program year 2006.<sup>8</sup> These changes included, but were not limited to, information on the status and accomplishments of its tankless water heater pilot program and obtaining

<sup>6</sup> See D.06-12-038.

<sup>7</sup> UAFCB describes its findings and recommendations in detail in Section V and VI. of this report.

<sup>8</sup> See the UAFCB's report "Regulatory Compliance and Financial Audit of the California Alternate Rates for Energy Program Administrative Costs and the LIEE of Pacific Gas and Electric Company (U-039-E) for the Year Ended December 31, 2006," dated February 29, 2008.



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Commission approval to carry over 2006 existing unspent LIEE funds to its 2007 LIEE budget.

## **II. Audit Recommendations**

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

1. PG&E should enhance and enforce its internal controls to ensure customer eligibility and enrollment applications are processed in accordance with program guidelines, the Statewide LIEE Program Policy and Procedures Manual (SPPM) and Commission directives. (Refer to Section V.B, Audit Goal 1.)
2. PG&E should provide training to its assessor contractors and educate them on required building insulation codes so that their attic insulation estimates will closely estimate actual amounts installed. (Refer to Section V.B, Audit Goal 1.)
3. On its Customer Energy Efficiency unit's organization chart, PG&E should reposition its Senior Business Analyst position below its LIEE Manager and LIEE Senior Manager's positions so that the chart accurately presents assigned duties and responsibilities. (Refer to Section V.D, Audit Goal 1.)
4. PG&E's comprehensive Quarterly Business Report implemented in 2009 should be reviewed by the UAFCB in subsequent audits to determine the report's effectiveness in providing Senior Management with appropriate information to effectively monitor and evaluate the performance, budget, goals and objectives of the LIEE program. (Refer to Section V.D, Audit Goal 2.)
5. PG&E's modification to its "Field Employee Development Reports" to include a section that addresses any LIEE program deficiencies or areas needing improvement should be provided to the UAFCB within 60 days of issuance of this audit report and UAFCB should examine the implementation and effectiveness of these changes in a future audit. (Refer to Section V.D, Audit Goal 2.)
6. PG&E should continuously monitor LIEE spending levels and explore new ways to address deployment challenges so that it can ensure that its LIEE is fully deployed each year without running out of funds before the end of any year. (Refer to Section V.D, Audit Goal 2.)

## **III. Introduction**

Over time, the Commission established and updates 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 several revisions to LIEE and CARE, some of which UAFCB outlines below.

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**LIEE:**

- Authorized PG&E an annual budget of \$77.7 million each year for its LIEE.
- Authorized the carry-over as well as carry-back of funds in 2007 and 2008;
- 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 utilities to design their websites to permit visually disabled to access the information on them;
- Required the use of Telecommunications Device for the Deaf 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 PG&E’s CARE administrative budget at \$7.5 million and \$7.4 million for the 2007 and 2008 program years, respectively.

## **IV. Compliance Audit**

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

On October 29, 2009, the UAFCB began its audit of PG&E’s 2007 and 2008 CARE administrative costs and LIEE expenditures. UAFCB completed its fieldwork on July 23, 2010. The audit focused on PG&E’s LIEE expenditures and CARE administrative costs for the period January 1, 2007 through December 31, 2008.

### **A. Audit Purpose**

The main purpose of UAFCB’s audit is to determine whether PG&E implemented its LIEE program and incurred CARE administrative costs in compliance with Commission directives.

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## **B. Audit Scope**

The scope of UAFCB's audit included the following:

- (1) *Process compliance*: the SPPM, Commission decisions and directives pertaining to the LIEE and CARE programs (See Appendix C), PG&E's own policies and program guidelines for the implementation of LIEE, documentation of customer applications, in-home energy education documentation, post-inspections reports, and refrigerator replacements processes and forms.
- (2) *Existence of safeguards* –PG&E's internal controls, including its own policies and procedures.
- (3) *Integrity of Reporting* –PG&E's LIEE and CARE 2007 and 2008 annual reports, PG&E's SAP accounting system and its LIEE /CARE balancing accounts.
- (4) *Oversight Adequacy* – PG&E's Field Employee Development Reports, PG&E's Customer Energy Efficiency unit's organization chart, the duties and responsibilities of its Customer Energy Efficiency unit management and staff, and internal monitoring practices over the LIEE program from January 1, 2007 through December 31, 2008.

## **C. Audit Objectives**

The UAFCB established five audit objective designed to meet the overall audit purpose:

- 1) Determine whether PG&E's accounting system for capturing LIEE expenditures produces reliable information to the Commission and avoids any duplication of cost recovery.
- 2) Evaluate PG&E's administrative and accounting controls in place to protect ratepayer funds utilized for LIEE.
- 3) Determine whether PG&E followed its specific LIEE policies, procedures, processes, and the Commission's directives.
- 4) Ascertain and evaluate whether PG&E's LIEE management exercised sufficient oversight to meet the program goals and objectives.
- 5) Determine whether PG&E's CARE administrative expenditures were appropriate.

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

The UAFCB delineated its audit objectives into the following specific goals indentified below by audit task area.

### LIEE Accounting and Reporting:

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

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LIEE Implementation, Processes and Controls:

- 1) Determine whether the program's implementation and controls are in compliance with Commission guidelines, including but not limited to the SPPM and D.06-12-038; and
- 2) Determine if PG&E's Refrigerator Replacement processes and procedures are in compliance with the applicable program requirements.

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 are relevant to the program and are sufficiently supported with appropriate documentation.

LIEE Oversight:

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

CARE Administrative Costs

- 1) Determine whether PG&E's administrative costs charged to PG&E's CARE program are appropriate.

## **E. Auditing Standards Applied**

UAFCB conducted this audit in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and accordingly, included examining, on a test basis, evidence concerning PG&E'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 PG&E's LIEE program, 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 PG&E's regulatory personnel to set up current audit logistics and protocols.

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Low Income Energy Efficiency Program Processes Review:

- Interview PG&E program personnel to gain information and an understanding of PG&E's LIEE operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review PG&E'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 PG&E'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 any degree of irresponsibility.
- Reconcile program databases to general ledger systems and authorized balancing accounts.
- Formulate audit findings, conclusions and recommendations.
- Provide appropriate audit opinion upon completion of the engagement.

## **G. Preliminary Audit Findings**

UAFCB discussed its preliminary audit findings with PG&E at an exit meeting on December 17, 2010. On January 11, 2011, PG&E provided timely responses to UAFCB's preliminary audit findings, as well additional information to substantiate its expenditures. As a result of the additional information and clarifications provided by PG&E on January 11, 2011, UAFCB concludes that PG&E implemented and resolved most of the issues that PG&E agreed to implement during the exit meeting. Issues that remained pending and not fully resolved are identified in the following sections.

