ENERGY EFFICIENCY EXAMINATION

SOUTHERN CALIFORNIA GAS COMPANY
PROGRAM YEAR 2017

UTILITY AUDIT, FINANCE AND COMPLIANCE BRANCH

AUGUST 5, 2019

A digital copy of this report can be found at:
http://www.cpuc.ca.gov/utilityaudits/

Thanks to:
Angie Williams, Kevin Nakamura, and Jieli Feng

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Executive Summary

The California Public Utilities Commission (Commission) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies in 1912. One of the Commission's duties is to oversee billions of dollars expended on energy efficiency (EE) programs funded by California ratepayers. These EE programs are predominantly administered by the four major Investor-Owned Utilities (IOUs) in California. They are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).[1] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets in California.

The Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) conducted the examinations of the EE programs pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023. Additionally, the Commission has statutory authority to inspect and audit the books and records of the IOUs to ensure that ratepayers' money is well spent, specifically, pursuant to Public Utilities Code (PUC) Sections 314.5, 314.6, 581, 582, and 584. UAFCB conducted this examination in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

The scope of this examination covered the period January 1, 2017 to December 31, 2017 or PY 2017. The purpose of this examination was to ensure that SCG was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures were accurate, allowable and verifiable. For the examination on SCG's EE program, expenditures of selected EE programs and subprograms administered and implemented by SCG for the period under audit were reviewed. The specific SCG EE program and subprogram areas examined are included in the scope section of this report. Based on the examination, the following findings were identified:

- Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017
- Finding #2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

[1] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

Examination Report

BACKGROUND

The California Public Utilities Commission (Commission) regulates investor-owned electric and gas utilities in California. Through its regulatory oversight, the Commission is responsible for overseeing the energy efficiency (EE) programs which are principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California and funded by California ratepayers. The four major IOUs in California are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).[2] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets within California using ratepayer funds.

To meet California's aggressive electricity and natural gas energy efficiency goals, the Commission authorized billions to the EE programs, which are funded by electric and gas rates included in ratepayer bills.[3] The IOUs have greatly increased its costs and budgets through rate increases for administering and implementing these EE programs over time. Prior to 2016, the Commission authorized the IOUs budgets for the EE programs based on a three-year program cycle. In Rulemaking (R.) 13-11-005, the Commission contemplated moving away from authorizing the EE budgets on a triennial basis and towards authorizing the EE budgets on an annual "rolling" portfolio basis. As a result, the IOUs PY 2016 EE portfolio budget was the first year to utilize the new "rolling" portfolio process. Consistent with an annual EE program portfolio, the Commission provided ongoing funding for EE programs from 2015 onward. As such, the Commission extended the existing EE program through 2015, and authorized the IOUs to use the 2015 annual spending levels until the earlier of 2025 or when the Commission issues a superseding decision on funding level.[4]

These EE programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation and air conditioning (HVAC), industrial manufacturers, and agriculture. Within those sectors, the EE program utilizes 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, marketing and others. The Commission also adopted the Efficiency Savings Performance Incentive (ESPI) mechanism with the intent "to motivate the utilities to prioritize EE goals, while protecting ratepayers through necessary cost containment mechanisms." [5] In D.13-09-023, Ordering Paragraphs (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and

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[2] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

[3] Public Utilities Code (PUC) Section 381 established a Public Goods Charge (PGC) that consumers pay on electricity consumption for cost-effective energy efficiency, renewable technologies, and public interest research. PUC Section 900 established a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs.

[4] D.14-10-046, OP 21

[5] D.13-09-023, page 2

3% of authorized non-resource (NR) program expenditures, respectively. Furthermore, in OP 17 of D.13-09-023, it directed the Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) to verify the C&S and NR program expenditures for the purposes of awarding these management fees.

In conducting the annual EE program examinations pursuant to D.13-09-023, OP 17, the UAFCB's primary objective is to ensure that the IOUs are in compliance with EE program rules and regulations and to determine whether the EE expenditures claimed by the IOUs were for allowable purposes and supported by appropriate documentation, such as invoices, contracts and relevant records, and were recorded and reported appropriately for the period under examination.

Specifically, UAFCB's objectives for the examination on SCG's EE program are to determine whether:

1. SCG's costs recorded and reported for the period January 1, 2017 through December 31, 2017 or program year (PY) 2017 were relevant to the EE program and subprograms, supported by appropriate documentation, and in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) SCG's established internal policies and procedures.

