



Memorandum

Date: June 27, 2014

To: Michelle Cooke
Deputy Director, Operations and Budget

From: **Public Utilities Commission —** Kayode Kajopaiye, Branch Chief
San Francisco Division of Water and Audits

Subject: **Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company (SCG) EE Programs For the Period January 1, 2011 through December 31, 2012**

Except for the issues discussed below, SCG demonstrated compliance with Commission directives respecting the Energy Efficiency (EE) program areas examined by the Utility Audit, Finance and Compliance Branch (UAFCB) for program years 2011 and 2012. UAFCB did not find any reported costs that SCG should not have its incentives calculated on.

UAFCB conducted this examination pursuant to Decision (D.) 12-12-032.¹ Based on consultation with the Energy Division (ED) and UAFCB's prior experience, this examination was limited in scope and included SCG's 2011 and 2012 EE program specific areas. For program year 2012: (1) On-Bill Financing program (OBF); (2) Administrative costs; (3) Multi-Family Energy Efficiency Rebate program (MFEER); and (4) EE Contracts. For program years 2011 and 2012: (1) Fund Shifting, (2) EE Balancing Accounts, (3) SCG's Internal Audit Reports on EE Programs, and (4) Follow-up on Prior UAFCB's Examination recommendations.

A. Summary of Examination, Observations, and Recommendations

The following is a brief summary of UAFCB's observations and recommendations resulting from its examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

Observation 1: UAFCB did not find material exceptions in its review of administrative costs charged to Statewide, Local Government Partnership (LGP) and Third Party (3P) Programs.

Recommendation: None

Observation 2: SCG did not purposely fail to demonstrate compliance with Public Utility (PU) Code §§ 581 and 584.² SCG consolidated and reported the Non-IOU Third Party and Local Government administrative costs totaling \$5.3 million in the Marketing cost category in Table 3-Summary of Portfolio Expenditures of the 2012 Annual Report.

¹ In D.12-12-032, on page 40, the Commission discussed that it anticipates relying on public versions of UAFCB's examination reports when determining the amount of each utility's incentives. In Conclusion of Law (COL) No. 9, the Commission indicated that upon completion, UAFCB shall serve a notice of availability of its report on the service list in R.12-01-005, or its successor.

² All statutory references are to the Public Utilities Code unless stated otherwise.

Recommendation: The Energy Division should provide a separate line item for Non-IOU Administrative Cost in Table 3 for utilities to present accurate and proper reporting as recommended in the examination memo report, for 2011 and 2010. The present reporting requirement does not allow for accuracy in reporting and not in compliance with D.09-09-047, Ordering Paragraph (OP) 13 a and b.

Observation 3: SCG failed to implement its contract invoicing requirements for sufficient supporting documentation respecting payments to a 3P contractor. Invoices reviewed lacked supporting documentation to substantiate charges billed for customer enrollment activities and incentive payments to customers. SCG's failure to require adequate supporting documentation from contractor increases the risk of paying fraudulent claims.

Recommendation: SCG should improve its invoicing requirements for this type of payment process from EE contractors and strengthen the internal controls to ensure that EE charges are appropriately supported for Fixed Unit Price activities.

Observation 4: UAFCB did not find material exceptions in its examination of invoices and supporting documentation for administrative, marketing and direct implementation expenses charged to the 2012 OBF program. Also, UAFCB did not find any exceptions in its examination of OBF loans created in 2012.

Recommendation: None

Observation 5: UAFCB did not find material exceptions in its review of invoices and supporting documentation for administrative, marketing and direct implementation expenses and rebates charged to the MFEER program. During its review of selected inspection reports, UAFCB observed that inspectors confirmed that the installation/equipment indicated on the rebate application form was installed at the address indicated on the form, matched the supporting invoice/receipt, and was operational at the time of inspection.

Recommendation: None

Observation 6: SCG failed to demonstrate compliance with the Adopted Fund Shifting Rules of Commissioner's Ruling (Attachment A) of Rulemaking (R.) 09-11-014 in performing fund shifts between programs under the Statewide Codes and Standards (C&S) category. SCG failed to issue an Advice Letter when it shifted more than 1% of a program budget to another program within the C&S category.

Recommendation: SCG should review fund shifting rules and update its Internal Request for Fund Shift forms and procedures based on R.09-11-014, Attachment A.

Observation 7: SCG demonstrated compliance with PU Code §§ 581 and 584. SCG recorded and reported its monthly EE portfolio expenditures in the Demand Side Management Balancing Account (DSMBA) based on the Commission approved SCG Preliminary Statement.

Recommendation: None

Observation 8: SCG demonstrated compliance with PU Code §§ 581 and 584. SCG recorded and reported the loan activities in the On-Bill Financing Balancing Accounts (OBFBA) based on the Commission approved SCG Preliminary Statement.

Recommendation: None

Observation 9: SCG's Internal Audit Services (IA) performed internal audits covering EE program years 2010 through 2012. IA issued Audit Reports 11-211 EE Deemed Incentives Programs on November 28, 2011 and 12-420 Home Energy Efficiency Rebate (HEER) Program on December 26, 2012. There is no updated status on the IA's recommendations pertaining to the HEER that management addressed in Quarter 1-2013.

Recommendation: The UAFCB appreciates the response from SCG when it commented on UAFCB's draft report. However, it did not provide whether its corrective actions have been accepted and sanctioned by IA. SCG should provide this information to UAFCB no later than 30 days after this report is made public.

Observation 10: SCG took corrective actions on prior UAFCB's recommendations except for OBF and HEER processes. UAFCB considered SCG's explanations on maintaining its current policy and procedures for both programs satisfactory.

Recommendation: None

B. Examination Process

Based on consultation with the Energy Division, UAFCB's prior experience in examining SCG's programs, and the results of UAFCB's risk assessment, UAFCB focused its examination on the areas mentioned above. Pertinent information about SCG's EE program is found in Appendix B.

UAFCB provided a copy of its, observations, analysis, and recommendations to SCG for review and comment. UAFCB summarized SCG's comments, including UAFCB's rebuttal to those comments in Appendix A. SCG's comments are included as Attachment A in its entirety to this report.

