

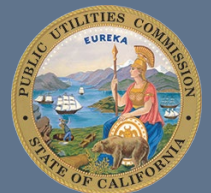


ENERGY SAVINGS ASSISTANCE PROGRAM PERFORMANCE AUDIT

Southern California Edison Company

January 1, 2019, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
February 27, 2023



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Edwin Esternon, Lead

Cole Chev, Staff

Nancy Ta, Staff

Grisel Reyes, 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**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

February 27, 2023

Ms. Katie Sloan, Vice President
Customer Programs & Services
Southern California Edison Company
1515 Walnut Grove Avenue
Rosemead, CA 91770

Dear Ms. Sloan:

**Final Report Transmittal Letter—Audit of Southern California Edison 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 Southern California Edison Company's (SCE) Energy Savings Assistance program for the period of January 1, 2019, through December 31, 2021, or Program Years 2019 through 2021. The final audit report is enclosed.

SCE's response to the draft report findings 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 \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations 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 SCE'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,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Ms. Katie Sloan, Vice President
Customer Programs & Services
February 27, 2023
Page 2

cc: Valarie Hernandez, Principal Manager, Product Management, SCE
Eugene Ayuyao, Senior Manager, Customer Programs, Conservation and Efficiency, SCE
Rose Solidum, Manager, Customer Programs, Conservation and Efficiency, SCE
Elizabeth Leano, Senior Manager, External Regulatory Audits, SCE
Heidi Lopez, Advisor, External Regulatory Audits, SCE
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Simon Baker, Director, Energy Division, CPUC
Jennifer Kalafut, Program Manager, Energy Division, CPUC
Alison LaBonte, Program and Project Supervisor, Energy Division, CPUC
Kapil Kulkarni, Regulatory Analyst V, Energy Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Nichelle Jackson, Program and Project Supervisor, UAB, CPUC
Cole Chev, Senior Management Auditor, UAB, CPUC
Edwin Esternon, Senior Management Auditor, UAB, CPUC
Nancy Ta, Regulatory Analyst IV, UAB, CPUC
Grisel Reyes, Staff Services Management Auditor, UAB, CPUC

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
AUDIT REPORT	3
Background	3
Audit Authority.....	4
Objectives and Scope.....	4
Methodology	5
Conclusion.....	7
Follow-up on Prior Audit Findings	8
Views of Responsible Officials.....	8
Restricted Use	8
SUMMARY SCHEDULE OF AUDIT RESULTS.....	9
FINDINGS AND RECOMMENDATIONS	10
APPENDICES	
APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT	12
APPENDIX B—UAB’S EVALUATION OF UTILITY’S RESPONSE	17

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 Southern California Edison Company (SCE) 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. SCE'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 SCE'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, SCE'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, SCE's policies and procedures, and other relevant criteria.

Based on the procedures performed, samples tested, and evidence gathered, we found that SCE spent ESA fund balances in accordance with applicable PU Code sections, CPUC decisions, and SCE's policies and procedures. However, we found instances of non-compliance with some of the requirements. These instances are described in the Findings and Recommendations section of this audit report.

The audit findings are summarized as follows:

- **Finding 1: Lack of Evidence of Appropriate Management Approvals**

SCE did not provide evidence of appropriate management approval for payment of an invoice in the amount of \$463,682.

- **Finding 2: Overstated Expenditures in PY 2020 Annual Report**

SCE overstated expenditures for PY 2020 in its Annual Report by \$52,795 due to reporting errors.

Resulting from Finding 2 above, we determined that SCE's total amount of unspent and uncommitted ESA funds for PY 2020 were not reported accurately due to overstated expenditures. Our audit determined that SCE overstated reported expenditures by \$52,795.

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 SCE's applicable balancing account, which includes ESA collections, expenditures, and interest.

