

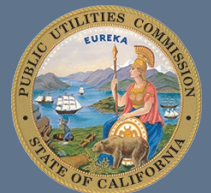


ENERGY SAVINGS ASSISTANCE PROGRAM PERFORMANCE AUDIT

Southern California Gas Company

January 1, 2019, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 5, 2023



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

April 5, 2023

Ms. Mia DeMontigny
Chief Financial Officer, Controller, Chief Accounting Officer and Treasurer
Southern California Gas Company
555 W. 5th Street, GT21C2
Los Angeles, CA 90013

Dear Ms. DeMontigny:

**Final Report Transmittal Letter—Audit of Southern California Gas 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 Gas Company’s (SoCalGas) Energy Savings Assistance program for the period of January 1, 2019, through December 31, 2021, or Program Years 2019, 2020, and 2021. The final audit report is enclosed.

Our audit disclosed no findings requiring a response; therefore, we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

We appreciate the assistance and cooperation of SoCalGas. 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 (transmitted via email)

Ms. Mia DeMontigny
Chief Financial Officer, Controller, Chief Accounting Officer and Treasurer
April 5, 2023
Page 2

cc: Brian Prusnek, Director of Customer Programs & Assistance, SoCalGas
Mark Aguirre, Customer Assistance Programs Manager, SoCalGas
Priscilla Hamilton, Customer Programs Regulatory Support Manager, SoCalGas
Clinton Chien, Budgets Strategy & Oversight Manager, SoCalGas
Kristine Huliganga, Regulatory Case Manager, SoCalGas
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, Senior Regulatory Analyst, 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

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Cole Chev, Lead

Edwin Esternon, Staff

Nancy Ta, Staff

Grisel Reyes, Staff

A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry)

You can contact our office at:

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
AUDIT REPORT	2
Background	2
Audit Authority.....	3
Objectives and Scope.....	3
Methodology	4
Conclusion.....	6
Follow-up on Prior Audit Findings	6
Views of Responsible Officials.....	7
Restricted Use	7
SUMMARY SCHEDULE OF AUDIT RESULTS.....	8

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 Gas Company (SoCalGas) 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. SoCalGas' 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 SoCalGas' 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, SoCalGas' 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, SoCalGas' policies and procedures, and other relevant criteria.

Based on the procedures performed, samples tested, and evidence gathered, we determined that SoCalGas' amount of unspent and uncommitted funds, totaling \$213,482,765, \$239,681,335, and \$151,826,787 for PYs 2019, 2020, and 2021, respectively, were reported accurately in the Annual Report and were based on expenditures, collections, Public Purpose Program (PPP) remittances and reimbursements, and accrued interest reported in its applicable balancing account, 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.21-06-015, SoCalGas' policies and procedures, and other relevant criteria.

In addition, 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, and SoCalGas' policies and procedures.

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, PPP remittances and reimbursements, 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 SoCalGas' applicable balancing account, which includes ESA collections, expenditures, PPP remittances and reimbursements, and interest.

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, Southern California Edison Company, San Diego Gas & Electric Company (SDG&E), and 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 PPP surcharge that appears on monthly utility bills.

As required by D.16-11-022 Ordering Paragraph (OP) 136, SoCalGas 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.

SoCalGas 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.

SoCalGas filed its Annual Report as follows: (1) PY 2019 in May 2020, (2) PY 2020 in May 2021, and (3) PY 2021 in May 2022. In Tables 1 and 1A of its Annual Report, SoCalGas reported expenditures based on the incurred amounts by program year. The following table illustrates SoCalGas' 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 SoCalGas' Direct Assistance Program Balancing Account (DAPBA).

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

ESA Program Category	Reported ¹		
	2019	2020	2021
Beginning Balance ²	\$ 208,965,846	\$ 213,482,765	\$ 239,681,335
Collections ³	129,545,147	132,035,492	9,117,454
Expenditures ⁴	(112,333,477)	(106,332,824)	(115,795,522)
PPP Remittances & Reimbursements ⁵	(17,471,588)	(1,038,359)	18,676,355
Accrued Interest ⁶	4,776,837	1,534,261	147,165
Total Unspent and Uncommitted ESA Funds	\$ 213,482,765	\$ 239,681,335	\$ 151,826,787

¹ The balances are reported from SoCalGas' DAPBA.

² The auditor traced beginning balances to SoCalGas' accounting system.

^{3,5} The amounts are reported from SoCalGas' DAPBA.

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 1A, originally reported the amounts as \$111,539,060, \$109,226,117, and \$112,910,354, respectively. This table above represents recorded amounts verified during the audit fieldwork.

⁶ Balancing account interest is derived from SoCalGas' DAPBA.

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 the UAB to determine the audit scope and timeline for the ESA and CARE program audit to address concerns regarding transparency of funds.

Objectives and Scope

Our audit objectives were to determine whether:

1. SoCalGas' 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 SoCalGas' 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, SoCalGas' 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 SoCalGas' applicable balancing account, which includes ESA collections, expenditures, PPP remittances and reimbursements, and interest.