UAFCB conducted its examination in accordance with attestations standards established by the American Institute of Certified Public Accountants, and, accordingly, included examining on a test basis, evidence concerning SCG's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, SCG's internal policies and procedures, and the generally accepted accounting principles and practices.

C. Conclusion

Except for the items discussed above, SCG demonstrated compliance with Commission directives respecting its EE program in the limited areas that the UAFBC examined.

If you have any questions on UAFCB's examination, please contact Kayode Kajopaiye.

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Appendix A Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) found that Southern California Gas Company (SCG) demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) program that the UAFCB examined for program years 2011 and 2012, except for a few concerns discussed below.

UAFCB's examination was limited in scope and included SCG's 2011 and 2012 EE specific areas of EE programs of concern to Energy Division and UAFCB. They are as follows:

1. SCG Statewide (Investor Owned Utility, IOU), Third Party (3P), and Local Government Partnership (LGP) Administrative Costs - 2012;
2. EE Contracts - 2012;
3. On-Bill Financing (OBF) – 2012;
4. Multi-Family Energy Efficiency Rebates (MFEER) – 2012;
5. Fund Shifting – 2011 and 2012;
6. EE Portfolio Balancing Accounts – 2011 and 2012;
7. SCG's Internal Audit Reports – 2011 and 2012; and
8. Follow-up on Prior UAFCB's Examination Reports – 2010 and 2011.

This report addresses regulatory and compliance issues for program years 2011 and 2012 including financial compliance and regulatory matters pertaining to program year 2012. This report excludes any financial compliance matters that pertain to SCG's EE for program year 2011 since the UAFCB previously addressed such area in an examination report issued on September 19, 2013.¹

On June 9, 2014, the UAFCB submitted a copy of its draft report to SCG for its review comment. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. SCG provided its comments on June 20, 2014. UAFCB includes a summary of SCG's comments and UAFCB's rebuttal to them in Appendix A. SCG's comments are included as Attachment A in its entirety to this report.

A.2 Administrative Costs

Observation 1: UAFCB did not find material exceptions in its review of administrative costs charged to Statewide, Local Government Partnership (LGP) and Third Party (3P) Programs.

¹ Refer to Energy Efficiency Program (EE) Financial Compliance Examination Report of Southern California Gas (SCG) For the Period January 1 through December 31, 2011 that is available at the following link:
<http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Downloadable+Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm>

Criteria: Public Utility Code §§581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: SCG accurately recorded expenditures appropriate to the administrative cost category and relevant to the EE program. SCG provided invoices with adequate supporting documentation. Also, SCG's payment on contracts agreed with terms and rates.

SCG's Comments: None

Recommendation: None

Observation 2: SCG did not purposely fail to demonstrate compliance with Public Utility Code §§ 581 and 584.² SCG consolidated and reported the Non-IOU Third Party and Local Government administrative costs totaling \$5.3 million in the marketing cost category in Table 3-Summary of Portfolio Expenditures of the 2012 Annual Report.

Criteria: Public Utility Code §§ 581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: SCG tracks the 2010-2012 cumulative EE expenditures by cost category (administrative, marketing and direct implementation) in its Management Workbook. SCG classifies administrative costs as IOU and Non-IOU. IOU costs are incurred by SCG in administering the EE programs while Non-IOU costs are incurred by Third Party and Local Government contractors in implementing the EE programs. SCG's 2012 Management Workbook (Program-To-Date) shows that the 2010-2012 cumulative Non-IOU administrative and marketing costs are \$5.3 million and \$13 million, respectively. The following table shows the breakdown.

Table A-1
SCG 2012 Cumulative Non-IOU Administrative Costs

Program	Amount	
Non IOU-Admin		
Third Party	\$4,664,619	
Local Government	<u>619,620</u>	5,284,239
Marketing		<u>13,063,903</u>
Total		<u>\$18,348,141</u>

Cause: SCG combined the Non-IOU administrative and marketing costs in its 2012 Management Workbook totaling \$18.3 million and reported the amount under Marketing/Advertising/Outreach Cost in Table 3 of the 2012 Annual Report.

Effect: Marketing cost is overstated by \$5.3 million and the inaccuracy misrepresents percentage of its total annual expenditures against portfolio budget in Table 3 of the

² All statutory references are to the Public Utilities Code unless stated otherwise.

Annual Report. The misclassification does not have any effect on the total portfolio expenditures for 2012. However, SCG should ensure that these reports submitted to the Commission are accurate and reliable.

SCG's Comments: SCG agrees to work with the Energy Division to address modifications needed to the existing reporting requirements.

Rebuttal: None

Recommendation: The Energy Division should provide a separate line item for Non-IOU Administrative Cost in Table 3 for utilities to present accurate and proper reporting as recommended in the examination memo report for 2011 and 2010. The present reporting requirement does not allow for accuracy in reporting and not in compliance with D.09-09-047, Ordering Paragraph (OP) 13 a and b.

A.3 Energy Efficiency Contracts

UAFCB examined contract payments of \$10.7 million charged to the direct implementation cost category in 2012. Out of the 20 contractors tested, SCG paid one contractor \$112,806 for items billed that were not adequately substantiated by supporting documents. Although the exception is only 1.1% of the total amount tested, UAFCB noted in its review a consistent pattern of inadequate substantiation to validate claims on invoices of this particular contractor.

Observation 3: SCG failed to implement its contract invoicing requirements for sufficient supporting documentation respecting payments to a 3P contractor. The five [REDACTED] invoices that UAFCB reviewed lacked supporting documentation to substantiate charges billed for customer enrollment activities and incentive payments to customers.

Criteria: Task 5.A-Invoicing Format of Agreement 5660017992 for [REDACTED] states that, *"Supporting documentation will include at minimum the following: customer name, active service address, active service account number, contact phone number, signed agreement and release form, work completion form, and break down of measures installed. Contractor will work with COMPANY PM in providing sufficient supporting documentation for all invoices."*

Condition: SCG paid [REDACTED] \$56,615 for items charged on invoices which lacked supporting documentation for activities in Task 3-Customer Enrollment and Task 4-Data Monitoring Projects. Also, SCG reimbursed [REDACTED] claims for incentives totaling \$56,191 without proof of customer payments or receipts. UAFCB originally requested SCG to provide all original supporting documentation for each contractor payment; however, UAFCB found the initial response inadequate. Furthermore, a follow-up request for additional information on incentives, reports, enrollment and measures did not yield more information.