2. Program design, structures, processes, implementation, cost and controls of SCG's EE programs were in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) SCG's established internal policies and procedures.

For PY 2017 EE funding levels, SCG filed Advice Letter (AL) 5023 on September 1, 2016 pursuant to Commission directives in D.14-10-046 and D.15-10-028. On November 8, 2016, SCG submitted AL 5023-A replacing 5023 in its entirety in order to make minor updates and fix clerical errors. On June 8, 2017, the Commission's Energy Division (ED) approved SCG's AL 5023-A which, among other things, authorized SCG a total EE portfolio budget of $83.7 million, including $3.3 million for the Evaluation, Measurement and Verification (EM&V) budget, in ratepayer funds to administer and implement the EE programs for PY 2017.

SCOPE

UAFCB developed the scope of its examination based on consultation with the Commission's ED, UAFCB's prior experience in examining SCG's EE program, and Commission directives. The scope of this examination on PY 2017 is limited to the expenditures and activities of the following EE program and subprogram areas:

1. Overall EE Program Cost Reconciliation
2. Codes and Standards (C&S) Program and Subprograms
3. Non-Resource (NR) Program and Subprograms
4. Local Government Partnership (LGP) Program and Subprograms
5. Third Party (TP) Program and Subprograms

In addition to examining the expenditures of the above selected EE programs and subprograms, we also reviewed the monthly, quarterly claims, and annual EE reports submitted by SCG and uploaded on the Commission's California Energy Efficiency Statistics (EEStats)[6] and California Energy Data and Reporting System (CEDARS)[7] websites. A follow-up review was also performed on its prior recommendations in its PY 2016 EE audit [8] to determine whether SCG has implemented the appropriate corrective actions.

For this EE examination on PY 2017, UAFCB has divided the examination into two separate reports. The second examination report covering SCG's Local Government Partnership (LGP) and Third Party (TP) programs will be issued as a supplemental to this report.

METHODOLOGY

To address the examination objectives and assist the Commission in its oversight over the EE programs, the procedures performed include, but are not limited to, the following:

- Obtained an understanding of the EE program by reviewing relevant laws, rules, regulations, PUC codes, decisions, resolutions and advice letters.
- Obtained and reviewed SCG's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether the SCG's policies, procedures, and practices comply with the EE program requirements.
- Evaluated the design, structure and purpose of each EE program and subprogram area included in the scope of this examination to ensure compliance with Commission directives.
- Performed analysis of expenditure data to identify any anomalies or significant variances.
- Reviewed relevant reports filed with the Commission to determine accuracy of reported EE program data and information and ensure compliance with applicable rules and program requirements.
- From SCG's accounting data, judgmentally selected expenditure transactions for review and testing.
- Requested and reviewed supporting documentation such as purchase orders, detailed invoices, contracts, receiving reports, timesheets and additional documentation as needed for the expenditure transactions selected for testing.
- Reviewed relevant contracts to determine if contract terms and provisions adequately supported the objective and purpose of the EE program.

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[6] The California Energy Efficiency Statistics (EEStats) website is a repository of utility-submitted reports to the Commission.
[7] The California Energy Data and Reporting System (CEDARS) website securely manages data associated with demand-side management (DSM) programs, ensuring quality and improving communication between DSM Program Administrators (PAs), the Commission, and the Public.
[8] UAFCB report entitled *"Energy Efficiency Audit, Southern California Gas Company, Program Year 2016,"* issued on August 3, 2018.

- Reviewed SCG's accrual entries and verified the cutoff of expenditure transactions to determine if proper expenditure amounts were recorded and reported in the proper accounting period.
- Traced expenditures recorded in SCG's accounting records to supporting documentation and determined whether costs were reasonable, allowable, verifiable, and relevant to the EE program.

FINDINGS AND RECOMMENDATIONS

Finding 1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

Condition:
SCG incorrectly recorded $85,087 in PY 2017 expenditures belonging to PY 2016, resulting in an overstatement of Non-Resource (NR) program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in **Appendix B.**

An overstatement of EE program expenditures has been a repeated finding in prior Commission examinations including, but not limited to, PY's 2013, 2014, 2015 and 2016.

Criteria:
PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for a corporation subject to the regulatory authority shall not be inconsistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

Cause:
SCG improperly recorded and accrued expenses to PY 2017 due to the inconsistent application of its own internal accrual policy and procedures.