This overstatement resulted in the ESA unspent fund balance for PY 2020 to be understated by the same amount. The correct amount of unspent and uncommitted ESA funds for PY 2020 should be \$104,873,403, as outlined in the table below:

PY 2020	Unspent and Uncommitted ESA Funds
Reported	\$ 104,820,608
Understated	52,795
Updated Total	\$ 104,873,403

We issued a draft audit report on January 10, 2023. SCE responded by letter dated January 25, 2023, partially agreeing with the audit results but disagreeing with specific parts of both Findings 1 and 2. SCE's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

As a result of SCE's response to the draft audit report, we revised the effect of Finding 1 on allowable ESA expenditures for PY 2020. We concur that questioned costs in Finding 1 do not affect the total unspent and uncommitted ESA funds for PY 2020 as these expenditures related to the ESA program. However, the remaining portions of Findings 1 and 2 remain unchanged. This report reflects the updates made to Finding 1.

AUDIT REPORT

Background

Energy Efficiency Program

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 Pacific Gas and Electric Company, SCE, San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas).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, SCE shall include in its Annual Report a summary of unspent funds, identifying both funds that are carried over and funds that are used to offset collections in the next program year.

SCE 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 SDG&E and SoCalGas are affiliated subsidiaries of SEMPRA.

SCE filed its Annual Reports as follows: (1) PY 2019 in May 2020, (2) PY 2020 in May 2021, and amended in May and October 2022, and (3) PY 2021 in June 2022. In Tables 1 and 1A of its Annual Report, SCE reported expenditures based on the approved amounts by program year. The following table illustrates SCE'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 SCE's Energy Savings Assistance Program Adjustment Mechanism Balancing Account (ESAPAMBA).

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

ESA Program Category	Reported ¹		
	2019	2020	2021
Beginning Balance ²	\$120,180,764	\$ 95,449,386	\$ 104,820,608
Collections	63,616,662	65,067,100	-
Expenditures ³	(90,798,307)	(56,367,299)	(80,121,818)
Accrued Interest ⁴	2,450,267	671,421	52,452
Total Unspent & Uncommitted ESA Funds	<u>\$ 95,449,386</u>	<u>\$104,820,608</u>	<u>\$ 24,751,242</u>

¹ The balances are reported from SCE's ESAPAMBA.

² Auditor traced beginning balances to SCE'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 1A, originally reported the amounts as \$90,358,914, \$54,956,779, and \$81,222,072, respectively. This table above represents recorded amounts verified during audit fieldwork.

⁴ Balancing account interest is derived from ESAPAMBA.

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. SCE'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 SCE'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, SCE'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 SCE's ESAPAMBA, 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.21-06-015, SCE's policies and procedures, and other relevant criteria.

The scope of our audit covered the ESA program total unspent and uncommitted funds reported by SCE 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 SCE operations, and identified relevant criteria, by reviewing applicable PU Code sections, the CPUC Energy Efficiency Policy Manual, the Statewide ESA program 2017-2020 Policies and Procedures Manual, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and interviewing SCE's personnel.

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

Additionally, we assessed the reliability of data extracted from SCE'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 objectives, we:

- Reviewed SCE's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring ESA program costs.
- Assessed whether SCE's policies, procedures, and practices comply with ESA program requirements.
- Reviewed and reconciled expenditure totals, by budget category, recorded in SCE's accounting system, to the balances reported in SCE's Annual Reports for PYs 2019, 2020, and 2021, Tables 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 and verified whether corrective actions were implemented.
- Obtained an understanding of SCE's key internal controls relevant to the ESA program, such as classifying, 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 SCE'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 \$11,521,864 of \$227,287,424 for PYs 2019, 2020, and 2021, as itemized in the table below:

ESA Program Expenditures	Total Expenditures Tested	Total Expenditures Recorded for PYs 2019 - 2021	Percent Tested
Appliances	\$ 2,292,079	\$ 36,387,079	6.30%
HVAC	6,900,193	77,720,830	8.88%
Lighting	28,519	18,635,559	0.15%
Miscellaneous	1,336	15,547,288	0.01%
Customer Enrollment	534,501	22,155,792	2.41%
In Home Education	14,850	6,246,589	0.24%
Multi-Family Common Area Measures	91,137	1,226,794	7.43%
Climate Zone 13 Central AC and AC-related measures	1,637,511	17,492,277	9.36%
HE Clothes Washer	3,840	13,377	28.71%
Powerstrip Tier II	17,898	6,642,812	0.27%
Other categories not tested	-	25,219,027	0.00%
Totals	\$ 11,521,864	\$ 227,287,424	5.07%

