



ENERGY EFFICIENCY PROGRAM PERFORMANCE AUDIT

Southern California Edison Company

January 1, 2020, through December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 11, 2021



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Nichelle Jackson, Program and Project Supervisor

Edwin Esternon, Lead

Randy Enriquez, Lead

Nancy Ta, Staff

A digital copy of this report can be found at:

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

**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

October 11, 2021

Ms. Katie Sloan, Director (Interim Vice President)
Customer Programs and 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 Efficiency Program for the period of January 1, 2020, through
December 31, 2020**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Edison Company's (SCE) total unspent and uncommitted funds reported for the Energy Efficiency program for the period of January 1, 2020, through December 31, 2020, or Program Year 2020. The final audit report is enclosed.

SCE's response to the draft report finding is incorporated into this final report. SCE agreed with the audit finding. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

A Corrective Action Plan addressing the finding and recommendations is required. SCE's response to the draft audit report included information on corrective actions planned.

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, Program and Project Supervisor, at (916) 503-6096.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Ms. Katie Sloan, Director (Interim Vice President)
Customer Programs and Services
Southern California Edison Company
October 11, 2021
Page 2

cc: Elizabeth Leano, Senior Manager External Regulatory Audits, SCE
Patrick Nandy, External Regulatory Audits Advisor, SCE
Rachel Peterson, Executive Director, CPUC
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Pete Skala, Director, Energy Division, CPUC
Jennifer Kalafut, Program Manager, Energy Division, CPUC
Jeorge Tagnipes, Program and Project Supervisor, Energy Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Nichelle Jackson, Program and Project Supervisor, UAB, CPUC
Edwin Esternon, Senior Management Auditor, UAB, CPUC
Nancy Ta, Public Utilities Regulatory Analyst IV, UAB, CPUC

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

AUDIT REPORT 2

 BACKGROUND 2

 AUDIT AUTHORITY 3

 OBJECTIVE AND SCOPE 3

 METHODOLOGY 3

 CONCLUSION 5

 FOLLOW-UP ON PRIOR AUDIT FINDINGS 5

 VIEWS OF RESPONSIBLE OFFICIALS 6

 RESTRICTED USE..... 6

SUMMARY SCHEDULE OF AUDIT RESULTS..... 7

FINDING AND RECOMMENDATIONS..... 8

APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT 9

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Energy Efficiency (EE) Program's total unspent and uncommitted funds, reported by Southern California Edison Company (SCE) for the audit period of January 1, 2020, through December 31, 2020, or Program Year (PY) 2020.

Our audit objective was to determine whether SCE's total amount of unspent and uncommitted EE funds from PY 2020 was reported accurately, supported by appropriate source documents, and in compliance with applicable Public Utilities (PU) Code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SCE's policies and procedures.

Based on the procedures performed, samples tested, and evidence gathered, we determined that SCE's total amount of unspent and uncommitted EE funds from PY 2020 was not reported accurately. SCE reported \$9,698,804 in unspent and uncommitted funds for PY 2020. Our audit determined that SCE understated the amount by \$461,157. Therefore, SCE should have reported the final unspent and uncommitted funds totaling \$10,159,961 for PY 2020. This instance is quantified in the Summary Schedule of Audit Results and described in the Finding and Recommendations section of this audit report. The audit finding is as follows:

- SCE overstated the Water Infrastructure Systems Efficiency (WISE) program commitment by \$461,157, and therefore, understated its total unspent and uncommitted funds by the same amount for PY 2020.

We issued a draft audit report on September 15, 2021. SCE's Vice President of Customer Programs and Services responded by letter dated September 28, 2021, agreeing with the audit results. SCE's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report.

AUDIT REPORT

Background

Energy Efficiency Program

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 (PG&E), SCE, San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas).¹

School Energy Efficiency Stimulus Program

Assembly Bill (AB) 841 (Statutes 2020, Chapter 372), signed into law on September 30, 2020, established the School Energy Efficiency Stimulus Program (Stimulus Program). The Stimulus Program consists of the School Reopening Ventilation and Energy Efficiency Verification and Repair (SRVEVR) and School Noncompliant Plumbing Fixture and Appliance (SNPFA) programs, aimed generally at improving ventilation and replacing old or inefficient plumbing fixtures to safely prepare schools for operating during the COVID-19 pandemic.

