SOUTHERN CALIFORNIA EDISON

Audit Report

CALIFORNIA ALTERNATE RATES FOR ENERGY PROGRAM

January 1, 2013, through December 31, 2015



BETTY T. YEE
California State Controller

December 2018



BETTY T. YEE California State Controller

December 5, 2018

Tory Weber, Principal Manager, Residential and Income Qualified Programs Southern California Edison 1515 Walnut Grove Avenue Rosemead, CA 91770

Dear Mr. Weber:

The State Controller's Office audited Southern California Edison's (SCE) California Alternate Rates for Energy (CARE) program for the period of January 1, 2013, through December 31, 2015.

The objectives of the audit were to (1) determine whether SCE manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions; (2) assess whether SCE's CARE program is in compliance with applicable laws, regulations, and agreement terms and conditions; (3) identify opportunities and priorities in which financial management governance may help to strengthen key controls; and (4) follow up on prior audit findings and evaluate the effectiveness of remediation.

We assessed and evaluated the CARE program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

We did not validate the effectiveness of remediation for the applicable observation identified in the California Public Utilities Commission's (CPUC) prior audit of the CARE program. We limited our follow-up to reviewing SCE's corrective action plans and related documentation (Objective 4).

Our audit found that:

- Two of the 70 CARE program customer files tested lacked adequate documentation regarding eligibility through categorical enrollment. The documentation provided did not clearly indicate that the customers were currently participating in a categorical program that granted them eligibility for the CARE program.
- Two of the 70 CARE program customer files tested lacked signatures certifying proof of household income or participation in a categorical program for eligibility.
- One of the 70 CARE program customer files tested showed a total household income that had been incorrectly calculated. The customer's actual income was above the income threshold.

• One of the 70 CARE program customer files tested did not contain an IRS tax transcript, which is required for high usage verification. The customer claimed that she had been retired for 11 years and had not filed taxes the entire time; however, the customer should have submitted a transcript of non-filing.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA Chief, Division of Audits

JVB/ls

cc: Sheila Lee, Regulatory Case Manager

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Audit Report

Summary

The State Controller's Office (SCO) audited Southern California Edison's (SCE) California Alternate Rates for Energy (CARE) program for the period of January 1, 2013, through December 31, 2015.

The purpose of this audit is to ensure SCE's compliance with Public Utilities Code and regulations associated with the Income Qualified Assistance Program for the CARE program, the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, dated July 2013, and program rules and restrictions provided by SCE.

Our audit found that:

- Two of the 70 CARE program customer files tested lacked adequate documentation regarding eligibility through categorical enrollment. The documentation provided did not clearly indicate that the customers were currently participating in a categorical program that granted them eligibility for the CARE program;
- Two of the 70 CARE program customer files tested lacked signatures certifying proof of household income or participation in a categorical program for eligibility;
- One of the 70 CARE program customer files tested showed a total household income that had been incorrectly calculated. The customer's actual income was above the income threshold; and
- One of the 70 CARE program customer files tested did not contain an IRS tax transcript, which is required for high usage verification. The customer claimed that she had been retired for 11 years and had not filed taxes the entire time; however, the customer should have submitted a transcript of non-filing.

These issues are further described in the Finding and Recommendation section of this report.

Background

The CARE program is administered by electrical and gas utility companies, often in partnership with community-based organizations, which enroll eligible customers in their communities. The program provides a 30-35% discount for electrical charges and 20% for natural gas charges to eligible participants. Income eligibility for CARE participation is set at 200% or less of Federal Poverty Guidelines. The program is funded by non-participating CARE customers as part of a statutory "public purpose program surcharge" that appears on monthly utility bills. CARE is a self-certification program, with targeted post-enrollment income verification. High-energy usage CARE customers are also targeted for enrollment in energy efficiency programs (e.g., the Energy Savings Assistance [ESA] program) and other conservation efforts.