## **V. LIEE Audit Findings**

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

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

**Findings:**

- 1) PG&E's LIEE accounting system and procedures are generally consistent with the accrual system of accounting.
- 2) PG&E appropriately reported its LIEE expenditures in accordance with Commission directives.

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**Discussion:** PG&E utilizes the System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its LIEE expenditures. In addition, PG&E uses its Energy Partners Online (EPO) database system that interfaces with SAP to help PG&E track and manage its LIEE program expenditures. PG&E assigns each type of LIEE expenditure for measures and services captured in EPO an internal order (I/O) account number in SAP that is specific to the LIEE program. Once PG&E reviews and approves LIEE expenditures in EPO, it uploads the charges into SAP. On a monthly basis, PG&E reviews the expenditure amounts in the LIEE I/O account numbers in SAP, posts them to the appropriate LIEE balancing accounts, and uses them in preparing its reports to the Commission.

PG&E recorded total LIEE expenditures of \$75.3 million in its SAP accounting system in calendar year 2007, which reconciled to its LIEE balancing accounts and amounts it reported to the Commission. For calendar year 2008, PG&E recorded a total of \$75.2 million in LIEE expenditures which also reconciled to its LIEE balancing accounts and amounts it reported to the Commission.

**Recommendations:** None.

**Audit Goal 2:** Determine whether the LIEE expenditures were excluded from the utility's general rate increase (GRC) request.

**Findings:**

- 1) PG&E had adequate processes in place to ensure that LIEE expenditures are not included in its GRC filings.

**Discussion:** UAFCB acquired and examined documentation prepared by PG&E that it used in its latest GRC, for test year 2007. PG&E appropriately removed its LIEE expenses and did not recover them in rates. UAFCB also reviewed PG&E's FERC annual reports for the years 2007 and 2008 to ensure LIEE expenditures were appropriately accounted for through FERC Account 908 as refundable expenditures.

**Recommendations:** None.

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

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

**Findings:**

- 1) PG&E designed and structured its policies and procedures for the implementation of its LIEE in accordance with Commission directives, including the SPPM and D.06-12-038.
- 2) However, the UAFCB found that PG&E failed to consistently include appropriate income eligibility and enrollment documentation in its LIEE customer files, and therefore was not in compliance with the SPPM, Section 2.2.3.

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- 3) In addition, UAFCB found instances in which actual installed attic insulation amounts materially exceeded the original attic insulation installation estimates.

**Discussion:** UAFCB judgmentally selected and tested LIEE customer files to ensure, 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.

*Customer Eligibility and Enrollment:* UAFCB judgmentally selected and examined 72 customer files to ensure that applications were appropriately processed and approved in accordance with LIEE program guidelines. UAFCB found four instances in which PG&E failed to include appropriate income eligibility and enrollment documentation in customer files as required per the SPPM.

*In-Home Energy Education:* UAFCB assessed PG&E's processes and procedures for administering its in-home energy education and reviewed energy education materials provided to customers. PG&E's policies and procedures for in-home energy education were generally adequate. PG&E complied with Commission directives by providing customers with appropriate energy education materials, including required program information on water conservation and reducing greenhouse gas.

*Post-Installation Inspection:* UAFCB judgmentally selected and examined 17 post-installation records and discovered five instances in which installed attic insulation amounts materially exceeded the original estimates by over 20%.

Preliminary Findings and Recommendations – Customer Eligibility and Enrollment: During the exit meeting that UAFCB held with PG&E on December 17, 2010, UAFCB identified four customer files which were lacking appropriate income eligibility and enrollment documentation.<sup>9</sup> UAFCB recommended that PG&E enhance its internal controls to ensure that customer applications are processed in accordance with Commission directives, including but not limited to the SPPM and D.06-12-038.

Following the exit meeting, PG&E provided supporting documentation for two of the four customer files identified as lacking appropriate income eligibility and enrollment documentation. PG&E was unable to provide proof of customer income eligibility and enrollment for the other two customer files.

In its comments on UAFCB's draft audit report, PG&E stated that it currently has internal controls to ensure income documentation is obtained before any work is performed. In addition, PG&E asserted that it performs a quarterly assessment on one to two percent of the income documentation to ensure that proper income documentation has been collected from customers enrolled in the LIEE program.

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<sup>9</sup> Documentation required per the SPPM, Section 2.2.3.

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UAFCB appreciates PG&E's current practices and internal controls for processing customer applications for the LIEE program. However, UAFCB is concerned about the adequacy and enforcement of PG&E's internal controls to ensure appropriate income eligibility and enrollment documentation is obtained prior to approving the customer into the LIEE program since PG&E was unable to locate and/or provide income documentation for two, or approximately 3%, of the customer files UAFCB selected for testing.

Preliminary Findings and Recommendations – Attic Insulation Estimates: At the exit meeting, UAFCB recommended that PG&E develop procedures to enhance its attic insulation estimates to reflect the actual costs of installation in order for PG&E to fully utilize its budgetary controls and prevent any overcharges from occurring.

During the exit meeting, PG&E acknowledged that actual insulation costs materially exceeded the original insulation estimates in some instances. PG&E explained that such material discrepancies were due to its energy assessors under-estimating insulation amounts needed to bring dwelling up to the required building codes. PG&E agreed to provide additional training and education to its energy assessors in order to increase accurate insulation estimates.

In its comments on UAFCB's draft audit report, PG&E further stated that its energy assessors do not attempt to determine the exact amount of attic insulation required for the home because doing so would be cost prohibitive. According to PG&E, the exact amount of attic insulation is determined in the second phase by qualified contractors who perform the installation. To guard against fraud, PG&E asserted that 100% of homes that received attic insulation were inspected by PG&E's Central Inspection Program to verify amounts installed and billed.

UAFCB acknowledges PG&E's explanation that it would be cost prohibitive and time consuming for energy assessors to go into attics and take measurements to determine the required amounts of attic insulation. However, UAFCB maintains its audit recommendation regarding this issue so that PG&E can appropriately monitor its LIEE spending. PG&E originally agreed to provide additional training and education to its energy assessors and increase accurate attic insulation estimates.

**Recommendations:**

- 1) PG&E should enhance and enforce its internal controls to ensure appropriate income eligibility and enrollment documentation is contained in each customer file in order to validate enrollment into the programs.
- 2) PG&E should provide training to its assessor contractors on required building insulation codes so that attic insulation estimates will closely reflect amounts installed.

**Audit Goal 2:** Determine if PG&E's Refrigerator Replacement processes and procedures are in compliance with the applicable program requirements.



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**Findings:**

- 1) PG&E designed and structured its processes and procedures for LIEE refrigerator replacements in accordance with the SPPM and the California Weatherization Installation Standards.