AB 841² establishes a number of requirements for the CPUC regarding the development and administration of the SRVEVR and SNPFA program budgets, including the funding and transfer of funds from the IOUs to the California Energy Commission as follows:

- Any carryover amount from unspent and uncommitted energy efficiency funds for program years 2020, 2021 or 2022 to the following year's budget.
- Any allocated funds that remain unspent by the end of each program year may be carried over and contributed to the next year's budget for the Stimulus Program until the end of program year 2023.

As noted in Decision 21-01-004, SCE initially estimated its total unspent and uncommitted funds at \$16,923,000. SCE subsequently finalized the actual amount upon submission of its 2020 Annual Report for EE Programs (Annual Report) via the California Energy Data and Reporting System

¹ San Diego Gas & Electric (SDG&E) and Southern California Gas (SoCalGas) are affiliated subsidiaries of SEMPR Energy.

² AB 841 applies to electrical corporations with 250,000 or more customer accounts within the state, and gas corporations with 400,000 or more customer accounts within the state.

(CEDARS) in May 2021. SCE reported an updated amount of \$9,698,804 in EE unspent and uncommitted funds for PY 2020 in its 2020 Annual Report.

Audit Authority

The UAB conducted this audit under the general authority outlined in the PU Code Sections 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to Decision 21-001-04, Ordering Paragraph 3, the CPUC authorized the UAB to conduct an audit of PG&E, SDG&E, SCE, and SoCalGas's unspent and uncommitted funds from PY 2020.

Objective and Scope

Our audit objective was to determine whether SCE's total amount of unspent and uncommitted EE funds from PY 2020 was reported accurately, supported by appropriate source documents, and in compliance with applicable PU Code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, and SCE's policies and procedures.

The scope of our audit covered determining total EE program unspent and uncommitted funds reported by SCE for the audit period January 1, 2020, through December 31, 2020, or PY 2020.

Methodology

In planning our audit, we gained an understanding of the EE program, respective sub-programs, SCE's operations, and identified relevant criteria, by reviewing applicable PU Code sections, the CPUC Energy Efficiency Policy Manual, supplemental guidance, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, SCE's policies and procedures, and interviewing SCE's personnel.

We conducted a risk assessment, including evaluating whether SCE's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Any deficiencies in internal control 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 the 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 objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. In order to determine total unspent and uncommitted funds, our audit procedures covered EE program expenditures, commitments, and accrued interest. To achieve our audit objective, we:

- Reviewed SCE's accounting system, accounting policies, and processes and procedures for recording, tracking, and monitoring EE program expenditures.
- Reviewed SCE's policies, processes, and procedures for recognizing and tracking EE commitments.

- Reviewed and reconciled expenditure totals by sub-program recorded in the SCE's accounting system to the balances reported in SCE's Annual Report, Table 3: 2020 Expenditure for accuracy and completeness.
- Reviewed and reconciled commitment totals recorded in SCE's source systems to the total reported in SCE's Annual Report, Table 7: Commitments, for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and commitment data and evaluating program requirements.
- Reviewed the results of prior audits and verified whether corrective actions were implemented.
- Obtained an understanding of SCE's key internal controls relevant to the EE program, such as tracking, recording, approving, and monitoring EE program expenditures and commitments, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective 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 EE expenditure and commitment data;
 - performing walkthroughs of selected transactions;
 - tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed expenditure and commitment transaction testing by judgmentally selecting a non-statistical sample of transactions for the following categories:

Expenditures - We tested \$9,274,680 of \$97,460,637.

Commitments - We tested \$1,787,968 of \$17,974,207.

For the selected samples, errors found, if any, were not projected to the intended (total) population.

- For the selected samples, traced expenditures recorded in SCE's accounting records to supporting documentation and determined whether expenditures were accurate, relevant to the EE 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 within PY 2020, (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.

- Confirming payment was made for the expenditure and the amount agreed to the invoice.
- For the selected samples, traced commitments recorded in the SCE's databases to supporting documentation and determined whether commitments were accurate, relevant to the EE program, supported by appropriate source documents, and in compliance with applicable CPUC directives, orders, rules, regulations, and SCE's policies and procedures by:
 - Tracing commitments to supporting documents to ensure the commitment (1) was reported within the PY 2020, (2) agreed to supporting documents, and (3) was accurately calculated.
 - Verifying the commitment was supported by appropriate source documents, such as project feasibility studies, customer agreement memos, consultant work agreements, purchase orders, and additional documentation, as needed.
- Traced interest accrued balances to supporting documentation and determined whether interest accrued was accurate by recalculating the interest amount for the months of June and July, 2020, in the amounts of \$39,660 and \$25,000, respectively.
- Calculated total unspent and uncommitted EE funds using audited data.