Effect:
Failure to record expenditures in the proper period and program year resulted in an overstatement of EE program costs reported to the Commission by a total of $85,087 for PY 2017. It is critical to ensure that EE program costs are accurately recorded and reported since these programs are funded by ratepayers. An overstatement of expenditures can lead to an overpayment in incentive awards to SCG. Furthermore, an overstatement in expenditures may lead to higher than anticipated authorized budget amounts in future years since SCG develops its future year EE budgets on prior year costs. This practice can result in over-collections in ratepayer funds that support the EE program.

Recommendations:
SCG should ensure compliance with Generally Accepted Accounting Principles (GAAP) and its own internal accrual policy and procedures for the proper recording and reporting of EE expenditures

funded by ratepayers. SCG should reduce its NR program costs by a total amount of $85,087 for PY 2017.

Finding 2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

Condition:
In D.13-09-023, the Commission authorized the IOUs a new Efficiency Savings and Performance Incentive (ESPI) awards mechanism to promote achievement of EE goals. The ESPI mechanism offers each IOU incentive awards in four performance categories – Energy Efficiency Resource Savings, Ex-Ante Review (EAR) Process Performance, Codes and Standards (C&S), and Non-Resource (NR) programs.

In D.13-09-023, Ordering Paragraph (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.[9] The decision also ordered verification of the C&S and NR program expenditures for the purposes of awarding the management fees.[10]

Based on our samples selected for testing of the C&S and NR program expenditures, SCG overstated its ESPI award for PY 2017. Based upon its recalculation, UAFCB has determined that the revised ESPI base amount for calculating the NR program management fee incentive award amount should be adjusted to $9,471,256 for PY 2017. A detailed recalculation of SCG's revised ESPI award amount for the NR program in PY 2017 is provided in the table below.

Table 1

NR ESPI Recalculation	
Reported NR ESPI Base	$9,528,862
UAFCB's Audit Exception	(57,606)
Revised NR ESPI Base	9,471,256
NR Earnings Rate	3%
Revised ESPI Award	**$ 284,138**

Criteria:
Commission D.13-09-023 authorizes an incentive to be paid to each IOU as a management fee equal to 12% of authorized C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures in each program year, and excluding administrative expenditures.

Cause:
When SCG overstated its EE program costs as stated in Finding #1, it also overstated its incentive award amount for PY 2017.

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9 The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.
10 D.13-09-023, OP 17

Effect:
SCG overstated their NR incentive award amounts filed in Advice Letter (AL) 5386. The proper incentive award amount should be $284,138 for the NR program in PY 2017.

Furthermore, it is critical to ensure that the savings claimed are accurate. The overstatement of incentive award claims by the IOUs may lead to higher than anticipated authorized budgets in future years that are funded by ratepayers since SCG develops its future year EE budgets on prior year costs.

Recommendation:
Since SCG has filed AL 5386 to claim its NR program incentive awards for PY 2017, the Commission's Energy Division (ED) should adjust SCG's management fee incentive awards to $284,138 for the NR program when SCG's 2017 ex-post ESPI true-up AL is processed.

CONCLUSION

In conducting our examination, UAFCB obtained a reasonable understanding of SCG's internal controls, which were considered relevant and significant within the context of our examination objectives. UAFCB does not provide any assurance on SCG's internal control. Any significant deficiencies or material weaknesses in internal controls that were identified during the examination were communicated to SCG's management and identified in this report.

SCG's management is responsible for the development of its policies and procedures to ensure that its EE program is administered and implemented in accordance with Commission directives. The Commission is responsible to ensure the ratepayers' monies funding SCG's EE program explicitly support the EE goals and strategies and protect ratepayers' funds against improprieties and abuse.

UAFCB conducted this examination in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence on the subject matter against criteria in order to draw a reasonable basis for our findings and conclusions based on our examination objectives. UAFCB believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited examination objectives.

Based on our sample tested, UAFCB determined that, except for the items noted in the Findings and Recommendations section, SCG has complied, in all material respects, with the recording and reporting requirements of the EE costs for the audit period of January 1, 2017 to December 31, 2017.

The report is intended solely for the information and use of the Commission and SCG and is not intended to be and should not be used by anyone other than these specified parties.