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

- For the selected samples, traced expenditures recorded in SCE'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 SCE's policies and procedures by:
 - tracing expenditures to invoices to ensure the expenditure (1) was incurred and approved within PYs 2019, 2020, or 2021, (2) agreed to the invoice amount, and (3) was calculated correctly;

- verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was allowable; and
- confirming the 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 Recorded	Percent Tested
PY 2019	\$ 251,861	\$ 2,450,267	10.28%
PY 2020	24,097	671,421	3.59%
PY 2021	1,910	52,452	3.64%
Totals	\$ 277,868	\$ 3,174,140	8.75%

- Traced ESA program collection amounts reported in advice letters to collections recorded in SCE's ESAPAMBA - for PYs 2019 and 2020.
- Calculated the total unspent and uncommitted ESA fund balance for the audit period using audited data.

We did not audit SCE financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCE reported, incurred, and supported its ESA unspent and uncommitted funds in accordance with the applicable criteria. We considered SCE 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 SCE spent ESA fund balances in accordance with applicable PU Code sections, CPUC decisions, and SCE's policies and procedures. However, we found instances of non-compliance with some of the requirements outlined above. These instances are described in the Findings and Recommendations section of this audit report.

We determined that SCE did not provide evidence of appropriate management approval for payment of an invoice in the amount of \$463,682 for allowable ESA expenditures in PY 2020 (Finding 1). We further determined that SCE's total unspent and uncommitted ESA fund balance for PY 2020 was not reported accurately due to overstated expenditures. Our audit determined that SCE overstated reported expenditures by \$52,795 (Finding 2). This overstatement resulted in the ESA unspent and uncommitted fund balance for PY 2020 to be understated by the same amount.

The correct amount of unspent and uncommitted ESA funds for PY 2020 should be \$104,873,403, as outlined in the table below:

PY 2020	Unspent and Uncommitted ESA Funds
Reported	\$ 104,820,608
Understated	52,795
Updated Total	\$ 104,873,403

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 October 11, 2021, disclosed an audit finding. SCE implemented corrective actions to address the prior audit finding. Based on the work performed in the current audit, we noted SCE has satisfactorily resolved this finding.

Views of Responsible Officials

We issued a draft audit report on January 10, 2023. SCE responded by letter dated January 25, 2023, partially agreeing with the audit results but disagreeing with specific parts of both Findings 1 and 2. SCE's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and 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 SCE 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 will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

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	\$ 120,180,764	\$ 120,180,764	\$ -
Collections ³	63,616,662	63,616,662	-
Expenditures ⁴	(90,798,307)	(90,798,307)	-
Accrued Interest ⁵	2,450,267	2,450,267	-
Total Unspent & Uncommitted Funds	<u>\$ 95,449,386</u>	<u>\$ 95,449,386</u>	<u>\$ -</u>
<u>PY 2020</u>			
Beginning Balance ²	\$ 95,449,386	\$ 95,449,386	\$ -
Collections ³	65,067,100	65,067,100	-
Expenditures ⁴	(56,367,299)	(56,314,504)	(52,795)
Accrued Interest ⁵	671,421	671,421	-
Total Unspent & Uncommitted Funds	<u>\$ 104,820,608</u>	<u>\$ 104,873,403</u>	<u>\$ (52,795)</u>
<u>PY 2021</u>			
Beginning Balance ²	\$ 104,820,608	\$ 104,873,403	\$ (52,795)
Collections ³	-	-	-
Expenditures ⁴	(80,121,818)	(80,121,818)	-
Accrued Interest ⁵	52,452	52,452	-
Total Unspent & Uncommitted Funds	<u>\$ 24,751,242</u>	<u>\$ 24,804,037</u>	<u>\$ (52,795)</u>

¹ The balances are reported from SCE's ESAPAMBA.

² Auditor traced balance to SCE's accounting system.

³ Auditor traced Advice Letters to collections recorded in ESAPAMBA.

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 \$90,358,914, \$54,956,779, and \$81,222,072 respectively. This table above represents recorded amounts verified during audit fieldwork.

