



General Order (GO) 156 EXAMINATION

Southern California Edison Company

For Year Ended December 31, 2017

Utility Audits Branch
February 19, 2020



**Thanks to:
Angie Williams, Kevin Nakamura and Stanton Puck**

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EXECUTIVE SUMMARY

This report presents the results of an examination conducted by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) pursuant to Public Utilities Code (PU Code) Section 314, CPUC Decision (D.) 11-05-019, Ordering Paragraph (OP) 3, and General Order (GO) 156, Section 9.1.10. The purpose of the examination was to determine whether Southern California Edison Company (SCE) complied with General Order (GO) 156's reporting requirements when reporting its diverse procurement for the period January 1, 2017 to December 31, 2017.

SCE's management is, among other things, responsible for compliance with the requirements of: (1) the CPUC; (2) GO 28, which sets forth the CPUC's rules on the preservation of utility records; (3) D.11-05-019, in which the CPUC amended GO 156; and GO 156, which sets forth the CPUC's requirements governing the development of programs designed to increase the participation of diverse suppliers in the CPUC-regulated utilities' procurement and the utilities' annual reporting thereon.

UAB conducted this regulatory compliance examination of SCE's reporting on its 2017 diverse supplier procurement pursuant to, but not limited to, PU Code Sections 314.5, 581, 582, and 584 which state that the CPUC has statutory authority to inspect and audit the books and records of the utilities to ensure that ratepayers' money is well spent. Specific rules and regulations pertinent to this examination are included in **Appendix A**.

Based on our examination, the diverse supplier procurement amounts reported by SCE for the year ended December 31, 2017, demonstrated compliance, in all material respects, with the aforementioned reporting requirements specified in GO 156.

EXAMINATION REPORT

BACKGROUND

In the mid-1980s, the California Legislature passed Assembly Bill (AB) 3678 to encourage that a fair proportion of total utility contracts for products and services be awarded to women-owned business enterprises (WBE) and minority-owned business enterprises (MBE). Subsequently, the California Public Utilities Commission (CPUC) developed and adopted General Order (GO) 156 in 1986 to establish the Supplier Diversity Program framework and guidelines in order to implement the statutes enacted by the California Legislature and codified in Public Utilities Code (PU Code) Sections 8281-8285. On June 3, 1992, the CPUC issued Decision (D.) 92-06-030 which amended GO 156 to add disabled veteran-owned business enterprises (DVBE) into the Supplier Diversity Program.

On May 5, 2011, the CPUC issued D.11-05-019 to reaffirm its support of the policy goals of GO 156 and made several changes and amendments to the GO 156, including but not limited to:

- (1) Electronic filing of the GO 156 annual reports.
- (2) Separate reporting of electric procurement spending.
- (3) Reporting of the total number of WMDVBE that received direct spend in a reporting period.
- (4) Reporting of amounts spent by utilities on technical assistance.
- (5) Periodic random audits of the GO 156 reports.

Then on September 26, 2014, the Governor of California signed AB 1678, which further amended PU Code Sections 8281-8285 to expand the provisions to include lesbian, gay, bisexual, or transgender business enterprises (LGBTBE) and enacted PU Code Section 8286. On June 11, 2015, the CPUC issued D.15-06-007 to implement AB 1678 by amending GO 156 to include lesbian, gay, bisexual and/or transgender (LGBT)-owned business enterprises (LGBTBE).

Under existing GO 156, the CPUC's Supplier Diversity Program encourages energy, telephone, and water companies under its jurisdiction to procure goods and services from WBEs, MBEs, DVBEs, and LGBTBEs (collectively known as WMDVLGBTBE) and oversees a certification clearinghouse (the Supplier Clearinghouse).¹ The CPUC's Supplier Diversity Program also encourages the utilities to purchase at least 21.5 percent of their procurement from WMDVLGBTBEs: 15 percent from MBEs, 5 percent from WBEs, and 1.5 percent from DVBEs. Currently, there is no percentage target for LGBTBEs.

Pursuant to PU Code Section 8283, it requires each participating utility with gross annual revenues exceeding twenty-five million dollars (\$25,000,000) to report annually to the CPUC on its WMDVLGBTBE procurement performance and plans for future improvements. This requirement is further reiterated in GO 156 Section 9. The intent of the annual reports is to provide the CPUC with information on the utilities' diversity procurement performance, progress in meeting their short-, med-, and long-term supplier diversity goals, and future program enhancement plans.

¹ GO 156, Section 1.3.22: Clearinghouse is a CPUC-supervised program that verifies women-, minority-, disabled veteran-, and LGBT-owned business' status and maintains a database of WMDVLGBTBEs for the use by utilities and CPUC (www.thesupplierclearinghouse.com).