**Discussion:** UAFCB judgmentally selected and examined 38 refrigerator replacements and found three instances in which UAFCB was unable to validate the reason and purpose for an additional \$29 charge recorded as refrigerator installation expenses.

Preliminary Findings and Recommendations: During the exit meeting, UAFCB identified three minor overcharges and recommended that PG&E require its contractors provide supporting documentation for each amount invoiced to PG&E so that charges billed can be validated and approved for payment in accordance with PG&E's accounting practices and procedures. PG&E did not dispute this audit recommendation and agreed to research and provide additional information.

Following the exit meeting, PG&E provided the UAFCB with additional supporting documentation that verified that the \$29 charges were for refrigerator price increases based on a revised contract effective August 8, 2008.

UAFCB examined the additional documentation and determined that the additional \$29 charges were for refrigeration price increases in accordance with contract terms and conditions and has since changed its audit recommendation for this finding.

**Recommendations:** None.

### **C. Program Expenditure 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) PG&E's LIEE expenditures were relevant to its LIEE program.

**Discussion:** UAFCB judgmentally selected and tested 212 LIEE expenditure transactions recorded in PG&E's accounting records totaling \$10.6 million for calendar years 2007 and 2008. During its examination, the UAFCB identified the costs and measures for each selected customer as billed on the invoice and reviewed original supporting documentation to ensure that the charges were relevant, sufficiently supported, and reconciled to amounts captured in PG&E's accounting records.

For 2007 invoice #EPEE07000044, UAFCB initially thought that RHA applied an incorrect contract rate for attic insulation. RHA billed PG&E for attic insulation at a rate of \$0.88 per unit, whereas UAFCB understood the applicable contract rate was only \$0.66 per unit.

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For 2008 invoice #EPEE08000051, UAFCB initially thought that RHA used an incorrect rate for Interior Hardwire Lights (IHL)'s. RHA billed PG&E for two IHL's at a rate of \$76.25 each, whereas UAFCB understood the applicable contract rate should have been \$66.25 each.

Preliminary Findings and Recommendations: During the exit meeting, UAFCB recommended that PG&E enhance its internal controls when approving invoices for payment to ensure contractor charges are in accordance with contract terms and conditions. In response, PG&E did not dispute UAFCB's audit recommendations but agreed to provide additional supporting documentation for the discrepancies in charges found during the audit.

Following the exit meeting, PG&E provided copies of the contract change orders pertaining to 2007 invoice #EPEE07000044 and 2008 invoice #EPEE08000051. Upon review, UAFCB determined that RHA did in fact utilize the correct rate of \$0.88 per unit for 2007 invoice #EPEE07000044. In addition, for the 2008 invoice #EPEE08000051, UAFCB confirmed that RHA used the correct rate of \$76.25 per unit on its billing to PG&E for each IHL. Consequently, since PG&E addressed the two payment discrepancies discovered during the audit, UAFCB changed its audit recommendation.

**Recommendations:** None.

#### **D. Program Oversight**

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

**Findings:**

- 1) PG&E's internal reporting system and management oversight of LIEE was generally adequate.
- 2) However, PG&E's Senior Business Analyst position is incorrectly positioned on its Customer Energy Efficiency unit's organizational chart.

**Discussion:** On its Customer Energy Efficiency unit's organization chart, UAFCB believed PG&E incorrectly positioned its LIEE Principal at the same level as the Project Manager despite the principal having duties and responsibilities at a level above the Project Manager position. In addition, PG&E incorrectly positioned its Senior Business Analyst position above its LIEE Manager on the Customer Energy Efficiency unit's organization chart despite the analyst having duties and responsibilities at a level below the LIEE Manager.

Preliminary Findings and Recommendations: At the exit meeting, UAFCB recommended several changes to PG&E's organizational charts. UAFCB recommended that the LIEE Principal position not be reflected as sharing similar duties as the Project Manager's position. UAFCB also recommended that the Senior Business Analyst position be

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repositioned below both the LIEE Manager and Senior Program Manager positions on the Customer Energy Efficiency organization chart since the Senior Business Analyst reports to each.

PG&E indicated that the LIEE Principal and the Project Manager perform different duties. However, PG&E agreed to examine the repositioning of its Senior Business Analyst position on its Customer Energy Efficiency unit's organization chart and determine whether it should reposition the Senior Business Analyst on the organizations chart to reflect the appropriate relationship with the LIEE Manager and LIEE Senior Program Manager.

Since PG&E did not address this audit recommendation in its comments to UAFCB's draft audit report, UAFCB assumes PG&E is in agreement with its audit recommendation.

**Recommendations:**

- 1) PG&E should reposition its Senior Business Analyst position below its LIEE Manager and LIEE Senior Manager so that the Customer Energy Efficiency organization chart is accurately presented based on assigned duties and responsibilities.

**Audit Goal 2:** Determine whether PG&E maintained adequate oversight over LIEE.

**Findings:**

- 1) PG&E did not prepare and/or generate any internal reports to PG&E senior management for the monitoring and oversight of the LIEE program.
- 2) The external report entitled "Field Employee Development Reports," submitted by RHA to PG&E, lacked insight as to how LIEE contractors view the overall performance and operations of PG&E's LIEE program.
- 3) PG&E indicated that it did not perform any internal audits on its program years 2007 and 2008 LIEE program.
- 4) PG&E's unspent funds increased from \$2.9 million in 2006 to almost \$7.9 million by the end of 2008 and represented 10% of PG&E's authorized budget for 2008, not including funds carried forward from previous years.

**Discussion:** PG&E stated that it did not prepare and/or generate any internal reports for PG&E senior management to utilize for the monitoring of the LIEE programs. PG&E did provide UAFCB with copies of a November 2007 and 2008 external report entitled "Field Employee Development Reports" prepared and submitted by RHA to PG&E LIEE management on a monthly basis.

UAFCB reviewed PG&E's November 2007 and 2008 "Field Employee Development Reports" prepared by RHA and found that the reports contained information pertaining to job effectiveness between the contractors and sub-contractors. The reports were limited in scope and failed to provide any insight on PG&E's overall implementation of its LIEE program. Consequently, it is unclear whether PG&E gains any benefit from these reports

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since the reports fail to provide PG&E with any knowledge of program deficiencies or areas needing improvement.

PG&E had \$7.9 million in unspent LIEE funds at the end of 2008, a substantial amount and a substantial increase over the unspent funds carried forward from 2006 of \$2.9. The above deficiencies may have contributed to the size of PG&E's unspent funds. PG&E's management needs to work hand-in-hand with its administrator RHA to work with the subcontractors and its leveraging partners to redeploy funds that aren't needed or can't be deployed in any one area.