⁵ Balancing account interest is derived from ESAPAMBA.

⁶ Expenditures include minor adjustments in rounding errors.

⁷ This adjustment represents overstated expenditures totaling \$52,795 (Finding 2).

FINDINGS AND RECOMMENDATIONS

Finding 1: Lack of Appropriate Management Approvals

Condition:

SCE did not provide evidence of appropriate management approval for payment of an invoice. During our testing of expenditures for PY 2020, SCE did not provide documentation to support that appropriate management approval took place for payment of invoice JH0116204879, totaling \$463,682, which related to multiple ESA program categories reported in PY 2020. SCE did not obtain appropriate payment approval from a Principal Manager or above for this invoice as required by SCE's Customer Programs & Services (CP&S) Payment Process Procedures, Approval Levels 2019-2021 policy, for invoices up to \$500,000. As a result, SCE was not in compliance with its policies and procedures. The expenditures relating to this invoice, totaling \$463,682, are outlined in the table below:

Expenditures for Program Categories	Expenditure Amounts
Appliances	\$ 22,975
HVAC	117,404
Lighting	17,716
Miscellaneous	775
Customer Enrollment	60,292
In Home Education	14,850
Climate Zone 13 Central AC/AC related measures	218,780
HE Clothes Washer	3,840
Powerstrip Tier II	7,050
Totals	\$ 463,682

Criteria:

SCE's CP&S Payment Process Procedures, Approval Levels 2019-2021, require that Purchase Order (PO) payments must have appropriate authorization levels by title. Specifically, PO payments above \$100,000 and below \$500,000 require payment approval from a Principal Manager or above.

Cause:

While SCE had an established policy for the payment approval process, SCE demonstrated inadequate monitoring controls that would ensure its personnel followed the established policies and procedures. As a result, SCE approved payment of an invoice without the proper payment authorization.

Effect:

Failure to follow internal control processes demonstrated weaknesses associated with payment approvals. Improper monitoring of established controls could inadvertently lead to misuse of ESA funding and could adversely affect qualified low-income customers who benefit from this program.

It is critical that ESA program costs go through all established approvals and are accurately recorded and reported to ensure transparency and accuracy in capturing program performance.

Recommendation:

SCE should monitor and enforce its internal policy to ensure appropriate payment authorization levels are obtained prior to payment processing.

Finding 2: Overstated Expenditures in PY 2020 Annual Report**Condition:**

SCE overstated expenditures for PY 2020 in the Appliances program category in its Annual Report by \$52,795. While performing a reconciliation of SCE's Annual Report with SCE's accounting records, we noted that the Appliances program was overstated by \$29,370, while the Customer Enrollment and In Home Education programs were understated by \$22,745 and \$6,625, respectively, for PY 2020. SCE inadvertently reported these expenditures in the wrong program categories. SCE did not account for the inventory used in the Customer Enrollment and In Home Education programs; therefore, understating them, and consequently overstating unused inventory in the Appliances program at the same time. SCE filed an amendment to its PY 2020 Annual Report on October 25, 2022, to correct the initial misstatement of \$29,370. However, during the amendment process, SCE further overstated the Appliances program category by an additional \$23,425. Subsequently, SCE overstated its Appliances program expenditures in its PY 2020 Annual Report by a total of \$52,795.

Criteria:

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

Cause:

SCE's reconciliation and monitoring procedures for its Government Reports Process were inadequate to ensure proper review of its accounting records prior to preparing and submitting its PY 2020 Annual Report and the subsequent amendment dated October 25, 2022.

Effect:

Inadequate reconciliation and monitoring procedures resulted in the overstatement of SCE's Appliances program expenditures in both the original and amended PY 2020 Annual Report, which subsequently understated the available balance of unspent and uncommitted ESA funds in PY 2020.

It is critical that ESA program expenditure reports get properly reviewed and reconciled for accuracy prior to submission 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.

Recommendations:

SCE should improve its reconciliation and review procedures over its ESA program expenditures to ensure they are accurately recorded and reported in its Annual Reports.

Furthermore, SCE should amend its PY 2020 Annual Report to reflect accurate Appliances program expenditures and the movement of inventory between related programs.

APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT

DocuSign Envelope ID: CF1E0C28-9212-41FB-B7D1-E021DCC03FE6



January 25, 2023

Angie Williams – Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
400 R. Street, Suite 221
Sacramento, CA 95811

Transmitted via e-mail to: Masha.Vorobyova@cpuc.ca.gov

Dear Ms. Williams:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the draft *Energy Savings Assistance (ESA) Program Performance Audit on Southern California Edison Company's (SCE's) ESA Program for the Period January 1, 2019 through December 31, 2021* (Draft Report), issued on January 10, 2023 by the California Public Utilities Commission's Utility Audits Branch (UAB).

SCE's comments to the Draft Report are attached to this letter and provide additional clarification and information related to the finding in the Draft Report and SCE's Corrective Actions. SCE appreciates UAB's audit review of the ESA Program, as SCE is committed to continuous improvement and uses the feedback received from these audits to implement such improvements. SCE would also like to express its appreciation to the UAB for the professional, courteous, and efficient manner in which the audit engagement was conducted.

If you have questions about SCE's comments or would like to set up a meeting to discuss the information provided, please contact Heidi Lopez at 626-302-3904 or Heidi.Lopez@sce.com.

Thank you,

DocuSigned by:

Signature: _____ Date: 1/25/2023

Katie Sloan
Vice President, Customer Service
Customer Programs & Services

Attachments

- cc: Masha Vorobyova, Assistant Director, Utility Audits Branch, CPUC
- Nichelle Jackson, Program and Project Supervisor, Utility Audits Branch, CPUC
- Edwin Estemon, Public Utilities Regulatory Lead, Utility Audits Branch, CPUC
- Grisel Reyes, Staff, Utility Audits Branch, CPUC
- Cole Chev, Staff, Utility Audits Branch, CPUC
- Nancy Ta, Staff, Utility Audits Branch, CPUC
- Elizabeth Leano, Senior Manager, External Regulatory Audits, SCE
- Heidi Lopez, Advisor, External Regulatory Audits, SCE

P. O. Box 800
2244 Walnut Grove Avenue
Rosemead, CA 91770
626-302-1212

SCE's Comments to the Draft Report in UAB's Audit of SCE's Energy Savings Assistance (ESA) Program for the Years 2019 through 2021

Following are SCE's comments to the Draft Report prepared by the Utility Audit Branch (UAB) based on its audit of SCE's 2019-2021 Energy Savings Assistance (ESA) Program.

1. Lack of Evidence of Appropriate Management Approvals

Draft Finding: *SCE did not provide evidence of appropriate management approval for payment of an invoice in the amount of \$463,682. As a result, these expenditures are unallowable. Resulting from the finding, UAB determined that SCE's total amount of unspent and uncommitted ESA funds for PY 2020 was not reported accurately due to overstated expenditures. UAB's audit determined that SCE overstated reported expenditures by \$463,682.*

Draft Recommendation: *UAB recommends SCE should monitor and enforce its internal policy to ensure appropriate payment authorization levels are obtained prior to payment processing. In addition, SCE should amend its PY 2020 Annual Report to exclude the unallowable ESA costs totaling \$463,682.*

SCE Comments and Corrective Action

SCE acknowledges and agrees with the finding but disagrees with the disallowance recommendation. SCE acknowledges the need to improve its procedures in enforcing internal policy to ensure that evidence of appropriate payment authorization levels is obtained prior to payment processing. Prior to 2019 until early 2020, the ESA invoice approval process was handled by another organization outside of the ESA team. In 2020, SCE transitioned this work to within the ESA program to increase our oversight and to better control the process. To properly secure the documents, protocols have been established in storing and accessing this information in a central cloud repository that will make it easier for the team to retrieve records for future use. Also, SCE is further streamlining its process by transitioning to a new system of record, Ariba, for contractor billings by end of 2023. The Ariba system will centralize documentation of management approvals for invoice payments.