Cause: In response to UAFCB's request for additional supporting documentation in Follow-Up 005, SCG states that *"...The activities in tasks 3 and 4 are Fixed Unit Price (FUP) activities. SCG did not require any further information beyond what was provided*

in the invoice. The contract structure was primarily for Pay for Performance, with FUP items."

Effect: SCG's failure to require adequate supporting documentation from the contractor increases the risk of paying fraudulent claims.

SCG's Comments: SCG agrees that it did not collect copies of the customer agreements as part of the invoice supporting documentation. It however, asserts that the invoices in question were verified by (1) checking the validity of the customer's account number, (2) inspecting and verifying 100% of the installations and (3) receiving the customer sign-off following completion of the inspection. In addition, SCG asserts that it verified with the contractor the existence of customer agreements for every customer who participated in the programs and is currently in the process of collecting the customer agreements which can be provided to UAFCB upon request.

Rebuttal: UAFCB expected SCG to provide complete supporting documentation during the examination in order to substantiate charges billed for customer enrollment activities and incentive payments to customers. Collecting and making supporting documentation available following the completion of the examination is not an acceptable approach.

Recommendation: SCG should improve its invoicing requirements for this type of payment process from EE contractors and strengthen the internal controls to ensure that EE charges are appropriately supported for Fixed Unit Price activities.

A.4 On-Bill Financing (OBF)

Observation 4: UAFCB did not find material exceptions in its examination of invoices and supporting documentation for administrative, marketing and direct implementation expenses charged to the 2012 OBF program. Also, UAFCB did not find any exceptions in its examination of OBF loans created in 2012.

Criteria: General Order (GO) No. 28 requires that *"every public utility ... preserve all records, memoranda and papers supporting each and every entry."* SCG developed its own criteria to qualify customers and projects for the OBF program.

Condition: SCG provided adequate supporting documentation for non-labor charges as well as satisfactory explanation and documentation of labor charges. Also, SCG provided adequate documentation of customer loan files meeting the requirements to qualify for OBF loans. SCG was consistent in calculating loan amounts and terms for all loans disbursed in 2012.

SCG's Comments: None.

Recommendation: None.

A.5 Multi-Family Energy Efficiency Rebate (MFEER)

Observation 5: UAFCB did not find material exceptions in its review of invoices and supporting documentation for administrative, marketing and direct implementation expenses and rebates charged to the MFEER program. During its review of selected inspection reports, UAFCB observed that inspectors confirmed that the installation/equipment indicated on the rebate application form was installed at the address indicated on the form, matched the supporting invoice/receipt, and was operational at the time of inspection.

Criteria: General Order (GO) No. 28 requires that *“every public utility ... preserve all records, memoranda and papers supporting each and every entry.”*

Condition: SCG generally provided adequate documentation for expenditure and rebate transactions examined.

SCG's Comments: None.

Recommendation: None

A.6 Fund Shifting

Observation 6: SCG failed to demonstrate compliance with the Adopted Fund Shifting Rules in Attachment A of Rulemaking (R.) 09-11-014 in performing fund shifts between programs under the Statewide Codes and Standards (C&S) category. SCG failed to issue an Advice Letter when it shifted more than 1% of a program budget to another program within the C&S category.

Criteria: According to the Adopted Fund Shifting Rules for Statewide C&S category in Commissioner's Ruling (Attachment A) of R.09-11-014, an Advice Letter is required for shifts that would reduce any of the programs within the category by more than 1% of budgeted levels.

Condition: SCG shifted \$100,000 (or 20.7%) of the \$483,517 operating budget for SCG3647-Building & Standards Advocacy to SCG3649-Compliance Training in 2012 without issuing the required Advice Letter process.

Cause: SCG used an incorrect form, namely, Internal Request for Fund Shift (“Shifts Among Categories – 15% Maximum Annually”). Fund shifts of more than 1% of budgeted levels among C&S programs require an Advice Letter.

Effect: Without the required Advice Letter SCG should have limited its fund shift to 1% of \$483,517 or \$4,835. By failing to file an advice letter, SCG prevented a due process from occurring which would have allowed the Commission to reevaluate the relevance of this particular program and determine a reasonable budget for the program in the future.

SCG's Comments: SCG asserts that it conducts its fund shifting in accordance with the rules and requirements set forth by the Commission in D.09-09-047 and the Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements

issued in Rulemaking 09-1-014 on December 22, 2011. Consequently, SCG believes that the fund shift of \$100,000 from the C&S Building Standards Advocacy sub-program to the C&S Compliance Training sub-program is within the rules established by the Commission. According to SCG's interpretation of the fund shifting rules, for fund shifts among categories, within a program, no formal Commission review/approval is required. In addition, SCG asserts that its interpretation of the fund shifting rules is based on its understanding from prior discussions with the Energy Division staff.

Rebuttal: UAFCB's understanding is that the Commissioner's Ruling Attachment A-Fund Shifting Rules of R.09-11-014 and the Quarterly Fund Shift Reports, indicates that Codes and Standards (C&S) is a category and not a program. The C&S category covers four programs, namely: SCG3647-Building Standards Advocacy, SCG3658-Appliance Standards Advocacy, SCG3649-Compliance Training, and SCG3650-Reach Codes. Therefore, based on the rule for "shifts among programs, within category" in Attachment A, an advice letter is required for shifts that would reduce any of these programs by more than 1% of budgeted levels.

Recommendation: SCG should review the fund shifting rules and update its Internal Request for Fund Shift forms and procedures based on Commissioner's Ruling Attachment A of R.09-11-014.

A.7 EE Portfolio Balancing Accounts

Observation 7: SCG demonstrated compliance with PU Code §§ 581 and 584. SCG recorded and reported its monthly EE portfolio expenditures in the Demand Side Management Balancing Account (DSMBA) based on the Commission approved SCG Preliminary Statement.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The DSMBA Preliminary Statement describes the DSMBA as an interest bearing balancing account which tracks the difference between the non-low-income energy efficiency program component of the gas surcharge funds reimbursed from the State and the corresponding Demand Side Management (DSM) actual program costs pursuant to D.09-09-047.