PG&E's unspent funds of \$7.9 million represents 10% of its authorized budget of \$77.7 million, not including the \$5.4 million carried forward from 2007. Including the carried forward funds, PG&E unspent funds represent 9.5% of the funds available in 2008.

UAFCB appreciates that PG&E has a very large service area in which it deploys its LIEE and through its administrator manages numerous contractors who implement PG&E's LIEE. However, PG&E needs to continuously explore new and innovative ways to ensure its LIEE funds are fully deployed each year and avoid having large amounts of unspent funds at the end of each year. Fully deploying its program each year provides many benefits, including but not limited to, assisting as many vulnerable low-income households as possible each year, maximizing energy and demand savings and stimulating the economy.

Preliminary Findings and Recommendations – Internal Management Reports: UAFCB did not discuss its audit recommendation in this area with PG&E during the exit meeting. However, in its draft audit report, UAFCB recommended that PG&E develop a comprehensive internal reporting system for its LIEE program so that PG&E senior management can effectively monitor and evaluate the performance, budget, goals and objectives of the LIEE program.

In its comments on UAFCB's draft audit report, PG&E stated that it began preparing a Quarterly Business Report in 2009. According to PG&E, this report is shared with Senior Management on a quarterly basis and includes details on potential issues in the LIEE program and associated risks, program milestones, status of current program activities, and tables detailing budget and expenditure amounts to date for the current year and energy savings. In its March 7, 2011 comments to UAFCB's draft audit report, PG&E provided a copy of the June 2010 Quarterly Business Report.

UAFCB appreciates PG&E's efforts in developing a comprehensive Quarterly Business Report that is shared with its Senior Management for the monitoring of the LIEE program. However, UAFCB is uncertain about the effectiveness of the Quarterly Business Reports but has since modified its recommendation for this audit finding.

Preliminary Findings and Recommendations – Field Employee Development Report: UAFCB did not discuss this audit recommendation with PG&E during the exit meeting. However, in its draft audit report, UAFCB recommended that the Field Employee

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Development Report prepared by RHA be modified to include a section that addresses any LIEE program deficiencies or areas needing improvement.

In its comments on UAFCB's draft audit report, PG&E agreed to work with RHA to include a section in the Field Employee Development Report that addresses any LIEE program deficiencies or areas needing improvement. Since PG&E concurred with UAFCB's audit recommendation, UAFCB has since modified its recommendation.

Preliminary Findings and Recommendations – Unspent Funds: UAFCB inadvertently did not share its finding and recommendation in this area with PG&E in either the exit meeting nor its draft report. However, due to the nature of its service area, this is an issue PG&E faces each year. While circumstances causing spending issues vary each year, PG&E is well aware of the need to manage its funding level throughout each year.

PG&E's management needs to develop multiple contingency plans to assure that it fully deploys its LIEE funds each year, while at the same time ensure that funds do not run out before the end of the year. Clearly, PG&E can not avoid having some unspent LIEE funds remaining at the end of each year. But at the same time, PG&E needs to maximize its deployment. UAFCB hopes that the improvements PG&E is making to its reports to management should assist PG&E in avoiding over or substantially under spending its LIEE funds in the future.

**Recommendations:**

- 1) PG&E's Quarterly Business Report that is shared with Senior Management on a quarterly basis should be evaluated for its effectiveness in a subsequent audit.
- 2) PG&E's modifications to the "Field Employee Development Reports" to include a section that addresses any LIEE program deficiencies or areas needing improvement should be implemented and a copy provided to the UAFCB within 60 days of issuance of this audit report. UAFCB should review the implementation and effectiveness of these changes in a future audit.
- 3) PG&E should continuously monitor spending levels and explore new ways to address deployment challenges so that it can ensure that its LIEE is fully deployed each year without running out of funds before the end of any year.

## **VI. CARE AUDIT FINDINGS**

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

**Audit Goal #1:** Determine whether PG&E's administrative costs charged to its CARE program are appropriate.

**Findings:**

- 1) In general, PG&E's CARE administrative costs were appropriate.
- 2) PG&E incurred total CARE administrative expenses of \$7.0 million for calendar year 2007 and \$7.4 million in 2008.

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- 3) During 2007 and 2008, PG&E charged approximately 87% and 84%, respectively, of CARE administrative expenditures to the Outreach cost category.
- 4) In 2008, PG&E overspent its authorized budget for CARE administrative costs by \$8,000.

**Discussion:** During its review, UAFCB analyzed PG&E's CARE administrative costs for calendar years 2007 and 2008. In the following table, UAFCB provides a detailed breakdown of PG&E's CARE administrative costs by cost category.

**Table II**  
**CARE Administrative Costs by Cost Element**

Expenditures	2007	% to Total Admin Cost	2008	% to Total Admin Cost
Outreach	\$4,401,632	63%	\$4,289,316	57%
Automatic Enrollment	2,703	1%	10,842	1%
Processing/Certification/Verification	1,684,865	24%	2,018,880	27%
Info Technology/Programming	99,919	1%	222,266	3%
Regulatory Compliance	95,407	1%	77,705	1%
General Administration	649,454	9%	733,390	10%
CPUC Energy Division	<u>69,752</u>	<u>1%</u>	<u>87,577</u>	<u>1%</u>
<b>Total Administrative Costs</b>	<b><u>\$7,003,732</u></b>	<b><u>100%</u></b>	<b><u>\$7,439,976</u></b>	<b><u>100%</u></b>

PG&E's CARE administrative cost category Processing/Certification/Verification increased by \$334,015 from 2007 to 2008 while CARE enrollment decreased from 658,110 to 648,286 for the same time period. The increase in costs for the Processing/Certification/Verification cost category from 2007 to 2008 was due to the increase in capitation fees paid to third parties from \$12 to \$15 per customer enrolled as authorized in Commission D.06-12-038. Consequently, the increase in total costs in this area appears reasonable.

While PG&E maintained its CARE administrative costs below its authorized budget in 2007, in 2008, it overspent its authorized budget by almost \$8,000. Because CARE is a needs based program, UAFCB recognizes that PG&E does not have control over all of its CARE administrative costs, such as but not limited to capitation costs. However, PG&E does have control over many of its administrative costs.

Preliminary Findings and Recommendations: UAFCB inadvertently did not share its concern or recommendation about the overspending with PG&E in neither its exit meeting nor its draft report. However, similar to LIEE, this is an issue that PG&E must address each year. In addition, UAFCB explored its concern in this area with PG&E shortly before the issuance of this report. PG&E indicated that if they anticipated a large overage, they would discuss the expected overage with Energy Division first. PG&E also stated that it is aware that its CARE administrative costs are subject to reasonableness

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review and if any of its costs were deemed unreasonable, it would not be able to recover them.