The California Public Utilities Commission (CPUC) requires that utility companies adhere to the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and comply with Public Utilities Code, CPUC directives, and CPUC General Orders (GO).

CPUC Decision (D.) 12-08-044 and D.14-08-030 authorized average annual budgets of approximately \$396.1 million in ratepayer funds to administer and implement SCE's CARE program budget for calendar years 2013 through 2015. Budgeted and actual amounts for the three calendar years are as follows:

Year	Budgeted	Actual
2013	\$ 389,156,000	\$ 362,752,715
2014	\$ 423,819,650	\$ 391,242,462
2015	\$ 423,819,650	\$ 377,364,921

We performed the audit at the request of the CPUC, pursuant to an Interagency Agreement.

Objectives, Scope, and Methodology

The objectives of the audit were to:

- Determine whether SCE manages the CARE program in conformance with applicable laws, regulations, and agreement terms and conditions;
- Assess whether SCE's CARE program is in compliance with applicable laws, regulations, and agreement terms and conditions (see Appendix 1);
- Identify opportunities and priorities in which financial management governance may help to strengthen key controls; and
- Follow up on prior audit findings and evaluate the effectiveness of remediation.

We assessed and evaluated the CARE program's processes, rather than the effectiveness of internal controls, to determine whether key processes could be strengthened (Objective 3).

We did not validate the effectiveness of remediation for the applicable observation identified in CPUC's prior audit of the CARE program. We limited our follow-up to reviewing SCE's corrective action plans and related documentation (Objective 4).

We conducted an audit of SCE's CARE program for the period of January 1, 2013, through December 31, 2015.

To achieve our objectives, we:

- Reviewed prior audit reports of SCE related to the CARE program to follow up on prior audit findings by reviewing the action plan and response to the recommendation, and analyzing supporting documentation to determine whether remediation efforts were implemented;
- Reviewed applicable laws, regulations, agreement terms and conditions, policies, and procedures related to SCE's CARE program required by the CPUC for all energy utilities;

- Interviewed all SCE CARE program employees, and reviewed SCE's CARE program Annual Reports to:
 - Gain an understanding of the CARE program's services and benefits, budgets, operational goals, funding sources, revenues, expenditures, targeted beneficiaries, and recent statistical results;
 - o Gain an understanding of the CARE program's accounting and operational systems; and
 - o Assess and evaluate the CARE program's processes, and determine whether key processes could be strengthened.

Upon gaining an understanding of SCE's administration of the CARE program, we judgmentally selected transactions using non-statistical samples; errors found were not projected to the intended population. We:

- Selected 15 of 78,059 (\$432,723 of \$14,670,098) CARE program expenditure transactions, and reviewed invoices and other supporting documents;
- Reviewed 70 of 4,737 CARE program customer files and records to determine compliance with applicable laws, regulations, and agreement terms and conditions;
- Reviewed all fund shifting instances reported in the CARE program Annual Reports; and
- Reviewed the CARE program balancing account.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding, conclusion, and recommendation based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, conclusion, and recommendation based on our audit objectives.

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's CARE program was in compliance with the laws and regulations associated with the Income Qualified Assistance programs, the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, and program rules and restrictions provided by SCE.

Conclusion

We identified instances of non-compliance with applicable laws, regulations, and agreement terms and conditions, as described in the Finding and Recommendation section of this report.

¹As these samples were not statistical, we made no assumption that the errors would also be found in the transactions not sampled.

Follow-up on Prior Audit Findings

We reviewed the CPUC's prior audit performed for the CARE program, Financial, Management and Regulatory Compliance Audit Report on the California Alternate Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Southern California Edison Company For the Years Ended December 31, 2007 and December 31, 2008, dated June 17, 2011, and presented our comments in Appendix 2 of this report. We did not validate the effectiveness of remediation for the observation.