While it is unfortunate that senior leadership signatures cannot be retrieved for the invoice amounting to \$463,682, it should be noted that SCE complied with the ESA program's invoice processing procedures that includes verification of installation and customer forms leading to at least first level management approval that was captured on the Energy Management Assistance Partnership System (EMAPS) prior to the payment being issued. Furthermore, SCE was able to provide evidence of management signature on nearly all samples tested, which suggests that this missing signature authorization is an anomaly out of the hundreds of signature records produced from various operational transactions. In addition, as part of this response, SCE has taken an extra step to provide a sample of customer enrollment forms, 460 of the 965 customer enrollment forms, that map \$220,297 to the \$463,682 expenditure to further demonstrate that the funds ultimately benefitted ratepayers and should therefore be treated as allowable expenses. This sample represents 48% of the enrollments included in this invoice and 48% of the expenditure¹.

The UAB concluded that SCE spent ESA funds in accordance with applicable PU Code sections, CPUC decisions, and complied with SCE's policies and procedures in vast majority of instances. SCE believes that the recommended disallowance is improper given that these expenditures were valid program expenses incurred by SCE in furtherance of the ESA Program and fully undermines the value of the work that was justly performed to advance the health, comfort, and safety of low-income customers.

For these reasons, SCE disagrees with the recommendation to amend its 2020 Annual Report to exclude ESA costs totaling \$463,682.

¹ SCE can provide additional enrollment forms upon request.

2. Overstated Expenditures in PY 2020 Annual Report

Draft Finding: *SCE overstated expenditures for PY 2020 in its Annual Report by 52,795 due to reporting errors. Resulting from the finding, UAB determined that SCE's total amount of unspent and uncommitted ESA funds for PY 2020 was not reported accurately due to overstated expenditures. UAB's audit determined that SCE overstated reported expenditures by \$52,795.*

Draft Recommendation: *UAB recommends SCE should improve its reconciliation and review procedures over its ESA program expenditures to ensure they are accurately recorded and reported in its Annual Reports. Furthermore, SCE should amend its PY 2020 Annual Report to reflect accurate Appliances program expenditures and the movement of inventory between related programs.*

SCE Comments and Corrective Action

SCE disagrees with the finding and the recommended disallowance.

SCE recognizes the need to improve its reconciliation process and review procedures over ESA program expenditures to ensure proper recording in the Annual Report. SCE plans to take corrective action to enhance the quality control (QC) process by assigning dedicated staff to conduct a comprehensive review of reconciliation data prior to the Annual Report being submitted. The bolstered QC process will ensure that all claimed expenditures for any given year are accurate and complete and are easily accessible for future audits. Additionally, SCE plans to improve the documentation of QC procedures to allow an easier transition when staff changes occur.

However, after further review of reconciliation records, SCE maintains its position that the 2020 Annual Report was not overstated, that five invoices totaling \$52,795 were inadvertently omitted from expenses due to an invoice approval timing issue. The five invoices were not included in the \$54,903,984 total expenditures initially reported in the 2020 Annual Report (June 2021). While the five invoices appeared in the EMAPs data dump, they were NOT included in the 2020 SAP data dump because they were approved in 2020 but paid in 2021. Upon identifying the error, SCE proactively revised the Annual Report via a second amendment that was submitted in October 2022.

More specifically, adjustments were made in the Customer Enrollment and Energy Education section of the report in the amount of \$29,370 while the remaining \$23,425 was added to the Adjustment for Inventory. Please refer to the table below.