**Recommendations:** None.

## VII. COMMENTS ON UAFCB'S DRAFT AUDIT REPORT

On February 22, 2011, the UAFCB submitted a copy of its draft audit report to PG&E for its review and comments. The draft report, dated February 18, 2011, included Sections I through IV, as well as the UAFCB's draft audit findings and recommendations.

PG&E provided timely comments to UAFCB's draft audit report on March 7, 2011. UAFCB provides a brief summary of PG&E's comments below. In addition, the UAFCB has included a copy of PG&E's comments to UAFCB's draft report, in their entirety in Appendix C.

Section V.B, Audit Goal 1, Internal Controls Regarding Customer Eligibility: PG&E asserts that it currently has internal controls in place to ensure proper income documentation is collected when processing customer eligibility and enrollment applications and checks one to two percent of income documentation received to ensure proper income documentation is collected when processing customer eligibility and enrollment applications. PG&E indicated that it intends to periodically discuss Income Documentation during its monthly contractor meetings to ensure appropriate income documentation is obtained in accordance with the SPPM.

Section V.B, Audit Goal 1, Estimating Attic Insulation: PG&E stated that obtaining a more exact measurement of attic insulation during initial assessments would be cost prohibitive since assessors would be required to go into the attic and take measurements and exact measurements are performed by qualified contractors when installing the insulation. To guard against any fraud, PG&E indicated that its Central Inspection Program inspects 100% of attic insulation and any discrepancies between amounts billed and amounts installed are adjusted by PG&E prior to issuing payment to the contractor.

Section V.B, Audit Goal 2, Additional Support for Invoices: PG&E provided supporting documentation for all contract invoices requested and reviewed during the audit.

Section V.C, Audit Goal 1, Enhanced Internal Controls for Approving Invoices: PG&E asserts that it has appropriate internal controls for approving invoices for payment and that it provided a copy of correct contract rates during the audit.

Section V.D, Audit Goal 2, Internal Management Reports: PG&E asserts that in 2009, it began preparing a comprehensive Quarterly Business Report detailing any potential issues in the LIEE program and associated risks, program milestones, status of current program activity, and tables detailing the budget and expenditures to day for the current year and energy savings. According to PG&E, this report is shared with Senior Management on a quarterly basis. In its response, PG&E included a copy of a Quarterly Business Report for the month of June 2010.

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Section V.D, Audit Goal 2, RHA's 'Field Employee Development Report': PG&E asserts that it will work with RHA to modify the Field Employee Development Report to include a section that addresses any LIEE program deficiencies or areas needing improvement.

## **VIII. UAFCB REBUTTAL**

In consideration of PG&E's comments, UAFCB made changes throughout its draft audit report. In addition, UAFCB made minor edits and corrections of errors to improve clarity as appropriate.

PG&E failed to address one of UAFCB's draft recommendations which stated:

UAFCB determined that Senior Business Analyst position is inaccurately presented on the Customer Energy Efficiency organization chart and therefore recommends that the Senior Business Analyst position be repositioned below the LIEE Manager and LIEE Senior Manager position so that the Customer Energy Efficiency organization chart is accurately presented based on assigned duties and responsibilities. (Refer to Section V.D, Audit Goal 1.)

As a result, UAFCB assumes that PG&E is in agreement with UAFCB's recommendation on this issue. For all other audit recommendations addressed in PG&E's comments, UAFCB provides a brief clarification below when it believes further discussion is warranted.

Section V.B, Audit Goal 1, Internal Controls Regarding Customer Eligibility: PG&E was unable to locate and/or provide UAFCB with appropriate income documentation for two customers files tested during the audit. Consequently, UAFCB is maintaining its audit recommendation in this area.

Section V.B, Audit Goal 1, Estimating Attic Insulation: UAFCB maintains that providing training and educating contractors on required building codes on attic insulation for dwellings will result in a closer match between estimates and actual amounts installed.

Section V.D, Audit Goal 2, Internal Management Reports: UAFCB reserves the right to review and evaluate the effectiveness of this report for monitoring the performance of the LIEE program in subsequent audits.

Section V.D, Audit Goal 2, Enhancement to RHA's 'Field Employee Development Report': PG&E should provide the UAFCB with a copy of the modified Field Employee Development Report within 60 days of issuance of this audit report.



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## **Appendix A**

### **Background by Audit Task Areas**

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

PG&E uses the System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its Low Income Energy Efficiency (LIEE) revenues and expenditures.

One feeder operating system that interfaces with SAP, and being used by PG&E to assist in the administration and management of its LIEE programs, is called the Energy Partners Online (EPO) system. EPO is a database operating system that PG&E primarily 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 EPO system processes charges invoiced to PG&E for measures and services provided to LIEE customers. Each type of measure and service captured in EPO is linked to pre-assigned I/O account numbers in SAP that are specific to the LIEE program. Once the appropriate PG&E management reviews and approves the invoices, PG&E enters the charges into SAP and processed them for payment.

With the exception of Natural Gas Appliance Testing and other indirect expenses, when posting and recording LIEE expenditures, PG&E used 31 I/O account numbers in SAP for 2007 and 32 I/Os for 2008 that are specifically assigned to the LIEE program.

On a monthly basis, PG&E'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. The gas and electric balancing accounts used by PG&E to record its LIEE revenues and expenditures are the following:

- Low Income Energy Efficiency Balancing Account (LIEEBA) – established to record the electric costs and non-bypassable surcharge funds authorized in D.97-12-103
- Post 2005 Gas Low Income Energy Efficiency (PGLIEEBA) – established to record the gas costs and non-bypassable surcharge funds authorized in D.05-12-026

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

For the program years 2007 and 2008, PG&E's provided LIEE measures and services for attic insulation &/or venting, AC tune up and central air conditioning, caulking, door repair/replacement, furnace repair/replacement, low-flow showerhead, miscellaneous minor home repairs, refrigerator replacement, room air conditioner replacement, water heating repair/replacement, weather-stripping, and window repair/replacement.

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In mid-2007, PG&E established and implemented cool centers in accordance with Commission (D.) 06-12-038, OP 13. In addition, PG&E made the following changes to its LIEE program during calendar years 2007 and 2008:

- Lifted limits on the amount of compact fluorescent lamps (CFL) replaced and installed.
- Added Central Air Conditioning Diagnostic and Tune-ups services.
- Added Tankless Water Heaters as a measure.
- Added Interior Hardwired CFL as a measure.

PG&E contracted with Richard Heath and Associates Inc. (RHA) for the administration and implementation of its LIEE program in PG&E's service territory through the end of December 31, 2008.

PG&E provided administrative support and oversight of the LIEE program by, among other things, managing the program budget, processing and approving customer enrollment, providing in-home energy education, and working closely with RHA in tracking, reconciling, and projecting year-end expenditures.