Views of Responsible Officials

We issued a draft audit report on October 3, 2018. Michael Bushey, Director of Program Operations, responded by letter dated October 17, 2018 (Attachment), partially agreeing with the audit finding. This final audit report includes SCE's response.

Restricted Use

This report is solely for the information and use of SCE, the CPUC, and the SCO; 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA Chief, Division of Audits

December 5, 2018

Finding and Recommendation

FINDING— SCE did not maintain current eligibility documents for post-enrollment verification Of the 4,737 post-enrollment verifications (PEV) performed by SCE in June 2013, July 2014, and January 2015, we reviewed 70 PEV customer files and records. Of the 70 customer files, 16 were from June 2013, 24 were from July 2014, and 30 were from January 2015.

Our audit noted the following issues:

- Two (June 2013, July 2014) of the 70 CARE program customer files lacked documentation to support that the customers were currently participating in the categorical program that granted them eligibility for the CARE program. SCE accepted California Medical Assistance Program (Medi-Cal) cards as adequate proof of enrollment in a categorical program. However, Medi-Cal cards do not indicate expiration dates or current eligibility dates. SCE should require additional verification to establish customers' current participation in Medi-Cal and other categorical programs if current dates are not explicitly displayed on the cards. Examples of additional verification for the Medi-Cal program include letters of acceptance and annual renewal letters.
- Two (July 2014, January 2015) of the 70 CARE program customer files tested lacked signatures certifying proof of household income or participation in a categorical program for eligibility.
- One (July 2014) of the 70 CARE program customer files tested showed a total household income that had been incorrectly calculated. The customer's actual income was above the income threshold.
- One (January 2015) of the 70 CARE program customer files tested did not contain an IRS tax transcript, which is required for high usage verification. The customer claimed that she had been retired for 11 years and had not filed taxes the entire time; however, the customer should have submitted a transcript of non-filing.

As part of our PEV testing plan, we selected an initial limited number of program customer files. Based on the results of testing, we determined that testing additional customer files would not affect our overall conclusion that PEV documentation was not consistently maintained.

The *California Statewide Energy Savings Assistance Program Policy and Procedures Manual*, section 2.2.3.2, Categorical Eligibility, states that applicants using the categorical eligibility option to enroll in ESA program must present documentation reflecting current participation in one of the CPUC-approved programs to satisfy the income documentation component. Although the manual is an ESA program manual, SCE stated that the policies and procedures regarding program eligibility are used for both the ESA and CARE programs.

SCE's CARE and Family Electric Rate Assistance (FERA) Income Verification Documents Procedure, section 3.3, Verify Receipt of Documents, states that customers must send a signed copy of the Verification Request Letter. The customer's signature certifies that the

income documents are true and accurate copies and that the documents are submitted as proof of income for all adult members of the household or participation in a state public assistance program (for categorical enrollments in CARE).

SCE's CARE and FERA Income Verification Documents Procedure section 3.5, Verify Income Eligibility, states that after all of the required documents have been received, gross annual household income should be calculated using the Income Qualified Program's Income Calculation Form, and the total should be compared to the current CARE or FERA guidelines.

SCE's CARE and FERA High Usage Procedure, section 3.3.1, Income Verification, states that SCE requests that the customer obtain his or her transcript from the IRS. Once the transcript is received, the customer must complete the transcript, retain a copy, and mail the original transcript to SCE.

Recommendation

To ensure compliance with review procedures set forth by SCE, as well as customer eligibility requirement guidelines set forth by the CPUC, we recommend that SCE obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate eligibility for the CARE program. We also recommend that SCE and the CPUC work together to develop a policies and procedures manual specifically for the CARE program.

We further recommend that SCE follow up with the CARE customers noted in this finding, obtain the necessary supporting documentation, and reevaluate their eligibility in the CARE program.