	2020		2020 - Amendment		Delta	
SAP total after Reconciliation	54,903,984		SAP total after Reconciliation	54,956,779	52,795	
Domestic Hot Water	1,929	SAP	Domestic Hot Water	1,929	SAP	-
Enclosure	62,344	SAP	Enclosure	62,344	SAP	-
Customer Enrollment	5,747,640	SAP	Customer Enrollment	5,770,385	SAP	22,745
Energy Education	1,397,129	SAP	Energy Education	1,603,754	SAP	6,625
Pilot	83,138	SAP	Pilot	83,138	SAP	-
Training	108,382	SAP	Training	108,382	SAP	-
Inspection	891,018	SAP	Inspection	891,018	SAP	-
Marketing	808,919	SAP	Marketing	808,919	SAP	-
Measure & Evaluation	44,014	SAP	Measure & Evaluation	44,014	SAP	-
Reg Compliance	567,156	SAP	Reg Compliance	567,156	SAP	-
General Admin	3,303,194	SAP	General Admin	3,303,194	SAP	-
CPUC Energy Division	68,619	SAP	CPUC Energy Division	68,619	SAP	-
Total SAP Categories	13,283,480		Total SAP Categories	13,312,850		29,370
Total SAP net SAP Categories	41,620,504		Total SAP net SAP Categories	41,643,929		23,425
Freezers	98,342	EMAPs	Freezers	98,342	EMAPs	-
Refrigerator	8,326,360	EMAPs	Refrigerator	8,326,360	EMAPs	-
HVAC-Exc. C213	14,889,824	EMAPs	HVAC-Exc. C213	14,889,824	EMAPs	-
Lighting	4,029,695	EMAPs	Lighting	4,029,695	EMAPs	-
Misc.	1,425,271	EMAPs	Misc.	1,425,271	EMAPs	-
MF CAM	253,388	EMAPs	MF CAM	253,388	EMAPs	-
HVAC- C213	8,521,250	EMAPs	HVAC- C213	8,521,250	EMAPs	-
HE Clothes washer	13,377	EMAPs	HE Clothes washer	13,377	EMAPs	-
Power strip Tier 2	3,920,491	EMAPs	Power strip Tier 2	3,920,491	EMAPs	-
Total EMAP Categories	41,477,998		Total EMAP Categories	41,477,998		-
Adjustment for inventory	142,506		Adjustment for inventory	165,931		23,425
Table 1	42,195,479		Table 1	42,248,274		52,795
Table 1A	12,708,506		Table 1A	12,708,506		-
Total Spend in AR	54,903,984		Total Spend in AR	54,956,779		52,795

Based on these adjustments, the audit should have captured the new expenditures that SCE reported in its second 2020 Annual Report amendment. Instead of auditing \$54,903,984 of expenditures, the modified expenditure of \$54,956,779 should have been utilized in audit calculations to reconcile the accounts.

	SCE Reported (Based on Amendment)	Auditor Calculation	
PY 2020			
	A	B	B- A
Beginning Balance on January	95,449,384	95,449,362	(22)
Revenue Collected (Advice Letter)	65,067,100	65,067,100	-
Expenditures (Audited Amount)	(54,956,779)	(54,903,984)	52,795
Reconciling Items 2020 (Not Audited):			-
Less: Invoices approved in 2019 but paid in 2020	(748,387)	(748,387)	-
Less: PY 2019 Accrual Reversal	1,293,944	1,293,944	-
Less: PY 2020 AP Accruals	(1,777,494)	(1,777,494)	-
Less: PY 2020 CS9999 Accruals	(1,278,208)	(1,278,208)	-
Less: Duplicate payment (returned in 2021)	(46,000)	(46,000)	-
Less: Cancelled Invoices/Service Entry Sheets	(4,799)	(4,799)	-
Less: 2020 corrections completed in 2021	(1,158,462)	(1,158,462)	-
Less: 2019 install missing inventory to be billed in 2020	(4,421)	(4,421)	-
Add: Invoices were approved in 2020 but paid in 2021	2,313,306	\$2,313,285.44	(21)
Total Reconciling Items 2020 (Not Audited)	(1,410,520)	(1,410,541)	(21)
Interest	671,421	671,421	-
Total Unspent 2020	\$ 104,820,605	\$ 104,873,358	52,752

ESA and SAP Data Dumps are static records and are reconciled independently. Even if a record is found on EMAPS data dump, one cannot assume that the transaction is automatically claimed for any given year. In this instance, the transaction was entered into EMAPS in 2020 and paid in 2021.

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

We appreciate SCE's comments. We reviewed SCE's response to the draft audit report. We are providing our assessment of SCE's responses in the same order listed in the response letter.