SCG's Comments: None.

Recommendation: None.

Observation 8: SCG demonstrated compliance with PU Code §§ 581 and 584. SCG recorded and reported the loan activities in the On-Bill Financing Balancing Accounts (OBFBA) based on the Commission approved SCG Preliminary Statement.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The OBFBA Preliminary Statement describes the OBFBA as an interest bearing balancing account that records the difference between ratepayer funding and actual loans provided to customers participating in SCG's On-Bill Financing program authorized by D.09-09-047.

SCG's Comments: None.

Recommendation: None.

A.8 SCG's Internal Audit Reports

Observation 9: SCG's Internal Audit Services (IA) performed internal audits covering EE program years 2010 through 2012. IA issued Audit Reports 11-211 EE Deemed Incentives Programs on November 28, 2011 and 12-420 Home Energy Efficiency Rebate (HEER) Program on December 26, 2012. There is no updated status on the IA's recommendations pertaining to the HEER that management addressed in Quarter 1-2013. Quarter 1-2013.

Criteria: Determine and assess whether management responses to 2011 and 2012 IA's audit recommendations were implemented during or after the UAFCB's examination.

Condition: SCG indicated that it has implemented in 2012 some of the IA's recommendations in the 2011 and 2012 internal audit reports. However, there were issues pending at the end of 2012 that SCG expected to address during Quarter 1 of 2013. These pertain to aging report for rebate payments, POS invoice accruals, and cost category for new hires in the HEER program.

Cause: SCG's response to UAFCB data request did not include the status of management's response as of Quarter 1-2013 pertaining to the above matters in the 2012 HEER IA's internal audit report.

Effect: UAFCB needs assurance that management corrective actions have been effectively implemented and approved by IA.

SCG's Comments: SCG provided an updated status on management's actions to the IA recommendations pertaining to the HEER aging report for rebate payments, POS invoice accruals and cost category for new hires. According to SCG, management's corrective action to the aging report for rebate payments issue was provided to Internal Audit Services on March 7, 2013. Management's corrective action to the point of sale (POS) invoice accruals issue was provided to IA on March 15, 2013, and its management corrective action for the cost category for new hires issue was provided to IA on March 29, 2013.

Rebuttal: UAFCB appreciates SCG's status update on management's corrective actions to the HEER internal audit report issues, but UAFCB is still unable to validate that management's actions have been actually implemented and approved by IA.

Recommendation: The UAFCB appreciates the response from SCG when it commented on UAFCB's draft report. However, it did not provide whether its corrective actions have been accepted and sanctioned by IA. SCG should provide this information to UAFCB no later than 30 days after this report is made public.

A.9 Follow-up on Prior UAFCB's Examination Reports

Observation 10: SCG took corrective actions on prior UAFCB's recommendations except for OBF and HEER processes. UAFCB considered SCG's explanations on maintaining its current policy and procedures for both programs satisfactory.

Criteria: In its audit reports for the 2010 and 2011 EE programs, UAFCB recommended that:

- a. SCG revise its OBF eligibility guidelines by using 24 months of payment history instead of only 12 months to evaluate customer's eligibility in order to minimize loan default risk.
- b. SCG pay attention to how it classifies costs to different cost categories.
- c. SCG track and monitor its Home Energy Efficiency Rebate (HEER) Point-of-Sale (POS) rebate reimbursements by requiring retailers to obtain customer information.
- d. Energy Division (ED) should provide guidelines to SCG and San Diego Gas & Electric (SDG&E) regarding cross-billing for services rendered to each for proper cost accounting and recovery.
- e. ED should revise its EE reporting requirements to report non-IOU administrative costs as a separate line item in the EE Annual Report.

Condition: SCG's response to UAFCB's recommendation did not require any follow-up examination. The following is a summary of SCG's responses to the 2010 and 2011 audit findings:

- a. SCG asserts that the OBF eligibility guidelines require customers to have continuous utility service with SCG for at least the 24 immediately preceding months in the same business and minimum of 12 months energy usage history at the current meter. This eligibility rules were approved by the Commission in D.09-09-047 and SCG believes that they are adequate. In UAFCB's review of SCG's Rule 40-OBF Program approved in Advice Letter (AL) 3836, UAFCB found that a customer's eligibility is determined by the Utility using the eligibility criteria which are documented in SCG's program guidelines. The program guidelines require a minimum of 12 months of energy usage history.
- b. In response to the misclassification of recorded transaction, SCG stated that it would provide training courses to ensure accurate recording and reporting of expenditures and utilizing feature automation to enhance management oversight and control.
- c. In response to UAFCB's recommendation that SCG require retailers to track POS rebates by customer information, SCG stated that retailers have classified this information as proprietary. However, SCG has implemented a program to collect additional customer data by instituting a gift card drawing promotion to

encourage POS customers to provide SCG with their name, address, phone number and email address. A drawing is held once a month for each participating retailer and one gift card is awarded for each drawing.

- d. In response to UAFCB's recommendation to ED regarding cross-billing, SCG stated that it has not received additional guidance from ED.
- e. In response to UAFCB recommendation to ED regarding reporting of non-IOU administrative cost, SCG stated that it continues to comply with the current reporting requirements the Commission established for energy efficiency programs.

SCG's Comments: None.

Recommendation: None.

Appendix B Program Compendium

B.1 Introduction

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized SCG a total budget of \$285 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the 2010 through 2012 budget cycle. This represents about 9.2% of the \$3.1 billion total funds the Commission authorized for 2010 -2012 EE budget cycle. In addition, The Commission set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain program administrative costs.

B.2 EE Funding Components

Of the \$285 million authorized budget, the Commission dedicated \$273.6 million of the funds to administer and implement SCG's EE programs and the remaining \$11.4 million is dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. For the 2010-2012 EE program cycle, excluding EM&V expenses, SCG spent \$188.5 million, or 68.9%, of its total authorized budget for the 2010-2012 budget cycle. The following table shows the authorized budget and actual expenditures during 2010-2012.