As the program administrator for PG&E's LIEE, RHA's responsibilities included, but were not limited to: 1) performing services offered under the LIEE program; 2) hiring contractors as needed to perform the various services under the program; 3) processing all work orders; 4) answering inquiries about the program; 5) maintaining and safeguarding records regarding the services performed in each household; and 6) being the primary interface with the customers participating in the program. In addition, RHA was the sole contractor for refrigerator replacements and also performed weatherization and outreach.

For administering and implementing PG&E's LIEE program, RHA charged PG&E a total of \$61.2 million in 2007 and \$70.7 million in 2008. For implementing the LIEE program in 2007, RHA contracted with 28 private sub-contractors to provide weatherization, energy efficiency installation work and energy education and with three community based organizations (CBO) to provide weatherization services. In 2008, RHA utilized nine CBOs and 16 private sub-contractors. In the following table, UAFCB provides a detailed breakdown of costs charged to PG&E by contractor type.

**Table A-I**  
**Contractor Costs**

Contractor Type	2007	2008
Private sub-contractors	\$42,530,000	\$44,524,000
Community-based organizations	917,000	1,533,000
RHA (prime contractor)	<u>17,713,000</u>	<u>24,613,000</u>
<b>Total</b>	<b><u>\$61,160,000</u></b>	<b><u>\$70,670,000</u></b>

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During the audit, the UAFCB judgmentally selected and tested 27 customer files for 2007 and 25 customer files for 2008 to evaluate whether RHA and its contractors provided LIEE measures and services in accordance with the SPPM, Commission directives, and contract terms and conditions.

UAFCB also judgmentally selected and tested 72 customer files by enrollment type and geographic location covering several cities and towns within PG&E’s service territory to ensure processes and controls used for the implementation of the LIEE program complied with program guidelines, Commission directives and PG&E’s policies and procedures.<sup>1</sup> In the following table, UAFCB provides a detailed summary of customer files selected for testing by enrollment type and quantity.

**Table A-II**  
**Sampled Customers by Enrollment Type**

Enrollment Type	2007	2008	Total
Categorical Eligibility	12	12	24
Full Documentation	<u>25</u>	<u>23</u>	<u>48</u>
<b>Total Sample</b>	<u>37</u>	<u>35</u>	<u>72</u>

**Customer Eligibility and Enrollment:** A customer’s eligibility is based on 200% of the Federal Income Guidelines, number in household, participation in government low-income programs, and geographical location in PG&E’s service territory. Customers may enroll in the LIEE program through categorical eligibility or by full income 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 (AFDC); 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).

**In-Home Energy Education:** In Decision 06-12-038, the Commission directed PG&E to include in its energy education materials information on the benefits of energy efficiency programs in efforts to reduce green house gasses and promote water conservation.

**Refrigeration Replacement:** According to the SPPM, refrigerator replacements are provided to customers if the existing refrigerator was manufactured in 1992 or earlier and the size of the refrigerator replacement shall be approximately equal to the size of the existing unit. PG&E also performed an assessment on existing refrigerator for its efficiency and condition to determine whether a replacement is necessary under its program guidelines.

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<sup>1</sup> PGE 0708LIEE-06 Q1

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**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 categories 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 judgmentally selected expenditure transactions. UAFCB judgmentally selected expenditure transactions for testing totaling \$12.7 million, or 8.4% of the combined program costs for the years 2007 and 2008. In the following table, UAFCB provides 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>Total 2007/2008 Expenditures</b>	<b>Total Amount Tested</b>	<b>Percentage (%) Tested</b>
Measure/Invoice-Energy Efficiency (EE)	\$128,874,577	\$10,555,559	8.20%
General Administration	13,057,130	1,971,686	15.10%
Other Administration & Non-Energy EE	<u>8,650,787</u>	<u>180,000</u>	<u>2.10%</u>
<b>Total Costs - Gas &amp; Electric</b>	<b><u>\$150,582,494</u></b>	<b><u>\$12,707,245</u></b>	<b><u>8.40%</u></b>

From the measure/invoice energy efficiency expenditure category, UAFCB selected transactions from RHA invoices that included charges for gas and electric appliances, weatherization, outreach and assessment, and in-home energy education. From the general administration expense category, UAFCB selected expenditure transactions pertaining to PG&E program management, contractor administration, and leveraging projects. From the other administrative and non-energy efficiency expense category, UAFCB selected expenditure transactions that included charges for inspections, marketing, regulatory compliance, and CPUC Energy Division charges.

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

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

Measure or Category	Expenditures Per Annual Report			Amounts Tested			
	2007	2008	Total	2007	2008	Total	% Tested
Gas Appliances	\$ 6,937,378	\$ 7,066,188	\$ 14,003,566	\$ 792,099	\$ 422,837	\$ 1,214,936	8.7%
Electric Appliances	28,345,054	28,058,953	56,404,007	2,823,490	1,628,668	4,452,158	7.9%
Weatherization	18,254,208	17,706,406	35,960,614	1,548,805	1,037,833	2,586,638	7.2%
Outreach & Assess	4,898,110	5,264,33	10,162,441	427,507	498,408	925,915	9.1%
In-Home Education	6,200,894	6,018,162	12,219,056	787,899	588,013	1,375,912	11.3%
Educ Workshops	6,230	77,361	83,591	-	-	-	0.0%
Tankless Heater	41,302		41,302				0.0%
<b>Subtotal</b>	<b>64,683,176</b>	<b>64,191,401</b>	<b>128,874,577</b>	<b>6,379,800</b>	<b>4,175,759</b>	<b>10,555,559</b>	<b>8.2%</b>
Training Center	309,259	269,905	579,164	-	-	-	0.0%
Inspections	3,779,050	3,727,457	7,506,507	180,000	-	180,000	2.4%
M&E Studies	181,828	44,182	226,010	-	-	-	0.0%
Regulatory	117,734	155,480	273,214	-	-	-	0.0%
General Admin	6,240,232	6,816,898	13,057,130	788,912	1,182,774	1,971,686	15.1%
Energy Division	25,659	40,233	65,892	-	-	-	0.0%
<b>Subtotal</b>	<b>10,653,762</b>	<b>11,054,155</b>	<b>21,707,917</b>	<b>968,912</b>	<b>1,182,774</b>	<b>2,151,686</b>	<b>9.9%</b>
<b>Total Program</b>	<b>\$75,336,938</b>	<b>\$75,245,556</b>	<b>\$150,582,494</b>	<b>\$7,348,712</b>	<b>\$5,358,533</b>	<b>\$12,707,245</b>	<b>8.4%</b>

**Measure/Invoice – Energy Efficiency Expenses:** During its testing of the measure/invoice – energy efficiency expenditure category, UAFCB judgmentally selected expenditure transactions by invoice and cost category from PG&E’s SAP accounting system with a combined total of \$10.6 million or 8.2% of the \$128.9 million total energy efficiency measures 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 each invoice to customer records, and reviewing documentation, including contracts, employee labor rates and approved labor hours.