SCE's Response

SCE disagrees that the documentation was inadequate, as discussed in the first bullet on page 5. SCE states that it approved the two accounts for the CARE program based on the following qualifications:

- Medi-Cal Benefits Identification Cards (BICs) submitted by customers; and
- In D.06-12-38 pages 51-52, the CPUC directed Independent Operating Utilities (IOUs) to accept Medi-Cal participation as a form of categorical eligibility and allowed IOUs discretion to design procedures.

SCE further stated that, effective in the fourth quarter of 2015, it changed its procedures to require BICs to have been issued within the past 12 months to qualify for low-income programs.

SCE agrees with the remaining issues noted in the finding. SCE indicated that it had implemented corrective actions regarding these issues.

SCO Comment

The finding and recommendation remain unchanged.

Providing Medi-Cal BICs alone is insufficient to demonstrate current participation per categorical eligibility requirements in section 2.2.3.2 of the *California Statewide Energy Savings Assistance Program Policy and Procedures Manual.* Medi-Cal BICs do not display expiration dates; therefore, current participation in Medi-Cal cannot be determined from the cards alone. Additional verification, such as letters of acceptance and annual renewal letters, should also be provided by categorical enrollment applicants as support for current participation in Medi-Cal.

SCE stated that it made changes to its procedures in the fourth quarter of 2015 such that only BICs issued within the past 12 months qualify for low-income programs. However, we did not validate the implementation or effectiveness of these procedures.

SCE also stated that it implemented corrective actions for the remaining issues noted in the finding. However, we did not validate the implementation or effectiveness of these corrective actions. CPUC should follow up to ensure that the corrective actions were adequate and appropriate.

Appendix 1— Compliance with Applicable Laws, Regulations, and Agreement Terms and Conditions

APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS AND CONDITIONS	AUDIT RESULTS
CPUC GO 28. Preservation of records of public utilities and common carriers	Complied
CPUC D.12-08-044 Section 6.2. Fund Shifting Rules	Complied
CPUC D.08-11-031 Section 20. Fund Shifting	Complied
Southern California Edison's CARE and FERA Income Verification Documents Procedure, Section 3.0 Procedure Detail	Did not comply; see Finding
Southern California Edison's CARE and FERA High Usage Procedure, Section 3.0 Procedure Detail	Did not comply; see Finding
California Statewide Energy Savings Assistance Program Policy and Procedures Manual. Section 2.2.3.2. Categorical Eligibility	Did not comply; see Finding
Public Utilities Code, Division 1, Chapter 3, Article 5. Reports to the Commission, 584	Complied

Appendix 2— Summary Schedule of Prior CPUC Audit Findings

CPUC FINANCIAL, MANAGEMENT AND REGULATORY COMPLIANCE AUDIT ON THE CALIFORNIA ALTERNATE RATE FOR ENERGY ADMINISTRATIVE COSTS AND THE LOW INCOME ENERGY EFFICIENCY PROGRAM OF SOUTHERN CALIFORNIA EDISON COMPANY, FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2008.

CPUC's Observation and Recommendation

Status

SCO Comments

<u>FINDING VI.B.</u>: SCE's ASD [Audit Services Department] identified internal control weaknesses in the customer enrollment area and for the documentation of program changes.

RECOMMENDATION: In its next audit of SCE's CARE administrative expenses, UAFCB [Utility Audit, Finance and Compliance Branch] should include a review of the effectiveness of SCE's corrective actions that it took in its customer enrollment area in 2009 and 2010.

SCE provided the SCO with its Energy Efficiency Division Policies and Procedures Manual, in effect 2010 through 2012, and other procedural documentation.

SCE stated that it has implemented and documented procedures to properly handle and review ineligible applications; include the number of returned applications on batch cover sheets and update the productivity database accordingly; and update its quality control process. In addition, SCE stated that it has documented and approved classification error types, definitions, and thresholds with the Processing Services Organization's management, CARE program management, and other stakeholders; and that it has implemented the stamping of quality control review applications and a "check-the-checker" review process.