Angie Williams, Director
Utility Audit, Finance and Compliance Branch and
Enterprise Risk and Compliance Office

Cc: Ed Randolph, Director, Energy Division
Simon Baker, Deputy Director, Energy Division
Manisha Lakhanpal, Supervisor, Energy Division
Kevin Nakamura, Supervisor, UAFCB
Jieli Feng, Auditor, UAFCB

Appendices

APPENDIX A
Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utility Code	Section 314	Guidance providing the Commission the authority to conduct audits consistent with Generally Accepted Government Auditing Standards (GAGAS), and to follow-up on findings and recommendations.
	Section 381	Guidance mandating the Commission to allocate funds spent on EE programs that enhance system reliability and provide in-state benefits including cost-effective EE and conservation activities.
	Section 581	Guidance providing the Commission the authority to require a utility to file complete and correct reports in prescribed form and detail.
	Section 582	Guidance providing the Commission the authority to require a utility to timely provide applicable records.
	Section 584	Guidance providing the Commission the authority to require a utility to furnish reports to the Commission.
Decisions & Rulemaking	D.09-09-047	Adopting Efficiency Savings and Performance Incentive Mechanism
	D.12-11-015	Approving 2013-2014 EE Programs and Budgets
	D.15-10-028	Establishing a "Rolling Portfolio" process for regularly reviewing and revising EE goals for 2016 and beyond.
	D.14-10-046	Establishing EE Savings Goals and Approving 2015 EE Programs and Budgets (Concludes Phase I of R.13-11-005).
	R. 13-11-005	Establishing a proceeding in which to fund the current energy efficiency portfolios through 2015, implement energy efficiency "rolling portfolios", and address various related policy.
Advice Letters	AL No. 5023-A & 5386	Annual 2017 EE Budget Filing and Request of SCG for its 2016 and 2017 EE Saving Incentive

APPENDIX B
Summary – PY 2017 Exam Adjustments

PrgID	Program Name	ESPI Category	Cost Category			Total
			Admin.	Mktg.	Direct Imp.	
3768	2013-14 3P CA Sustainability Alliance	NR	$ 901	$356	$57,250	$58,507
3775	2013-14 CRM	NR	26,580	0	0	26,580
	Total NR Program		**$27,481**	**$356**	**$57,250**	**$85,087**

APPENDIX C
SCG Responses

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SoCalGas
A Sempra Energy utility

July 1, 2019

Ms. Angie Williams
California Public Utilities Commission
Utility Audit, Finance & Compliance Branch
180 Promenade Circle, Suite 115
Sacramento, CA 95834

Re: SoCalGas Comments on Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency Programs For the Period January 1, 2017 through December 31, 2017

Dear Ms. Williams,

Southern California Gas Company (SoCalGas) has reviewed the Draft Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency (EE) Programs For the Period January 1, 2017 through December 31, 2017 (Report) prepared by the Utility Audit, Finance and Compliance Branch (UAFCB). SoCalGas hereby provides the following comments.

UAFCB Finding 1

SoCalGas incorrectly recorded $16,953 in PY 2017 expenditures belonging to PY 2016, resulting in an overstatement of C&S program expenditures reported to the Commission in PY 2017.

SoCalGas incorrectly recorded $153,667 in PY 2017 expenditures belonging to PY 2016, resulting in an overstatement of NR program expenditures reported to the Commission in PY 2017.

SoCalGas Response to Finding 1

SoCalGas has conducted a review of the table presented in Appendix B and has found that the report inappropriately determines the overstatement of PY 2017 expenditures. Appendix B identifies certain requested expenditure samples from a total of five programs as being incorrectly recorded in PY 2017 due to improper recording and accruing of the expenditures. The following table provides SoCalGas' comments to the respective programs in Appendix B and an overview to additional information being provided as a part of these comments, as applicable.