Finding 1: Lack of Appropriate Management Approvals

While SCE agreed that it did not provide sufficient evidence of appropriate management approvals for invoice payment, it disagreed with the recommendation noted in the draft audit report to amend the PY 2020 Annual Report to exclude \$463,682 as unallowable ESA expenditures. To support its assertion that payments were made for valid ESA expenditures, SCE provided 460 out of 965 customer enrollment forms that tied to \$220,297 of the \$463,682 in expenditures. SCE further noted that first level management approvals for these customer enrollment forms were captured prior to payments being issued, which further illustrated that the funds benefitted ratepayers and should be treated as allowable expenses.

We disagree with SCE's overall assessment. Expenditures charged to various programs must generally meet various criteria specified in order to be deemed allowable. On the contrary, failure to comply with one or more of the specified criteria places the expenditure into an unallowable category. The processing of customer enrollment forms does not replace the requirement to follow its CP&S Payment Process Procedures, Approval Levels 2019-2021 policy for invoices up to \$500,000. Failure to do so could inadvertently lead to misuse of ESA funds and adversely affect the benefits intended for qualified low-income customers who rely on the program's support.

In addition, the payment of \$463,682 met our threshold for significance and, therefore, requires corrective action. Without additional invoice testing, we cannot definitively determine how many more ESA invoices were potentially processed without proper approvals.

UAB further notes that SCE did not follow its Records Scanning Operations Quality Control policy and its Record Retention Policy Schedule, which requires documents to be stored for a designated period, based on record type. SCE not only failed to obtain appropriate management approvals for invoice payment, it also failed to retain these records as required.

Nevertheless, as a result of SCE's response to the draft audit report, UAB has revised the effect of Finding 1 on allowable ESA expenditures for PY 2020. We concur that questioned costs in Finding 1 should not affect the total unspent and uncommitted ESA funds for PY 2020. SCE demonstrated, during the submission of additional documents provided with SCE's response to the draft audit report, that the questioned expenditures totaling \$463,682 related to ESA program and should be categorized as allowable. Therefore, the available balance of unspent and uncommitted ESA funds for PY 2020 is not impacted. Subsequently, SCE is not required to amend its PY 2020 Annual Report for Finding 1.

However, the remaining portions of Finding 1 that relate to weaknesses in SCE's internal controls remain unchanged and require corrective action. This report reflects the updates made to Finding 1.

Finding 2: Overstated Expenditures in PY 2020 Annual Report

While SCE agreed with the need to improve its reconciliation and review procedures over its ESA program expenditures, it disagreed with the recommendation to amend its PY 2020 Annual Report because it did not believe the 2020 Annual Report was overstated.

SCE stated that the five invoices totaling \$52,795 were inadvertently omitted from expenses due to an invoice approval timing issue, and the five invoices were not included in the \$54,903,984 total expenditures initially reported in the 2020 Annual Report submitted in June 2021.

Additionally, SCE stated that while the five invoices appeared in the Energy Management Assistance Partnership System (EMAPS) data, they were not included in the 2020 and 2021 Systems Applications and Products in Data Processing (SAP) data that were approved in 2020 but paid in 2021.

We disagree. SCE used both EMAPS and the SAP data to complete its Annual Reports, and UAB used both the 2020 EMAPS and the 2020 and 2021 SAP data during reconciliation of ESA program data. UAB pointed out during fieldwork that SCE inadvertently reported specific expenditures in the wrong program categories. SCE did not account for the inventory used in the Customer Enrollment and In Home Education programs; therefore, understating them, and consequently overstating unused inventory in the Appliances program at the same time. We discussed this error with SCE on multiple occasions during fieldwork and pointed out the specific expenditures that caused the reporting error.

SCE indicated in its response that it corrected the issue in its second amendment of the Annual Report in October 2022. However, the second amendment did not fix the original reporting error. The amendment should have included an increase totaling \$22,745 and \$6,625 in the Customer Enrollment and the In Home Education programs, respectively. Additionally, the Appliances program should have been reduced by \$29,370 to account for the inventory used in the Customer Enrollment and In Home Education programs. The total expenditures should have remained at the same amount as originally reported in the 2020 Annual Report. Instead, SCE's amendment adjusted total expenditures by \$52,795, for which SCE failed to provide adequate analysis and corresponding supporting data to substantiate the adjustment. Furthermore, SCE's amendment did not correct the original reporting error.

The finding and recommendations remain unchanged.