**Table B-1
 Summary of 2010-2012 Ratepayer Funded EE Programs
 (Excluding EM&V)**

Description	Amount
Authorized Budget for 2010-2012 Cycle	\$273,599,996
2010 Actual EE Expenditures	(50,408,021)
2011 Actual EE Expenditures	(57,381,476)
2012 Actual EE Expenditures	<u>(80,724,848)</u> <u>(188,514,345)</u>
Amount Available to Carry Forward to 2013	<u>\$ 85,085,651</u>

B.3 Administrative Costs

Administrative costs incurred by SCG in direct implementation of the EE programs are classified as investor owned utilities (IOU) and Non-IOU administrative costs. IOU Administrative costs include labor (management, clerical/technical and agency), employee travel, consulting services and other services provided by contractors, materials, vacation and sick leaves, payroll taxes and allocated overhead. Also included in SCG's administrative costs are charges for services cross-billed by San Diego Gas & Electric. These include labor, payroll taxes, leaves, pension and benefits. Non-IOU administrative costs are incurred by Third Party contractors as well as government agencies participating in Local Government Partnership programs. These entities are the major implementers of the programs beside SCG.

The Commission placed a cap of 10% on utility administrative costs. D.09-09-047, Ordering Paragraph 13.a, states that "*Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total*

energy efficiency budgets...". And according to D.09-09-047, p 63, the Commission directs the utilities to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs).

SCG spent a cumulative total of \$16.7 million in administrative expenses for its IOU, 3P and Local Government programs or 6.2% of the \$273.6 million EE budget (excluding EM&V) for the 2010-2012 program cycle.

A summary detailing SCG's, 3P, and Local programs reported administrative costs for program years 2010 through 2012, along with amounts and percentages spent relative to the total authorized budget, is provided in the table below.

Table B-2
EE Administrative Cost Cap and Expenditures
Examination Period: January 1, 2010 - December 31, 2012
(Excluding EM&V)

Expense Type	2010	2011	2012	Total	% to Total Budget
SCG Admin. Exp.	\$ 4,737,299	\$ 4,517,427	\$4,981,110	\$14,235,836	5.20%
3P Admin. Exp.	366,907	437,430	292,864	1,097,201	0.40%
Local Admin. Exp.	401,551	513,487	618,962	1,534,000	0.56%
Totals	<u>\$ 5,505,758</u>	<u>\$ 5,468,343</u>	<u>\$5,892,935</u>	<u>\$16,867,036</u>	<u>6.17%</u>

Authorized Budget

\$273,599,996

B.4 Energy Efficiency Contracts

The Commission requires that 20% of the energy efficiency portfolio budget including administration, marketing, and EMV be administered by contractors and consultants. To comply with this requirement SCG contracts out several EE program activities to contractors and non-profit organizations to administer and implement EE programs. The contracts are classified by payment mechanism/type as follows: 1) Time-and-Materials (T&M), 2) Fixed Price, and 3) Hybrid.

A contractor under a T&M contract is paid based on labor hours worked at approved rates and actual cost of materials (tangible deliverables such as print, media, etc.)

SCG utilizes two types of Fixed Price contracts - Fixed Unit Pricing Payment Structure (100% Pay for Performance) and Fixed Fee Deliverable Pricing. Payment to contractor in a Fixed Unit Pricing is solely based upon \$/unit installed or \$/savings achieved as indicated by the number of widgets installed. The contractor receives payment only when it has delivered energy savings (which may be correlated to installed units). The contractor must include in the non-incentive cost all material, service, sub-contractor, administrative labor (reporting, etc.), marketing, and all other program costs. However, the incentive costs paid to the customer are not tied to the fixed unit pricing structure. For Fixed Fee Deliverable Pricing, the contractor is paid a fixed fee for specific deliverables (e.g. audits completed, reports submitted, etc.). Pricing is structured such that payments align towards completion of deliverables.

A Hybrid payment structure is a combination of two or more of the payment types discussed above.

During the 2010-2012 EE program budget period, SCG entered into or had outstanding agreements with almost 100 contractors valued at more than \$100 million. In 2012 SCG utilized 72 contractor agreements with 32 structured as T&M payments, 35 as Fixed Price payments and five (5) as Hybrid payments. A total of \$9.6 million or 50% of the total \$19 million contract payment was disbursed under the Fixed Price contracts and classified as direct implementation costs.

A summary of SCG's 2012 EE contractor costs by cost category and payment type is provided in Table B-3 below.

Table B-3
Contractor Costs by Payment Type
January 1, 2012 through December 31, 2012

Cost Category	T&M	Fixed	Hybrid	Total	%
Administration	\$ 57,794	\$ 908,143	\$ 216,822	\$1,182,759	6.2%
Marketing	67,436	526,043	56,398	649,877	3.4%
Direct Implementation	5,219,943	9,602,520	2,395,617	17,218,080	90.4%
EM&V	0	0	0	0	0.0%
Total	<u>\$ 5,345,173</u>	<u>\$11,036,706</u>	<u>\$ 2,668,837</u>	<u>\$19,050,716</u>	<u>100%</u>

A summary of SCG's 2012 EE contractor costs by cost category and delivery channel is provided in Table B-4 below.

Table B-4
Contractor Costs by Contractor Type
January 1, 2012 through December 31, 2012

Cost Category	IOU/Core	Local	Third Party	Total	%
Administration	\$ 35,722	\$ 6,279	\$ 1,140,759	\$1,182,759	6.2%
Marketing	76,275	6,879	566,723	649,877	3.4%
Direct Implementation	3,453,681	141,366	13,623,032	17,218,080	90.4%
EM&V	0	0	0	0	%
Total	<u>\$ 3,656,678</u>	<u>\$ 154,524</u>	<u>\$15,330,514</u>	<u>\$19,050,716</u>	<u>100%</u>

B.5 On Bill Financing

SCG's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in the SCG portfolio are qualified for the OBF program. The program targets taxpayer funded institutions/agencies; non-taxpayer funded customers in the commercial, industrial, and agricultural sectors; and multifamily building managers or owners who do not reside in the premises.

SCG's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history.

The OBF loan process includes calculation of project's energy savings; post-installation inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission sets a loan cap of \$100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the Expected Useful Life (EUL) of the bundle efficiency measures proposed, whichever is lower. Institutional customers may be granted loans of up to a total of \$1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met. As to the loan collection process, the OBF monthly billing is tied to SCG's utility billing system. An outstanding bill which remains unpaid for more than 145 days will be considered in default and written off to Bad Debt.

