

Issue #	UAFCB Recommendation	Progress Report to CPUC
1	<p>PG&E needs to ensure that costs are correctly reported under the proper categories. The UAFCB identified \$6.3 million of admin costs from a consulting service contract being reported to the Commission as marketing expenses and found that for 3 of the 7 3P programs reviewed, changes in the programs' budget or kWh savings goals were not updated in MDSS, on a timely basis, and consequently, were misreported on EEGA and the Commission. The UAFCB believes that these exceptions are due to an ineffective implementation of the designed change control process of its MDSS. This change process could increase the risk of erroneous or unauthorized changes to MDSS.</p> <ul style="list-style-type: none"> • PG&E should review the scope of its contracts charges carefully to identify correct cost categories going forward put procedures in place to assure that reports to the Commission reflect any reclassifications and/or changes to program budgets and savings goals; • • This increases the risk that the Utility could overstate its energy savings. • 	<ul style="list-style-type: none"> • The specific cost category error for the consulting contract related to use of Tracker for reporting expenditures. For 2010-2012, SAP will be the only source for recorded expenditures reported in EEGA so this type of error will not re-occur. • PG&E is implementing new internal review processes for tracking and reporting program budget changes as part of the EE fund-shifting reporting requirements adopted for PY 2010-2012. PG&E will incorporate these new internal review processes for CPUC reporting once the 2010-2012 EEGA Reporting requirements are finalized. •
2	<p>PG&E should demonstrate the benefits of its new marketing database and its contribution towards the energy savings goals in the 2009-2011 program cycle. The UAFCB noted charges in 2008 from a consulting contract for the creation of a database system that tracks customers and their specific needs. Based on PG&E's representation, this database to be</p>	<p>PG&E is preparing the requested report on the benefits of the Customer Analytics and Segmentation (CAS) Database.</p>

	<p>used in future years as a marketing tool that will potentially cut down on marketing expenses. It is not clear to the UAFCB how this new system will contribute towards meeting future energy savings goals.</p>	
<p>3</p>	<p>UAFCB should review the implementation of PG&E's accrual and monthly reversal processes in its next audit of PG&E's energy efficiency programs. In December of 2008, PG&E adopted the accrual basis of accounting for some of its expenses. Subsequent to the audit, PG&E developed and implemented monthly reversal processes for the adoption of the accrual basis.</p> <p>PG&E's accrual adjustment to change from a cash basis to an accrual basis for 3P Implementers, LGPs, Targeted Markets, Mass Markets, ET and Sales is overstated by \$1.5 million. In addition UAFCB found instances where PG&E did not adjust accrual estimates to reflect actual charges on a timely basis.</p>	<p>PG&E has prepared an Accrual Policy (dated 10/16/09) and is preparing an explanation of its accrual adjustments.</p>
<p>4</p>	<p>PG&E's expenditure of \$9.5 million for 2008 incentives that it paid in 2009 should be subject to review. UAFCB should review these expenditures during the next examination. UAFCB was unable to audit these expenditures during the audit timeframe, only learning of these expenditures in late July 2009. These expenditures were approved by an advice letter that PG&E submitted in February 2009.</p> <p>PG&E's controls for estimating certain program costs and evaluating program implementation against approved budgets may need strengthening so the PG&E will not need such last minute or after the fact budget augmentations in the future.</p> <ul style="list-style-type: none"> • UAFCB was not able to determine if these additional 	<p>PG&E can provide documentation that the expenditures incurred in 2009 were reviewed by the program staff and determined to be appropriate and related to PY 2008.</p> <p>PG&E is also working on a new governance process that will include program expenditure forecasts vs. actuals to strengthen program performance review and planning.</p>

	<p>expenses are related to 2008 projects or verify if these expenditures have already been included in the year end accrual, due to a late disclosure towards the end of the fieldwork in July 2009</p> <ul style="list-style-type: none"> • 	
5	<p>PG&E should require, on a quarterly basis at a minimum, that PG&E conduct an audit of the original documents retained by 3P implementers to confirm compliance with documentation and inspection requirements per program and contract agreements.</p>	<p>PG&E's 3P team is developing and implementing an audit procedure for reviewing documents retained by 3P implementers.</p>
6	<p>In its next audit of the energy efficiency programs, the UAFCB should review PG&E's implementation of all the action plans PG&E provided to the UAFCB on October 23, 2009, and determine how effective the suggested corrective action are once they have been implemented. In 2008 and 2009, PG&E's internal auditors discovered weaknesses in its energy efficiency internal control processes. In late 2009, PG&E developed corrective action plans with defined implementation dates to address the following issues:</p> <ul style="list-style-type: none"> • Develop more robust inspection policy • • Document post field verification process for 3P and GP calculated projects • • Implement procedures to ensure that inspection pass/fail rates are used to adjust inspection percentage at the program, measure and vendor level. • • Improve processes for on-site verification of deemed measures installed with calculated projects. • 	<p>Enclosed are the copies of the PG&E's TeamTrack reports that reflect closure of the following Internal Audit identified issues:</p> <p><u>Audit Report 09-058 – Audit of Customer Energy Efficiency Program Inspection</u></p> <ul style="list-style-type: none"> • Inspection Policy – closed 2/2/10 • Post-Field Verifications for Third Party Programs and Government Partnerships – closed 4/19/10 • Inspection Rates – closed 4/19/10 • Contractor Oversight – closed 5/3/10 • • <u>Audit Report 09-059 - Audit of Energy Savings Controls</u> • Management of User Access- MDSS – closed 10/21/09 • Change Management – MDSS – closed 12/2/09 • Change to MDSS Records – closed 12/2/09 • Review and Approval – Contractor Energy Savings Calculations and Applications – closed 1/4/10 • • Action plans to address the remaining two issues are

	<p>Improve controls for MDSS user access and change management documentation.</p> <ul style="list-style-type: none"> • • Controls to prevent energy savings measures from being reported more than once • • Encryption of MDSS sensitive data and enterprise wide improvements that will protect 3P/GP invoicing data • 	<p>in progress and will be completed in 2011.</p> <ul style="list-style-type: none"> • Controls to Prevent Energy Savings Measures from Being Reported More Than Once • Protection of Sensitive Data •
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