We did not audit SCE's 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 EE program unspent and uncommitted funds, based on its expenditures, commitments, and accrued interest, in accordance with applicable criteria. We considered SCE's key internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we determined that SCE's total amount of unspent and uncommitted EE funds from PY 2020 was not reported accurately. SCE reported \$9,698,804 in unspent and uncommitted funds for PY 2020. Our audit determined that SCE understated the amount by \$461,157. This instance is quantified in the Summary Schedule of Audit Results and described in the Finding and Recommendations section of this audit report. Final unspent and uncommitted funds, as audited, total \$10,159,961 for PY 2020.

Follow-up on Prior Audit Findings

Our prior EE audit report for PY 2018 covering the period of January 1, 2018, through December 31, 2018, issued on August 11, 2020, 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 that finding.

Views of Responsible Officials

We issued a draft audit report on September 15, 2021. SCE's Vice President of Customer Programs and Services responded by letter dated September 28, 2021, agreeing with the audit results. SCE's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report.

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 final 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

Summary of SCE's PY 2020 EE Unspent and Uncommitted Funds

| Cost Category | Reported | Audited | Audit Adjustment |
|---|----------------------------------|----------------------|-------------------|
| PY2020 Budget ¹ | \$ 147,395,384 | \$ 147,395,384 | \$ - |
| Expenditures ² | (97,460,637) | (97,460,637) | - |
| Commitments ³ | (17,974,207) | (17,513,050) | 461,157 |
| On Bill Financing (OBF) ⁴ | (17,000,000) | (17,000,000) | - |
| Evaluation, Measurement, & Verification (EM&V) ⁵ | (6,477,776) | (6,477,776) | - |
| Balancing Account Interest ⁶ | <u>1,216,040</u> | <u>1,216,040</u> | <u>-</u> |
| Total Unspent & Uncommitted Funds | <u>\$ 9,698,804</u> ⁷ | <u>\$ 10,159,961</u> | <u>\$ 461,157</u> |

¹ The amount is per the CPUC's Energy Division approval of the budgeted amount in the non-standard disposition, dated December 20, 2019.

² 2020 SCE Energy Efficiency Programs Annual Report (Annual Report), Appendix B. Technical Appendices, Section 3, Table 3: 2020 Expenditures, dated May 3, 2021.

³ 2020 SCE Annual Report, Appendix B. Technical Appendices, Section 7, Table 7: Commitments, dated May 3, 2021.

⁴ OBF are retained funds from prior EE and OBF program cycles to use in subsequent program cycles and are deducted from the calculation of unspent and uncommitted funds. Additionally, OBF was outside the scope of this audit.

⁵ The CPUC's Energy Division has management and contracting responsibilities for all EM&V impact-related studies that are deducted from the calculation of unspent and uncommitted funds. Additionally, EM&V was outside the scope of this audit.

⁶ Balancing Account Interest is derived from the Monthly EE Expenditure report for the Procurement Energy Efficiency Balancing Account filed with the CPUC's Energy Division.

⁷ Per Decision 21-01-004, Table 1: Estimated Stimulus Program Funding for 2021, SCE initially estimated its PY 2020 unspent and uncommitted funds to be \$16,923,000. SCE subsequently reported an updated amount of \$9,698,804 in its 2020 Annual Report.

FINDING AND RECOMMENDATIONS

Finding: Overstated WISE Program Commitment

Condition: SCE overstated the WISE Program commitments by \$461,157 in its PY 2020 Annual Report. During our substantive testing of commitments, we noted that SCE reported a commitment transaction totaling \$515,283 for the WISE Program that deviated from the actual amount. SCE provided supporting documents to substantiate a commitment amount of \$54,126.

The overstated commitment amount increased the total unspent and uncommitted funds initially reported as \$9,698,804 by \$461,157, resulting in an adjusted total unspent and uncommitted fund amount of \$10,159,961.

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

The Energy Efficiency Policy Manual, Version 6, dated April 2020, applicable to post-2018 EE Programs, provides policy for implementation oversight and reporting requirements. Section V: Implementation Oversight and Reporting Requirements, indicates the Annual Report as one of the required, regularly occurring, reports.

Cause: SCE overstated commitments due to the inadequate process of accounting for energy savings that reduces the commitment amount. SCE noted that due to the unusual nature of the WISE program, adjustments may occur that affect commitment amounts, and SCE failed to account for these variables.