SCG's OBF program budget for the 2010-2012 EE program cycle was \$2.6 million. The budget provided for operating expenses funded by Public Goods Charge (PGC). SCG spent \$1.8 million to administer and implement the program in 2012. For non-resource programs such as OBF, the Commission allows those costs associated with activities that are a direct interface with the customer or program participant or recipient to be treated as Direct Implementation (DI) per D.09-09-047 (page 50). A majority of the \$1.3 million DI-Non Labor expenses were paid to consultants conducting OBF workshops and program financing studies/research.

In the following table, UAFCB shows the OBF expenditures by type.

Table B-5
2012 On-Bill Financing Program Expenditures

Expenditure Type	Labor	Non Labor	Total
Admin-IOU	\$52,678	\$ 87,338	\$ 140,016
Marketing/Outreach	49,350	131,789	181,139
Direct Implementation	<u>241,662</u>	<u>1,278,470</u>	<u>1,520,132</u>
Total Expenditures	<u>\$343,690</u>	<u>\$1,497,597</u>	<u>\$1,841,287</u>

SCG maintains OBF Balancing Account (OBFBA) to track different loan activities and expenditures. The entries recorded at the end of each month include loan disbursements to customers and customers' OBF loan repayments. The total fund available for loan disbursement at the beginning of 2011 was \$2 million which included a \$1 million balance carried over from previous year and the authorized revenue of \$1 million. The total loans disbursed to and payments received from loan customers in 2011 were \$210,217 and \$256,098 respectively. In 2012, SCG's OBFBA account had a beginning balance of \$3 million including authorized revenue of \$1 million. The total loans disbursed and payments received from customers were \$448,823 and \$260,106 respectively. SCG maintains the OBFBA separately from the DSMBA which includes EE portfolio expenditures.

B.6 Multi-Family Energy Efficiency Rebates

The Multi-Family Energy Efficiency Rebate Program (MFEER) offers prescribed rebates for energy efficient products to motivate multifamily property owners/managers to install energy efficient products in both common and dwelling areas of multifamily complexes and common areas of mobile home parks and condominiums. Property owners and managers of existing residential multifamily complexes with two or more dwellings may qualify. The desired outcome of MFEER implementation is to realize long-term energy savings

SCG reported \$1.5 million for its MFEER program expenditures during program year 2012. Of this amount, \$0.5 million or 32.1% was for incentives/rebates recorded in the Direct Implementation cost category. A detailed summary of SCG's 2011 and 2012 MFEER expenses and rebates paid are provided in the following tables.

Table B-6
MFEER Expenditures – Program Years 2011 and 2012

Expenditures	2011	2012	Combined Amount	% of Combined MFEER Costs
Admin				
Admin-Labor	\$ 115,084	\$ 167,687	\$ 282,771	11.3%
Admin-Non Labor	<u>71,162</u>	<u>87,799</u>	<u>158,961</u>	<u>6.4%</u>
Subtotal Admin	\$ 186,246	\$ 255,486	441,732	17.7%
Marketing				
Marketing-Labor	21,616	49,008	70,624	2.8%
Marketing-Non Labor	<u>82,631</u>	<u>252,736</u>	<u>335,368</u>	<u>13.4%</u>
Subtotal Marketing	\$ 104,247	301,745	405,992	16.2%
Direct Implementation (DI)				
DI-Labor	186,539	223,991	410,530	16.4%
DI-Non Labor	135,389	212,777	348,166	13.9%
DI-Incentives	<u>427,887</u>	<u>468,902</u>	<u>896,789</u>	<u>35.8%</u>
Subtotal DI	\$ 749,815	905,670	1,655,485	66.1%
Total Expenditures	<u>\$1,040,308</u>	<u>\$1,462,901</u>	<u>\$2,503,209</u>	<u>100%</u>

Table B-7
MFEER Rebate Payments – Program Years 2011 and 2012

Measure/Appliance Description	2011	2012	Combined Total
Attic Insulation Total	\$4,497	\$ 6,914	\$11,411
Central Gas Furnace 92% AFUE	1,000	1,000	2,000
Central System Gas Boiler: Water Heating Only	0	39,000	39,000
Central System Natural Gas Water Heater	138,470	209,000	347,470
Energy Star Dishwasher EF=.65 -.67	10,020	34,200	44,220
Energy Star Dishwasher Tier II EF=0.68+	61,700	47,491	109,191
Natural Gas Storage Water Htr EF>= 0.62	1,500	3,120	4,620
Natural Gas Boilers-Water Heating Only	42,000	0	42,000
W/H-Boiler Controllers = < 34 Units	60,900	39,200	100,100
W/H-Boiler Controllers = > 35 Units	107,800	88,600	196,400
Wall Blow-In R-0 to R-13 Insulation	<u>0</u>	<u>378</u>	<u>378</u>
Total MFEER Rebates	<u>\$427,887</u>	<u>\$468,903</u>	<u>\$896,790</u>

B.7 Fund Shifting

In Decision (D.) 09-09-47, Ordering Paragraph (OP) 43(b), IOUs are required to file an Advice Letter for shifts of funds of more than 15% per annum within and between any of the twelve statewide energy efficiency programs, third-party programs, or governmental programs for the entire portfolio cycle. The twelve state programs are identified on pp.104 and 105 of the D.09-09-047 as: 1) Residential, 2) Commercial, 3) Industrial, 4) Agricultural, 5) New Construction, 6) Lighting Market Transformation, 7) Heating, Ventilation and Air Conditioning (HVAC), 8)

Codes and Standards (C&S), 9) Emerging Technologies (ET), 10) Workforce Education and Training, 11) Marketing Education and Outreach (ME&O), and 12) Demand Side Management Coordination and Integration (IDSM). Also, in Rulemaking 09-11-014- "*Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements*" dated December 22, 2011, it states that the utilities shall comply with the energy efficiency fund shifting rules reflected in Attachment A of the Ruling. This explains in detail the fund shifting requirements.