Types of transactions examined included charges for gas and electric appliances, outreach and assessment, weatherization and in-home energy education. For weatherization expenditures totaling \$18.2 million in 2007 and \$17.7 million in 2008, the sub-measure door weather stripping had the highest amount of charges totaling \$4.9 million in 2007 and \$5.1 million for 2008. For door weatherstripping expenditures, the UAFCB judgmentally selected and tested a total of \$411,623 for 2007 and \$474,828 for 2008.

**General Administration Expenses:** PG&E recorded \$6.2 million and \$6.8 million in total general administration expenses for years 2007 and 2008, respectively. UAFCB judgmentally selected and tested a total of \$788,912 for 2007 and \$1.2 million for 2008.

PG&E’s general administration expenditures consisted of several cost elements that UAFCB grouped into three components: (1) program management; (2) contractor administration; and (3) leveraging project. In the following table, UAFCB shows that the contractor administration component incurred 87% of the total general administration expenses in 2007 and 64% in 2008. The remaining balances were distributed among payments for services involving brochure publications and special presentations.

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**Table A-V  
 General Administration Expenses by Category**

Cost Element	2007		2008	
	Amount	% of Total	Amount	% of Total
Program Management	\$ -	0%	\$ 431,680	36%
Contractor Administration	684,680	87%	751,094	64%
Leveraging Project	<u>104,232</u>	<u>13%</u>	<u>-</u>	<u>0%</u>
<b>Total</b>	<b><u>\$788,912</u></b>	<b><u>100%</u></b>	<b><u>\$1,182,774</u></b>	<b><u>100%</u></b>

PG&E's leveraging costs for 2007 consisted of a single project for refrigerator-related installations for the amount specified in the table above. Program Management for 2008 consisted of three separate purchases of contracts, brochures, and printing costs. All of these costs were not of a recurring nature.

From the General Administration expense category, the UAFCB judgmentally selected three transactions totaling \$788,912 for 2007 and five transactions totaling \$1.2 million for 2008.

**Other Administration and Non-Energy Efficiency Expenses:** For the non-energy efficiency expenditure category, UAFCB selected and tested one transaction totaling \$180,000 from the Inspection cost category charged in 2007.

#### **D. Program Oversight**

In its assessment of PG&E's internal reporting system and management oversight of its LIEE program, UAFCB reviewed PG&E's internal reporting processes and procedures, examined PG&E's 2008 LIEE Customer Energy Efficiency unit organizational chart, and examined the duties and responsibilities of each employee directly assigned to the LIEE program.

To monitor the LIEE program, PG&E's LIEE Manager meets monthly with the LIEE supervisors and program managers to review LIEE charges against monthly expenditure budgets. According to PG&E, this allows LIEE management to quickly identify areas where costs are not tracking against budgeted/projected expenses and recommend appropriate changes.

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

The statewide goal of the Commission and the utilities is to enroll 100% of all qualified customers and housing facilities to the CARE program.<sup>2</sup> CARE provides a 20% discount to qualified residential customers and housing facilities that provide housing to low income individuals or households.<sup>3</sup>

<sup>2</sup> See D.02-07-033.

<sup>3</sup> See D.01-06-010.

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Customers may directly apply for the CARE discount with the utilities. The Commission authorized automatic enrollment by allowing eligible customers to be automatically enrolled in the CARE program without requiring income verification.<sup>4</sup> 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, Women, Infants and Children (WIC), Temporary Assistance for Needy Families (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.

To assist in the administration of the CARE program, PG&E implemented its Customer Assistance Reporting and Enrollments (CARE) system to help manage the major aspects of the CARE program. The CARE system functions both as a reporting and processing tool and tracks and reports enrollment activity for the program.

PG&E's records reflected CARE administrative costs totaling \$7.0 million in 2007 and \$7.4 million in 2008. In the following table, UAFCB provides a detailed breakdown of CARE administrative expenditures for 2007 and 2008.

**Table A-VI**  
**CARE Administrative Costs**

<b>Category</b>	<b>2007</b>	<b>2008</b>
Outreach	\$4,401,632	\$4,289,316
Processing, Certification & Verification	1,684,865	2,018,880
Information Technology/Programming	99,919	222,266
Automatic Enrollment	2,703	10,842
Regulatory Compliance	95,407	77,705
General Administration	649,454	733,390
CPUC Energy Division Staff Funding	<u>69,752</u>	<u>87,577</u>
<b>Total Administrative Costs</b>	<b><u>\$7,003,732</u></b>	<b><u>\$7,439,976</u></b>

<sup>4</sup> See In D.02-07-033.

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During the audit, UAFCB performed an analysis of the administrative costs by cost element (or expense account) to determine which accounts carried the majority of expenditures.

(END OF APPENDIX A)



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## 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 EM&amp;V</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.

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<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)

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## Appendix C



Pacific Gas and Electric Company  
77 Beale Street  
P.O. Box 770000  
San Francisco, CA 94177

March 7, 2011

Mr. Kayode Kajopaiye – Branch Chief  
Utility Audit, Finance and Compliance Branch  
California Public Utilities Commission  
505 Van Ness Avenue, 3<sup>rd</sup> Floor  
San Francisco, CA 94102

Re: Pacific Gas and Electric Company's Response to the CPUC Draft Audit Report for the California Alternate Rates for Energy (CARE) Program Administrative Costs and the Low Income Energy Efficiency (LIEE) Program for the Years Ended December 31, 2007 and 2008

Dear Mr. Kajopaiye:

Pacific Gas and Electric Company provides the following responses to the Utility Audit Finance and Compliance Branch's (UAFCB) Draft Audit Report as requested in Section VI, Comments on UAFCB's Draft Audit Report, of the CARE and LIEE Program for the Years Ended December 31, 2007 and 2008. The audit report was dated February 18, 2011, was issued on February 22, 2011, and requested that PG&E provide a response by March 7, 2011.

PG&E has reviewed the audit report and provides responses to the following UAFCB findings:

### **Audit Recommendation 1** **Enhance Internal Controls to Ensure Customer Eligibility**

**Recommendation:** PG&E should enhance its internal controls to ensure customer eligibility and enrollment applications are processed in accordance with program guidelines, the SPPM and Commission directives.

**PG&E's Response:** PG&E currently has internal controls to ensure proper income documentation is collected before work is performed. Procedurally, an energy educator will visit a customer's home and determine if the customer and the home qualifies for the LIEE Program. The contractor then sends the qualifying income documentation to Richard Heath and Associates (RHA), the prime contractor for the administration and implementation of PG&E's LIEE Program. RHA reviews the contractor's income documentation and if deficiencies are found in the documentation provided, RHA will send it back to the contractor to get additional documentation. If the contractor is unable to provide the income

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documentation required in the Statewide LIEE Program Policy and Procedures Manual (SPPM), the contractor will not be paid for any work they did in the home.