Effect: By overstating commitments totaling \$461,157 for PY 2020, SCE is underfunding the Stimulus Program, aimed at improving ventilation and replacing old or inefficient plumbing fixtures to safely prepare schools for operating during the COVID-19 pandemic.

It is critical to ensure that commitments are accurately reported since the Stimulus Program relies on SCE's PY 2020 unspent and uncommitted amounts to fund the program.

Recommendations:

We recommend SCE update Table 7: Commitments in its Annual Report to include the audit adjustment of \$461,157 and adjust its 2022 Annual Budget Advice Letter for the audited PY 2020 total unspent and uncommitted funds to \$10,159,961. In addition, we recommend SCE update its processes and procedures for preparing commitment data to monitor programs with variables that may result in adjustments to its reported commitment amounts.

APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT

DocuSign Envelope ID: 94EE4536-2376-40B6-ACB3-40CE85702FCF



Nicole R. Howard
Vice President, Customer Service
Customer Programs & Services

September 28, 2021

Angie Williams – Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
180 Promenade Circle, Suite 115
Sacramento, CA 95834

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 Efficiency Audit Report on Southern California Edison Company’s (SCE’s) Energy Efficiency Program For the Period January 1, 2020 through December 31, 2020* (Draft Report), issued on September 15, 2021 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 Energy Efficiency 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 Patrick Nandy at 626-302-2049 or Patrick.Nandy@sce.com.

Thank you,

DocuSigned by:
Signature: Nicole R. Howard Date: 9/28/2021

Nicole R. Howard
Vice President, Customer Service
Customer Programs & Services

Attachment

cc: Masha Vorobyova, Assistant Director, Utility Audits Branch, CPUC
Nichelle Jackson, Program and Project Supervisor, Utility Audits Branch, CPUC
Nancy Ta, Public Utilities Regulatory Analyst IV, Utility Audits Branch, CPUC
Elizabeth Leano, Senior Manager, External Regulatory Audits, SCE
Patrick Nandy, Advisor, External Regulatory Audits, SCE

P.O. Box 800
2244 Walnut Grove Ave.
Rosemead, CA 91770

DocuSign Envelope ID: 94EE4536-2376-40B6-ACB3-40CE85702FCF



Nicole R. Howard
 Vice President, Customer Service
 Customer Programs & Services

SCE's Comments to the Draft Report in UAB's Audit of SCE's Energy Efficiency Programs for the Year Ended December 31, 2020

Following are SCE's comments to the Draft Report prepared by the Utility Audit Branch (UAB) based on its audit of SCE's 2020 Energy Efficiency (EE) Programs.

1. Overstated WISE Program Commitment

Draft Finding: *SCE overstated the WISE Program commitments by \$461,157 in its PY 2020 Annual Report. During our substantive testing of commitments, we noted that SCE reported a commitment transaction totaling \$515,283 for the WISE Program that deviated from the actual amount. SCE provided supporting documents to substantiate a commitment amount of \$54,126.*

The overstated commitment amount increased the total unspent and uncommitted funds initially reported as \$9,698,804 by \$461,157, resulting in an adjusted total unspent and uncommitted fund amount of \$10,159,961.

Draft Recommendation: *We recommend SCE update Table 7: Commitments in its Annual Report to include the audit adjustment of \$461,157 and adjust its 2022 Annual Budget Advice Letter for the audited PY 2020 total unspent and uncommitted funds to \$10,159,961. In addition, we recommend SCE update its processes and procedures for preparing commitment data to monitor programs with variables that may result in adjustments to its reported commitment amounts.*

SCE Comments and Corrective Action

SCE acknowledges and agrees with this finding and recommendation. SCE will incorporate the recommended adjustment and revised total of unspent/uncommitted funds from 2020 as stated in the recommendation into the unspent/uncommitted amounts included in its 2022 Energy Efficiency Annual Budget Advice Letter, as required in D21-01-004. SCE will also update its Program Year 2020 EE Annual Report, which will include a revised Table 7 as recommended.

SCE recognizes the need to improve its procedures related to commitment reporting and will implement the following corrective action. SCE will require program manager approval of program commitments reported in SCE's 2021 EE Annual Report to be filed May 1, 2022, and those going forward. SCE currently requires review and approval of savings and budget information for that report and will add review and approval of the commitment amounts to that process to protect against a similar misstatement occurring. SCE will also include a section related to commitments and the new approval process in its year-end processing and accrual training.

P.O Box 800
 2244 Walnut Grove Ave.
 Rosemead, CA 91770