An exception to the 15% rule is made for fund shifts in categories C&S, ET and ME&O. In Commissioner's Ruling (Attachment A) of R.09-11-014, the IOUs are required to file an Advice Letter for fund shifts that would reduce any of the programs by more than 1% of budgeted levels among programs within these categories or among the three categories. Furthermore on page 2, it states that, "*the fund shifting changes adopted in D.09-09-047 are not intended to change Section II, Rule 11 of the Energy Efficiency Policy Manual (version 4) as applied to EM&V and ME&O, nor to change the fund shifting rules for C&S and Emerging Technologies programs.*"

SCG did not perform any fund shift in 2011. In 2012, SCG transferred out funds totaling \$12,903,412 from contributing EE programs to recipient EE programs, including \$100,000 among C&S programs.

B.8 EE Portfolio Balancing Accounts

SCG maintains two balancing accounts directly associated with the Energy Efficiency program activities and loan financing. The Demand Side Management Balancing Account (DSMBA) tracks EE program expenses and allocated revenues. The On-Bill Financing Balancing Account (OBFBA) tracks loans disbursed and payments collected.

SCG's Preliminary Statement describes DSMBA as an interest bearing account that tracks the difference between the non-low-income energy efficiency program (i.e. Demand Side Management or DSM) component of the gas surcharged reimbursed from the State and the corresponding actual DSM program cost. SCG records EE program costs to specific internal orders. On a monthly basis, the costs are charged to the DSMBA. Public Purpose Program revenues billed to customers that are applicable to the EE program are also recorded in the DSMBA. SCG maintains the DSMBA to record the following:

- a. Actual DSM costs (e.g. conservation costs and other marketing program costs)
- b. Cost of funds calculated on the monthly average balance of net funds loaned for the OBF program
- c. Cost of default associated with the OBF program
- d. DSM surcharge component of the recorded gas Public Purpose Program (PPP) surcharge billed for the month (net of actual bad debt write-offs)
- e. DSM surcharge component of the PPP surcharge funds, net of refunds to exempt customers, remitted to the State Board of Equalization (BOE)
- f. DSM surcharge component of the refunds to customers that are exempt from the PPP surcharge

- g. DSM surcharge component of the reimbursement of the gas PPP surcharge funds from interstate non-exempt pipeline customers including actual interest earned in the Gas Consumption Surcharge Fund
- h. Excess of annual expenditures above annual authorized levels (including carry over funding)
- i. Interest on the average of the balance in the account during the month

The OBFBA is an interest bearing balancing account set up to record the difference between ratepayer funding and actual loans provided to customers participating in SCG's On-Bill Financing(OBF) program authorized in D.09-09-047.

SCG maintains the OBFBA to record the following at the end of each month:

- a. OBF loans provided to customers
- b. Customer's payments to their OBF loans
- c. Re-establishment of the loan pool balance resulting from loan defaults (which are charged to the DSMBA)
- d. Funds collected in transportation rates to establish the OBF loan pool
- e. Amortization as authorized by the Commission
- f. Interest on the average balance in the account during the month

The funding of the loan pool is collected through SCG's transportation rates, rather than the PPP surcharge.

B.9 SCG Internal Audit Reports

UAFCB reviewed the following Internal Audit reports provided by SCG:

- File #11-211 - Energy Efficiency Deemed Incentives Programs dated November 28, 2011
- File #12-420 – Energy Efficiency Program – Home Energy Efficiency Rebate (HEER) – Residential Single Family Program, dated December 26, 2012

In 2011, SCG's internal audit services reviewed the utility's business controls in the EE Deemed Incentives programs and compliance with the applicable Program Implementation Plan (PIP). In 2012, it reviewed the adequacy and effectiveness of the business controls in place to manage the HEER Program. The reports identified business control issues and enhancements and noted SCG management's corrective actions or responses.

B.10 Follow-up on Prior UAFCB's Examinations

UAFCB performed a follow-up examination on each finding and recommendation in its prior reports addressed to the Energy Division Director dated March 23, 2012 and the Deputy Director Operations and Budget dated September 19, 2013. The findings and recommendations in the reports pertain to: a) OBF customer's payment history in assessing loan eligibility; b) EE expenditures classification in administrative, marketing, and direct implementation categories; c) HEER rebate reimbursement tracking and monitoring; d) cross-billing of services between SCG and SDG&E; and, e) reporting requirements for Non-IOU administrative costs in Table 3 of the Annual Report. The details are discussed in A.9 of this report.

Attachment A
SCG Comments



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June 20, 2014

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CPUC Utility Audit, Finance & Compliance Branch
505 Van Ness Avenue
San Francisco, CA 94102

**Re: Southern California Gas Company Comments on Financial, Management, and
Regulatory Compliance Examination Report of Southern California Gas Company
EE Programs For the Period January 1, 2011 through December 31, 2012**

Dear Ms. Robles:

Southern California Gas Company ("SoCalGas" or "SCG") has reviewed the Draft Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company (SCG) EE Programs For the Period January 1, 2011 through December 31, 2012 (Report) prepared by the Utility Audit, Finance and Compliance Branch (UAFCB). SCG hereby provides the following comments.

UAFCB Observation 2

The Energy Division should provide a separate line item for Non-IOU Administrative Cost in Table 3 for utilities to present accurate and proper reporting as recommended in the examination memo report for 2011 and 2010. The present reporting requirement does not allow for accuracy in reporting and not in compliance with D.09-09-047, Ordering Paragraph (OP) 13 a and b.

Response to Observation 2

SoCalGas will work with Energy Division to address modifications needed to the existing reporting requirements.

UAFCB Observation 3

SCG should improve its invoicing requirements from EE contractors and strengthen its internal control to ensure that EE charges on invoices are appropriately supported for Fixed Unit Price activities.

Response to Observation 3

SoCalGas continuously evaluates its processes and procedures to ensure that its internal controls are robust. As part of those comprehensive controls, SCG diligently reviews invoice packages for completeness and accuracy prior to issuing payment. These reviews are conducted according to established internal procedures and best practices. SCG will continue to identify areas of improvement to its internal quality assurance procedures and training protocols.