We did not test the effectiveness of SCE's implementation of these processes. However, we validated that these processes are included in SCE's Energy Efficiency Division Policies and Procedures Manual for Income Qualified Programs, in effect from 2010 through 2012, and/or SCE's Customer Service Business Unit's Contemporaneous Summary Recap of CARE Quality Revisions that was implemented in response to the prior audit.

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Only the prior findings for the CARE Program were reviewed from this audit. A more recent audit of the Low Income Energy Efficiency Program (since renamed the ESA program) was reviewed for the ESA program audit conducted by the SCO.

Attachment— Southern California Edison's Response to Draft Audit Report

Re: Southern California Edison Company Response to State Controller's Office Audit Report on 2013-2015 California Alternate Rates for Energy

On October 9, 2018, the Southern California Edison Company (SCE) received a copy of the Draft Audit Report entitled, "CALIFORNIA ALTERNATE RATES FOR ENERGY PROGRAM January 1, 2013, through December 31, 2015" (Draft Report) dated October 3, 2018. SCE is hereby providing detailed comments on the finding and recommendation in the Draft Report. SCE reserves the right to submit additional comments if there are other comments or input that materially changes or adds to the finding or recommendation in the Draft Report.

SCE appreciates the opportunity to review and provide comments on the Draft Report. We would be happy to discuss our comments in more detail with the State Controller's Office (SCO) or the California Public Utilities Commission (Commission) if that would be beneficial to the parties. If you have further questions, please contact Elizabeth Leano at (626) 302-3662.

Michael Bushey

SCE Director of Program Operations

Southern California Edison Company 2013-2015 California Alternate Rates for Energy Response to Draft Audit Report Dated October 3, 2018

I. Introduction

SCE appreciates the opportunity to work with outside auditors to demonstrate and improve its compliance practices. SCE believes that the finding and recommendations are generally minor with minimal or no impact to customers overall. But the Company has already begun the work of correcting the identified deficiencies where it agrees with the auditors and has updated processes and procedures that will better monitor and ensure overall compliance.

SCE greatly appreciates the professional manner in which the State Controller's Office (SCO) conducted the 2013-2015 California Alternate Rates for Energy (CARE) program Audit.

II. Audit Timeline

The 2013-2015 CARE audit officially commenced with an entrance conference with the SCO in January 2017. The SCO auditors completed their fieldwork in June 2017, and conducted an exit conference on July 21, 2017 where they presented their draft audit findings. This response is to the Draft Audit Report that SCE received on October 9, 2018. SCE believes that the approximately 20 months it took to complete this audit was greater than expected and far longer than previous audits.

While the Commission has sought to catch up on these biannual audits, this audit is being completed over five years after the audit period began. Delays in conducting such audits makes responding to data requests more difficult since percipient subject matter experts may have left SCE or their memories of specific situations may have faded. And delays in audit completion means that implementation of any responsive corrective actions is also significantly delayed. Ideally, these audits should commence no later than several months following the close of the audit record period and be completed within one year.

III. Comments on the 2013-2015 Audit Finding and Recommendation

SCE has reviewed the finding and recommendations provided in the Draft Report. Below are SCE's comments to each of the four issues outlined in the finding and recommendations.

Finding: SCE did not maintain current eligibility documents for post-enrollment verification

Recommendation:

"To ensure compliance with review procedures set forth by SCE, as well as customer eligibility requirement guidelines set forth by the CPUC, we recommend that SCE obtain sufficient, appropriate documentation from CARE customers to clearly demonstrate eligibility for the CARE program.

We also recommend that SCE and the CPUC work together to develop a policies and procedures manual specifically for the CARE program.

We further recommend that SCE follow up with the CARE customers noted in this finding, obtain the necessary supporting documentation, and reevaluate their eligibility in the CARE program."