Program ID	Program Name	Amount	SoCalGas Comment
3724	SW C&S - Appliance Standards Advocacy	$16,953	This finding should be removed. SoCalGas did recognize and accrue the liability for the work to be completed by 2016 year-end and invoiced on the following year based on the information provided by Pacific Gas & Electric (PG&E) who is the lead investor-owned utility (IOU) on the co-funding contract that's responsible for billing. The attached correspondence demonstrates SoCalGas reached out to PG&E and was informed that the November invoice will be billed during December 2016, and only the estimated December invoice should be accrued for the 2016 year-end close. Based on the information from PG&E, SoCalGas submitted the year-end accrual excluding the November 2016 invoice and only included the estimated December 2016 invoice. Attachment(s): 1. Confidential_Response 12-3
3768	2013-14 3P CA Sustainability Alliance	$58,507	SoCalGas acknowledges that this should have been accrued in 2016 as it met SoCalGas' minimum accrual threshold of $10,000. Additional mid-year accounting training for 2018 has been implemented to help the staff record the year-end program financial liability.
3770	2013-2014 3P PACE	$51,957	This finding should be removed. The December 2016 invoice submitted January 2017 for payment in the amount of $51,956.49 was accrued on December 2016 based on vendor's estimated December invoice submitted in the amount $52,006.48. Please see attached document for validation. 1. 2016 Accrual Template 2. ESP Monthly Invoice-Dec 16ACCR 3. SAP Data Dump – Accrual Info
3709	2013-2014 SW-COM CEI	$16,623	This finding should be removed. The December 2016 invoice submitted during 2017 by Southern California Edison (SCE) for the payment in the amount of $16,623 was accrued on December 2016 as part of the 2016 year-end accrual package in the amount of 42,161.48. At the time of the 2016 year-end accrual, SCE provided the December 2016 amount to be 14,671.60 as listed on the attached document as a December line item. Please see attached documents listed below for validation. 1. 2016 Accrual template CEI - Contains accrual

			request and backup documents on estimated invoice for December 2016 for SW Com CEI program. 2. 2016 Outstanding Invoices - Contains estimated $14,671.60 December invoice submitted by SCE as a line item to the total $42,616.48 3. Accrual Communication - Communication from SCE on the 2016 year-end accrual. 4. SAP Data Dump Accrual - Validation on December accrual posted to SAP during December 2016.
3775	2013-2014 CRM	$26,580	SoCalGas acknowledges that this should have been accrued in 2016 as it met SoCalGas' minimum accrual threshold of $10,000. Additional mid-year accounting training for 2018 has been implemented to help the staff record the year-end program financial liability.

UAFCB Finding 2

SoCalGas overstated its energy savings performance incentive (ESPI) award for PY 2017. Based upon its recalculation, UAFCB has determined that the revised ESPI base amount for calculating the NR program management fee incentive award amount should be adjusted to $9,403,933 for PY 2017. For the C&S program, the revised ESPI base amount should be adjusted to $914,619 but no reduction to the ESPI award amount is required since SCG's incentive award cap amount is $91,293 for PY 2017 pursuant to Ordering Paragraph (OP) of D.13-09-23.

SoCalGas Response to Finding 2

UAFCB's finding is based on the assumption that SoCalGas did not properly accrue the expenditures under the SW C&S – Appliance Standards Advocacy (SCG3724), 2013-2014 3P PACE (SCG3770), and 2013-2014 SW-COM CEI (SCG3709) programs identified in Appendix B. However, as shown in the above table of SoCalGas' response to finding 1, SoCalGas did not overstate its PY 2017 expenditures. SoCalGas did recognize and accrue the liability for the work to be completed by 2016 year-end and invoiced on the following year based on the information provided by SoCalGas' vendors and by IOU counterparts for work associated with statewide programs. SoCalGas acknowledges that the expenditures totals of $58,507 and $26,580 from programs 2013-14 3P CA Sustainability Alliance (SCG3768) and 2013-2014 CRM (SCG3775), respectively, should have been accrued in 2016.

Given the inaccurate finding of certain expenditures in Finding 1, SoCalGas requests the following:

(1) that the final audit report be revised to the adjust UAFCB's audit exception for the C&S program to zero.
(2) that the final audit report be revised to adjust the UAFCB's audit exception for the NR program management fee to $57,606.

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

Sincerely,

Daniel J. Rendler

Daniel J. Rendler
Director, Customer Programs and Assistance

Cc: H. Jones
P. Wu
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APPENDIX D
Evaluation of Responses

SCG's responses to the draft report dated June 17, 2019, have been reviewed and incorporated into our final report. In evaluating SCG's responses, we provide the following comments:

Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

After reviewing the additional documentation provided with it comments to the draft report, UAFCB has determined that SCG appropriately recognized and accrued the expenditures for the SW C&S – Appliance Standards Advocacy (SCG3724), 2013-2014 3P PACE (SCG3770), and 2013-2014 SW-COM CEI (SCG3709) subprograms. Therefore, UAFCB has since modified its findings in this report. However, in future audits, UAFCB recommends that SCG provide all documentation to support each sample transaction selected for testing so that UAFCB can thoroughly review and validate the appropriateness of the EE program cost amount.

Finding #2: Overstatement/Understatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

Based on its revisions to Finding #1, UAFCB has removed its audit exception for the C&S program and have adjusted the NR program audit exception amount to $57,606 for PY 2017.