For the program specifically identified by UAFCB, customer participation in the program was verified by checking the validity of the customer's account number and inspecting 100% of installations. As part of the mandatory customer inspection, SCG verified the installation of the energy efficient equipment and received customer sign-offs on the completed inspection. Although SCG did not collect copies of customer agreements as part of the invoice supporting documentation, SCG notes that it has verified with the contractor that those agreements exist for every customer who participated in the program and is in the process of collecting them now. They can be provided upon request.

UAFCB Observation 6

SCG should review fund shifting rules and update its Internal Request for Fund Shift forms and procedures based on R.09-11-014, Attachment A.

Response to Observation 6

SoCalGas conducts its internal fund shifting policy in accordance with the rules and requirements set forth by the Commission in Decision (D.) 09-09-047 and the Assigned Commissioner's Ruling Clarifying Fund Shifting Rules And Reporting Requirements (Ruling).¹ The Ruling identifies 15 fund shifting categories such as Statewide Residential, Statewide Commercial, Statewide Industrial, etc. The Statewide Codes & Standards (C&S) program is part of a category that also includes the Emerging Technology (ET) and Marketing Education & Outreach (ME&O) programs, as shown in Attachment A of R.09-11-014. It is shown that a fund shift that reduces any of those three programs by more than 1% to another category would require an Advice Letter approval. It is also shown for a fund shift greater than 1% among the three programs within that category, an Advice Letter would be required (e.g., for the C&S program, should a fund shift to ET or ME&O reduce the C&S program budget by greater than one percent, an Advice Letter would be required).

However, SoCalGas did not fund shift out of the C&S program to another fund shift category, or program within its category, but instead, SoCalGas reallocated funds within two sub-programs of C&S. It is SoCalGas' understanding that the fund shifting rules apply at the program level (e.g. Statewide Codes & Standards program) and the fund shifts performed during program year 2012 are permitted at the sub-program level without triggering an Advice Letter and approval.

¹ Assigned Commissioner's Ruling Clarifying Fund Shifting Rules And Reporting Requirements issued in Rulemaking 09-11-014 on December 22, 2011.

requirement, i.e., program administrators have flexibility to shift funds within the sub-programs of a fund shifting category. This is supported in Attachment A which states for fund shifts among categories, within program, no formal Commission review / approval required. This is also SoCalGas' understanding from its prior discussions with Energy Division staff, generally, on the fund shift subject matter. Since SoCalGas shifted \$100,000 from the C&S Building Standards Advocacy sub-program to the C&S Compliance Training sub-program, there was no impact to the overall C&S program budget.

As a result, Observation 6 should be removed as the aforementioned fund shift was within the rules established by the Commission.

SoCalGas recognizes that its internal template refers to the more commonly applicable 15% fund shift threshold, and will update the template to include the specific rules relating to unique programs and program categories, such as C&S.

UAFCB Observation 9

SCG should provide UAFCB the post-Quarter 1 2013 status on management's action to IA recommendations pertaining to the HEER aging report for rebate payments, POS invoice accruals, and cost category for new hires.

Response to Observation 9

SoCalGas provides the status below on the Home Energy Efficiency Rebate (HEER) program internal audit recommendations pertaining to the aging report for rebate payments, POS invoice accruals, and cost category for new hires:

Aging Report For Rebate Payments

Below is the response provided to Internal Audit Services on March 7, 2013, in response to the Management Corrective Action:

The aging report is updated twice a month on the 1st and 15th of each month and posted on the Program Management's SharePoint site. This report has been updated to include a field that indicates how many days are remaining until the processing deadline.

Program Management has determined that the date stamp of invoices for processing will be the day the Program Manager receives the invoice electronically. The Program Manager receives the invoice electronically and has up to 5 days to review and verify the accuracy of supporting documentation. Upon review, the Program Manager sends invoices electronically to the processing team for processing and payment.

Since the above response, the aging report has been updated twice a month on the 1st and 15th of each month and posted on the program management's SharePoint site. The aging report has been

updated to include a field that indicates how many days are remaining until the processing deadline. Program management monitors applications/invoices relative to the prescribed processing time.

POS Invoice Accruals

Below is the response provided to Internal Audit Services on March 15, 2013 in response to the Management Corrective Action:

The Program Manager will work with the processing group to monitor the volume and processing status of POS invoices. When the Accounts Payable department's email notification regarding the monthly/quarterly accrual deadline is received by the Program Manager, the Program Manager will be responsible for working with the Processing Supervisor to identify the status and amount of outstanding POS invoices. The Program Manager will submit an accrual to Accounts Payable for outstanding POS invoices over \$10,000 that will be not be processed and paid before the end of the current month.

Since the above response, the program manager has worked with the processing group to monitor the volume and processing status of point of sale invoices. When the program manager receives the invoice electronically from the point of sale retailer/manufacturer, the program manager has up to 5 days to review and verify the accuracy of the supporting documents. Upon review, the program manager sends invoices electronically to the processing team for processing and payment. When the Accounts Payable department's email notification regarding the monthly/quarterly accrual deadline is received by the program manager, the program manager is responsible for working with the processing supervisor to identify the status and amount of outstanding point of sale invoices. The program manager submits an accrual to Accounts Payable for outstanding point of sale invoices over \$10,000 that will not be processed and paid before the end of the current month.

Cost Category For New Hires

Below is the response provided to Internal Audit Services on March 29, 2013 in response to the Management Corrective Action:

Customer Programs Support performed the necessary additional research and Program Management determined that a correction was warranted. A correcting journal entry was made on December 27, 2012. A total of \$2,910.25 was transferred out of the HEER Program into O&M. Please see the attachment below displaying the correction made in SAP

Since the above response, management developed a process where program advisors are responsible for alerting appropriate individuals within the department when misclassification of costs are identified during the monthly review of their program expenditures. Management will calculate the amount of the prior misclassification and determine if a year-end adjustment is

warranted. For the HEER program, a retroactive journal entry adjustment was made on December 27, 2012 for miscalculations identified from November 2011 through September 2012.

If you have any questions or require additional information regarding these comments, please do not hesitate to contact me

Sincerely,

/s/ Steve Hruby

Steve Hruby
Regulatory Case Manager

cc: S. Patrick
D. Rendler
A. Steinberg
Central Files
B. Ayamruoh
K. Kajopaiye
K. Nakamura