SCE Comments:

SCE disagrees with Issue 1 of 4, and therefore partially disagrees with the finding outlined in the 2013-2015 Draft Report.

In response to the SCO recommendation that SCE and California Public Utilties Commission CPUC work together to develop a policies and procedures manual for the CARE program, SCE has followed, and currently follows, the CPUC-sanctioned Income Qualified Program manual that covers both Energy Savings Assistance (ESA) and CARE program.

In response to the issues noted in the 2013-2015 CARE Audit, SCE has implemented additional review processes when verifying the eligibility of CARE applicants.

Issue 1: "Two (June 2013, July 2014) of the 70 CARE program customer files lacked documentation to support that the customers were currently participating in the categorical program that granted them eligibility for the CARE program. SCE accepted California Medical Assistance Program (Medi-Cal) cards as adequate proof of enrollment in a categorical program. However, Medi-Cal cards do not indicate expiration dates or current eligibility dates. SCE should require additional verification to establish customers' current participation in Medi-Cal and other categorical programs if current dates are not

explicitly displayed on the cards. Examples of additional verification for the Medi-Cal program include letters of acceptance and annual renewal letters."

SCE disagrees with this issue (June 2013) and (July 2014). SCE approved these accounts for the CARE program due to the following qualifications:

- The customers submitted a Medi-Cal Benefits Identification Card (BIC).
- In Decision 06-12-038 pp. 51-52, the CPUC directed Independent Operating
 Utilities (IOUs) to accept Medi-Cal participation as a form of categorical eligibility
 and allowed IOUs discretion to design procedures
- Effective in Q4 of 2015, in response to more stringent processing requirements, SCE (consistent with the other California IOUs) changed its procedures to require BICs to have been issued within the past 12 months to qualify for low income programs.

Issue 2: "Two (July 2014, January 2015) of the 70 CARE program customer files tested lacked signatures certifying proof of household income or participation in a categorical program for eligibility."

SCE agrees with this issue (July 2014) and (January 2015). SCE implemented the following corrective actions:

- (July 2014): SCE submitted a follow-up verification request to this customer on 4/12/17. The verification documents were received and processed on 6/7/2017.
 SCE approved the customer to continue in the CARE program.
- (January 2015): In February 2016, SCE selected this customer for high usage verification but the customer did not respond to the verification letter. As a result, SCE removed the customer from the CARE Program on 3/8/16. The removal occurred via automated controls programmed to identify pending verifications with no response or activity.

Issue 3: "One (July 2014) of the 70 CARE program customer files tested showed a total household income that had been incorrectly calculated. The customer's actual income was above the income threshold."

SCE agrees with this issue (July 2014).

SCE reviewed field testing transactions on 4/5/17 and reported this account to the SCO auditors as processed incorrectly. The customer was selected for verification request on 5/24/14 and responded on 6/29/14 by submitting two IRS transcripts. SCE incorrectly used only 1 transcript to calculate total income of \$21,897 (with 3 adults and 1 child) and approved the customer to stay on CARE instead of switching the customer to FERA based on his total combined income of \$51,479 that was shown in both transcripts. Customer closed this account on 7/1/15 and opened a new account (SA 43672854) on 7/2/15. Customer applied for the CARE Program under this new account and SCE approved the

request. Later, SCE selected the customer's new account for high usage verification on 11/28/15, and the customer submitted documents on 4/18/16 showing household income of \$61,244 with 3 adults / 2 children. Based on this documentation, SCE removed the account from CARE and placed it on FERA.

Issue 4: "One (January 2015) of the 70 CARE program customer files tested did not contain an IRS tax transcript, which is required for high usage verification. The customer claimed that she had been retired for 11 years and had not filed taxes the entire time; however, the customer should have submitted a transcript of non-filing."

SCE agrees with this issue (January 2015).

SCE notes that it removed the customer from CARE after only one billing cycle due to non-compliance with Energy Savings Assistance (ESA) program requirements.

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