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

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

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

Additionally, we assessed the reliability of the data extracted from the SoCalGas' 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 SoCalGas' accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring ESA program costs.
- Assessed whether SoCalGas' policies, procedures, and practices comply with the ESA program requirements.
- Reviewed and reconciled expenditure totals by budget category recorded in SoCalGas' accounting system to the balances reported in SoCalGas' Annual Reports for PYs 2019, 2020, and 2021, Tables 1 and 1A, for accuracy and completeness.
- Assessed significance by performing analysis of expenditure data and evaluating program requirements.
- Reviewed results of prior audits and verified whether corrective actions were implemented.
- Obtained an understanding of SoCalGas' key internal controls relevant to the ESA program, such as classifying and recording, monitoring, approving, and reporting the 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 SoCalGas' policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of ESA expenditure data;
 - 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 \$4,991,228 of \$334,461,823 for PYs 2019, 2020, and 2021 as itemized in the table below:

Budget Category	Total Expenditures Tested	Total Expenditures Recorded in PY 2019 - 2021	Percent Tested
Customer Enrollment	\$ 926,101	\$ 88,286,807	1.0%
Enclosure	1,408,463	83,536,592	1.7%
Heating Ventilation and Air Conditioning	2,489,370	52,306,826	4.8%
Pilot	167,295	264,207	63.3%
Other categories not tested	-	110,067,391	0.0%
Totals	\$ 4,991,228	\$ 334,461,823	1.5%

- For the selected samples, traced expenditures recorded in SoCalGas' 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 SoCalGas' policies and procedures by:
 - tracing expenditures to invoices to ensure the expenditure (1) was incurred and/or approved within PYs 2019, 2020, or 2021, (2) agreed to the invoice amount, and (3) was calculated correctly;
 - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm expenditure was allowable; and
 - confirming payment was made for the expenditure and the amount agreed to the invoice.

- 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	Percent Tested
Program Year 2019	\$ 440,586	\$ 4,776,837	9.2%
Program Year 2020	24,103	1,534,261	1.6%
Program Year 2021	8,950	147,165	6.1%
Totals	\$ 473,639	\$ 6,458,263	7.3%

- Traced ESA program collection amounts and PPP remittances and reimbursements reported in SoCalGas' balancing account to amounts recorded in SoCalGas' accounting system for PYs 2019, 2020, and 2021.
- Calculated the total unspent and uncommitted ESA funds for the audit period using audited data.

We did not audit SoCalGas' financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SoCalGas reported, incurred, and supported its ESA unspent and uncommitted funds in accordance with the applicable criteria. We considered SoCalGas 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 determined that SoCalGas' amount of unspent and uncommitted funds, totaling \$213,482,765, \$239,681,335, and \$151,826,787 for PYs 2019, 2020, and 2021, respectively, were reported accurately in the Annual Report and were based on expenditures, collections, PPP remittances and reimbursements, and accrued interest reported in its balancing account, 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, SoCalGas' policies and procedures, and other relevant criteria.

In addition, the unspent and uncommitted ESA fund balances at the end of PYs 2020 and 2021 were spent in accordance with applicable PU Code sections, CPUC D.16-11-022, D.17-12-009, D.19-06-022, and D.21-06-15, SoCalGas' policies and procedures.

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 September 27, 2021, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with SoCalGas representatives at an exit conference held on March 16, 2023. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULE OF AUDIT RESULTS

Table 1: ESA Unspent and Uncommitted Funds Available

Category	Reported ¹	Audited	Audit Adjustment
<u>PY 2019</u>			
Beginning Balance ²	\$ 208,965,846	\$ 208,965,846	\$ -
Collections ³	129,545,147	129,545,147	-
Expenditures ⁴	(112,333,477)	(112,333,477)	-
PPP Remittances and Reimbursements ⁵	(17,471,588)	(17,471,588)	-
Accrued Interest ⁶	4,776,837	4,776,837	-
Total Unspent & Uncommitted Funds	\$213,482,765	\$213,482,765	\$ -
<u>PY 2020</u>			
Beginning Balance ²	\$ 213,482,765	\$ 213,482,765	\$ -
Collections ³	132,035,492	132,035,492	-
Expenditures ⁴	(106,332,824)	(106,332,824)	-
PPP Remittances and Reimbursements ⁵	(1,038,359)	(1,038,359)	-
Accrued Interest ⁶	1,534,261	1,534,261	-
Total Unspent & Uncommitted Funds	\$239,681,335	\$239,681,335	\$ -
<u>PY 2021</u>			
Beginning Balance ²	\$ 239,681,335	\$ 239,681,335	\$ -
Collections ³	9,117,454	9,117,454	-
Expenditures ⁴	(115,795,522)	(115,795,522)	-
PPP Remittances and Reimbursements ⁵	18,676,355	18,676,355	-
Accrued Interest ⁶	147,165	147,165	-
Total Unspent & Uncommitted Funds	\$ 151,826,787	\$ 151,826,787	\$ -

¹ The balances are reported from SoCalGas' DAPBA.

² The auditor traced beginning balances to SoCalGas' accounting system.

^{3, 5} The amounts are reported from SoCalGas' DAPBA.

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 1A, originally reported the amounts as \$111,539,060, \$109,226,117, and \$112,910,354, respectively. This table above represents recorded amounts verified during the audit fieldwork.

⁶ Balancing account interest is derived from SoCalGas' DAPBA.