In addition to the controls that RHA has in place, PG&E performs quarterly Quality Assurance on one to two percent of the income documentation to ensure that proper documentation has been collected. Also, PG&E intends to include *Income Documentation* on the agenda of the next monthly contractor meeting and periodically going forward to reinforce with the contractors and RHA what is considered appropriate income documentation per the SPPM.

**Audit Finding 2**

**PG&E Should Provide Additional Training to Contractors on Estimating Attic Insulation.**

**Recommendation:** UAFCB recommends that PG&E provide training to its contractors and educate them on required building insulation codes on dwellings so that attic insulation estimates more closely match actual amounts installed.

**PG&E's Response:** PG&E's LIEE Program is done in two phases, education and assessment followed by installation. In the first phase, an energy assessor determines if the customer is income qualified to participate in the LIEE Program and if they do, the assessor then walks through the home to determine if the *home* qualifies for the LIEE Program. Specifically regarding the attic insulation measure, the energy assessor does not attempt to determine the exact amount that the home will need, but rather is determining that there is a need and provides a rough estimate of the amount of insulation required based on the home owner's estimate of the home's square footage. To obtain a more exact measurement of the amount of attic insulation during the initial assessment would be cost prohibitive as it would require the energy assessor to go into the attic and take measurements which would be time consuming. During the second phase, the exact measurements are made by a qualified contractor that actually does the installation.

To guard against fraud, 100% of the homes that receive attic insulation are inspected by PG&E's Central Inspection Program (CIP). The CIP inspector's verify the amount of insulation installed and if there is found to be a discrepancy between the amount billed and the amount installed an adjustment to the bill will be made.

**Audit Finding 3**

**PG&E Should Order its Contractors to Provide Additional Support for Invoices**

**Recommendation:** UAFCB found instances in which PG&E could not locate invoices and supporting documentation for minor change order changes and recommends that PG&E require its contractors to include supporting documentation for each amount invoiced to PG&E so that charges billed can be

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validated and approved for payment in accordance with PG&E's account practices and procedures.

**PG&E's Response:** PG&E provided support and validated the rates charged for all of the contractor invoices reviewed by the auditor, including the \$29 additional charge for refrigerators noted in the draft audit report on p. 10.

**Audit Finding 4**  
**Enhance Internal Controls for Approving Invoices**

**Recommendation:** Due to minor overcharges in expenditures discovered during testing, UAFCB recommends that PG&E enhance its internal controls when approving invoices for payment from contractors to ensure charges are in accordance with contract terms and conditions.

**PG&E's Response:** On page 11 of the Draft Audit Report, it is noted that the price billed by RHA and paid to the vendor for the Interior Hardwired Lights (IHL) on Invoice EPEE08000051 was incorrect. In the LIEE Program, contractor measure billing rates are based on project areas. The contractor that billed the invoice noted above has multiple project areas and for this particular invoice was working in Project Area 815. For Project Area 815, IHL's had a unit price of \$76.25. The price paid to the contractor for the IHL on Invoice EPEE08000051 was \$76.25, the correct rate for Project Area 815. A copy of the contract pricing was provided during the audit and PG&E also explained how to relate invoice project areas to the contract pricing sheet. PG&E feels it has proper internal controls when approving invoices for payment.

**Audit Finding 6**  
**Internal Management Reports**

**Recommendation:** UAFCB found that PG&E does not prepare and/or generate any internal reports to PG&E senior management for monitoring of the LIEE program. UAFCB recommends PG&E develop a comprehensive internal reporting system for its LIEE program so that PG&E senior management can effectively monitor and evaluate the performance, budget, goals and objectives of the LIEE program.

**PG&E's Response:** In the 2007 – 2008 Program Years, PG&E used a variety of reports (Annual and Monthly LIEE Reports, Quarterly LIOB Report, RHA weekly and monthly reports) to keep management informed of the LIEE Program status. Starting in 2009, PG&E began preparing a comprehensive *Quarterly Business Report* for the LIEE Program. This report details potential issues in the LIEE program and associated risks, Program Milestones such as homes treated to date versus target, and the status of current program activity such as pilots. In addition there are tables detailing the budget and expenditures to date for the current year

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and energy savings. This report is shared with Senior Management on a quarterly basis. A copy of the June 2010 Quarterly Business Report is attached.

**Audit Finding 7**  
**Enhance RHA's 'Field Employee Development Report'**

**Recommendation:** UAFCB has determined that the Field Employee Development Reports prepared by RHA and submitted to PG&E on a monthly basis should be modified to include a section that addresses any LIEE program deficiencies or areas needing improvement so that PG&E can resolve any issues in a timely and appropriate manner.

**PG&E's Response:** PG&E is always looking to improve the effectiveness of the LIEE Program and maintains regular communication with RHA to ensure issues are addressed in a timely manner. PG&E will work with RHA to modify the *Field Employee Development Reports* to include a section that addresses any LIEE program deficiencies or areas needing improvement.

If you have any questions regarding these responses, please contact Mardi Walton, Senior Regulatory Analyst at (415) 972-5607, or [mewr@pge.com](mailto:mewr@pge.com).

Sincerely,

Eileen Cotroneo  
Manager, Customer Demand Side Management  
Energy Proceeding Department

April 21, 2011

## **Appendix D**

### **Abbreviations and Acronyms**

AC	Air Conditioning
AFDC	Aid to Families with Dependant Children
AICPA	American Institute of Certified Public Accountants
CARE	California Alternate Rates for Energy
CBOs	Community Based Organizations
CFL	Compact Fluorescent Lamps
CPUC	California Public Utilities Commission or Commission
D.	Decision
DWA	Division of Water and Audits
EM&V	Evaluation, Measurement & Verification
EPO	Energy Partners Online
FPG	Federal Poverty Guidelines
GRC	General Rate Case
I/O	Internal Order
LIEE	Low Income Energy Efficiency Program
LIEEBA	Low Income Energy Efficiency Balancing Account
LIHEAP	Low Income Home Energy Assistance Program
OP	Ordering Paragraph
PG&E	Pacific Gas & Electric Company
PGLIEEBA	Post 2005 Gas Low Income Energy Efficiency Balancing Account
RHA	Richard Heath & Associates, Inc.

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SAP	Systems and Applications Products Accounting System
SPPM	Statewide LIEE Program Policy and Procedures Manual
TANF	Temporary Assistance for Needy Families
UAFCB	Utility Audit, Finance and Compliance Branch
WIC	Women, Infants and Children