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CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

CALIFORNIA ARREARAGE PAYMENT PROGRAM (CAPP)

CAPP PROGRAM NOTICE NO. 2022-04

The purpose of this official correspondence is to provide implementation information and guidance to the general public and state energy utility service providers regarding the California Arrearage Payment Program (CAPP) administered by the Department of Community Services and Development (CSD).

CAPP PROGRAM NOTICE NO. 2022-04

TO: ALL ENERGY UTILITY COMPANIES

SUBJECT: CALIFORNIA ARREARAGE PAYMENT PROGRAM (CAPP)
AUDIT EXPECTATIONS

DATE: April 7, 2022

REFERENCE: Government Code Section 16429.5
Assembly Bill 135 (Chapter 85, Statutes of 2021)
[CAPP-PN 2021-06](#)
[CAPP-PN 2021-06-E2](#)
[CAPP-PN 2021-07](#)

The purpose of this CAPP Program Notice (CAPP-PN) is to clarify the CAPP compliance audit process that will follow the CAPP Close-out Phase, where energy utilities receiving CAPP funds and administering CAPP benefits complete the reporting of CAPP benefit disbursements made to eligible utility customers. For purposes of this CPN, the term “energy utilities” includes public utilities, investor-owned utilities, electric cooperative utilities, and Community Choice Aggregators (CCAs) and Direct Access Service Load-Serving Entities (DAS LSEs) providing CAPP benefit disbursement via the CAPP Allocation Transfer process. This guidance is intended to provide energy utilities with a general understanding of the compliance audit process. CSD’s right to audit is established under Article 6 – Reporting, Audit, and Record Retention of the CAPP General Terms and Conditions and Article 5 – Reporting, Audit, and Record Retention of the CAPP CCA and DAS LSE General Terms and Conditions.

BACKGROUND

CAPP-PN 2021-06 and CAPP-PN 2021-06-E2 communicated the results of the CAPP Utility Survey and individual Utility Applicant allocations of CAPP funds (also referred to as CAPP Allocations), and established guidelines for prioritizing the distribution of CAPP benefits to customer accounts, also referred to as the "Waterfall" method. In addition, CAPP-PN 2021-07 provided an overview of the CAPP Application process, key information and documentation requirements, CAPP General Terms and Conditions, and other core responsibilities that accompany the administration of CAPP funds by state energy utility companies, including instruction for prioritizing and determining the level of CAPP assistance to eligible customers.

COMPLIANCE AUDIT PROCESS OVERVIEW

This CAPP-PN is intended to assist energy utilities’ understanding of the audit process and general scope of compliance audits performed by third-party Certified Public Accountant (CPA) firms retained by CSD. Please note compliance audits are limited to an energy utility’s administration of CAPP funds, including the disbursement of CAPP

benefits to eligible utility customers and submitting all forms of required reporting to CSD. Compliance audits are not required of any CCA or DAS LSE that does not receive a transfer of funds from their partner IOU to directly apply CAPP benefits to customer accounts.

AUDIT ENGAGEMENT

CSD is contracting with third-party CPA firms to perform CAPP compliance audits on behalf of CSD. The information below offers the general audit timeline, audit procedures, and documentation that may be requested during the audit. This is not intended to be an all-inclusive list of requirements or documentation.

AUDIT TIMELINE

- Audits may begin as early as May 2022, with audit timing largely dependent on when a Utility Applicant's CAPP Close-out Report is submitted to CSD.
- Each energy utility audit is estimated to take up to 90 days to complete from the date of the initial engagement. All audits are intended to be concluded by December 31, 2022.

COMMUNICATION

- Energy utilities will interact specifically with one third-party CPA firm for the audit.
- The third-party CPA firm will hold a kickoff meeting with its assigned energy utility to discuss specifics of the audit engagement.
- Following the kickoff meeting, the energy utility will receive a material request letter from the third-party CPA contractor describing the documentation needed along with a list of the personnel expected to be available for interviews during the audit testing procedures.
- The energy utility will receive a second material request letter for supporting documentation needed to test a sample of customer accounts deemed eligible for CAPP assistance.

AUDIT SCOPE & GENERAL DOCUMENTATION

The audit is limited to confirming the energy utility's compliance with CAPP Terms and Conditions in managing CAPP funds, disbursing CAPP benefits to eligible customers and confirming systems of internal reporting are strong and render accurate information.

Internal CAPP Controls

1. In reviewing the energy utility's information systems, the third-party CPA firm will:

- A. Obtain an understanding of financial accounting systems used by the energy utility, including an understanding of customer account management systems and structure.
 - B. Obtain an understanding of how the energy utility tracks and monitors the eligibility of customer accounts for CAPP assistance.
 - C. Obtain an understanding of how the energy utility applies the "Waterfall" method for disbursing CAPP benefits to eligible customer accounts.
 - D. Request and obtain documentation demonstrating that the accuracy of system data and underlying controls are periodically tested or assessed.
 - E. Assess risk associated with information systems.
2. To obtain an understanding of the energy utility's internal controls, the third-party CPA firm will:
 - A. Request and obtain copies of documented policies and procedures related to the governance of the CAPP program.
 - B. Obtain an understanding of the processes used by the energy utility to track, monitor, and compile related information needed to complete various CAPP reporting submissions to CSD.
3. In performing an assessment of the energy utility's internal controls, the third-party CPA contractor will:
 - A. Document the controls for each subject area which includes the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
 - B. Corroborate at least one control for each subject area to determine if the control was designed and implemented properly.
 - C. Test internal controls over the CAPP Utility Survey and all necessary data and information obtained to support the energy utility's request for CAPP funding to validate its reasonableness.
 - D. Conduct testing of select key internal controls over each subject area.

Testing CAPP Program Compliance (Objectives)

The third-party CPA firm will seek to achieve the following objectives when testing energy utility compliance with CAPP General Terms and Conditions and CAPP benefit disbursement requirements:

Objective 1 – Confirm the arrearage amount and the CAPP benefit applied to customer accounts are accurate.

- Procedures:
 - The Auditor will request and obtain a listing of customers identified as receiving CAPP funding.
 - The Auditor will select a sample of CAPP customer accounts to verify the arrearages were calculated correctly.

Objective 2 – Confirm CAPP benefits were posted to customer accounts in accordance with timeframes specified in GTCs and formal guidance issued by CSD.

- Procedures:
 - The Auditor will select a sample of customer accounts and verify the benefits are posted within the applicable deadline.

Objective 3 – Confirm customer accounts remained active, and service was not discontinued for 90 days after applying a CAPP benefit.

- Procedures:
 - The Auditor will request and obtain a listing of customers identified as receiving a CAPP benefit.
 - The Auditor will select a sample of CAPP customer accounts to verify they remained active, and service was not discontinued.

Objective 4 – Confirm payment plans were offered for any customer accounts with remaining balances and that late fees and penalties were waived.

- Procedures:
 - The Auditor will request and obtain a listing of customers identified as receiving a CAPP benefit.
 - The Auditor will select a sample of CAPP customer accounts to verify payment plans were offered for any customer accounts with remaining balances and that late fees and penalties were waived.

Objective 5 – Confirm any variance between the survey report conducted by the energy utility and the final closeout report based on the customer priority categories.

- Procedures:
 - The Auditor will request, obtain, and review the survey report conducted by the Utility Applicant.
 - The Auditor will request and obtain a listing of customers identified as receiving a CAPP benefit.

Objective 6 – Confirm the energy utility followed the methodology outlined by CSD in program notices and applications to prorate CAPP funds if the CAPP funding is not sufficient to meet the needs of customers.

- Procedures:
 - The Auditor will request, obtain, and review program notices, applications, and guidelines from CSD related to the CAPP "Waterfall" process.
 - The Auditor will request and obtain a listing of customers identified as receiving a CAPP benefit.

Objective 7 – Confirm the energy utility remitted unapplied CAPP funds to CSD.

- Procedures:

- The Auditor will request and obtain a report of total CAPP funds received, expended, and unapplied.
- The Auditor will request and obtain documentation (financial system or bank records) verifying unapplied funds were remitted, if applicable.

Conclusion of Audit

At the conclusion of fieldwork, the third-party CPA contractor will:

1. Conduct a closeout meeting with the energy utility to discuss the factual nature of documentation underlying any exceptions and obtain an understanding of the energy utility's agreement or disagreement with preliminary exceptions.
2. Develop and issue a draft management representation letter to the energy utility for review.
3. Conduct an exit conference that includes participants from the energy utility, CSD and the third-party CPA contractor.
4. Obtain a signed management representation letter.
5. Issue a Final Audit Report to CSD.

Upon CSD's receipt of the Final Audit Report CSD will:

1. Follow-up with the energy utility on any issues identified in the Final Audit Report, if needed.
2. Provide a final closure letter to the energy utility on the outcome of the program compliance audit.

If you have questions or need additional guidance regarding CAPP, please contact CSD at CAPP@csd.ca.gov.

Sincerely,



DAVID SCRIBNER
Director