SCE filed its 2017 Supplier Diversity Annual Report with the CPUC in March 2018 pursuant to GO 156 Section 9. In its Annual Report, SCE reported over \$1.7 billion of WMDVLGBTBE purchases out of approximately \$3.9 billion in total procurement. The following table illustrates the Supplier Diversity annual results by ethnicity, as reported by SCE on page 9, Table 9.1.2 of its 2017 Annual Report.

**Table 1
2017 Supplier Diversity Results as Reported by SCE**

SUMMARY OF PURCHASES AND/OR CONTRACTS (9.1.2)

WMDVLGBTBE Annual Results by Ethnicity						
			Direct	Sub	Total \$	%
1.	Minority Male	Asian Pacific American	\$156,636,040	\$32,273,808	\$188,909,848	4.81%
2.		African American	\$107,966,356	\$1,487,572	\$109,453,928	2.79%
3.		Hispanic American	\$368,553,248	\$67,665,477	\$436,218,724	11.11%
4.		Native American	\$78,974,944	\$4,340,784	\$83,315,728	2.12%
5.		Total Minority Male	\$712,130,587	\$105,767,641	\$817,898,228	20.83%
6.	Minority Female	Asian Pacific American	\$14,102,526	\$53,285,173	\$67,387,699	1.72%
7.		African American	\$26,928,920	\$41,885	\$26,970,805	0.69%
8.		Hispanic American	\$138,128,291	\$31,623,781	\$169,752,072	4.32%
9.		Native American	\$254,188	\$245,156	\$499,344	0.01%
10.	Total Minority Female	\$179,413,924	\$85,195,995	\$264,609,920	6.74%	
11.	Total Minority Business Enterprise (MBE)		\$891,544,512	\$190,963,636	\$1,082,508,147	27.57%
12.	Women Business Enterprise (WBE)		\$463,430,672	\$118,644,028	\$582,074,700	14.82%
13.	Lesbian, Gay, Bisexual, Transgender Business Enterprise (LGBTBE)		\$1,086,107	\$0	\$1,086,107	0.03%
14.	Disabled Veteran Business Enterprise (DVBE)		\$38,856,284	\$19,867,363	\$58,723,647	1.50%
15.	Other 8(a)*		\$0	\$0	\$0	0.00%
16.	TOTAL WMDVLGBTBE		\$1,394,917,574	\$329,475,027	\$1,724,392,601	43.92%
17.	Procurement**		\$3,926,429,894			

NOTE: *Firms classified as 8(a) of Small Business Administration includes non-WMDVLGBTBE
 **Procurement includes purchase order, non-purchase order and credit card dollars
 Direct-Direct Procurement
 Sub-Subcontractor Procurement
 %-Percentage of Procurement
 Dollars and Percentages reflect rounding difference

SCE reported a total of \$3.1 million in expenditures to administer and manage its Supplier Diversity Program in 2017. SCE utilizes a Cost Center approach in its SAP accounting system to record and track expenses for labor, overheads, memberships, sponsorships, consulting services, and other costs that support its Supplier Diversity Program. The following table shows the Supplier Diversity program expenses as reported by SCE on page 9, Table 9.1.3 of its 2017 Annual Report. The format of the table conforms to the requirement established by the CPUC in D.95-12-045, Attachment A.

**Table 2
SCE 2017 Supplier Diversity Program Expenses**

PROGRAM EXPENSES (9.1.3)	
Expense Category	2017
Wages	\$969,683
Other Employee Expenses	\$113,380
Program Expenses	\$1,294,468
Reporting Expenses	\$494,079
Training	\$1,500
Consultants	\$221,717
Other	\$17,340

SCE uses a variety of software system platforms and resources to administer and implement its Supplier Diversity Program. SCE utilizes a web-based software system platform that provides diverse businesses on-line access to vendor registration, qualification, sourcing and bidding opportunities. SCE also utilizes a proprietary software system to monitor, track and report diverse spend activities. Furthermore, SCE utilizes an independent third-party consultant to review supporting payment documentation to assist in the accurate reporting of WMDVLGBTBE subcontractor purchases in its annual report.

For this examination, UAB judgmentally selected and tested \$179.4 million of SCE's supplier diversity procurement amounts reported in its Supplier Diversity 2017 Annual Report. Specifically, UAB tested a total of \$110,179,767 in Direct purchases and \$69,221,638 in Subcontractor purchases. In the following table, excluding the reported LGBTBE procurement amounts, UAB presents a summary of SCE's procurement amounts and percentages sample-tested by supplier type.

Supplier Type	SCE Reported for 2017	Total Sample Amount Tested	Percentage Tested
MBE (Direct)	\$ 891,544,511	\$ 90,893,207	10%
MBE (Subs)	190,963,636	17,955,681	9%
WBE (Direct)	463,430,672	18,806,797	4%
WBE (Subs)	118,644,028	47,852,429	40%
DVBE (Direct)	38,856,284	479,763	1%
DVBE (Subs)	<u>19,867,363</u>	<u>3,413,528</u>	<u>17%</u>
Total	<u>\$1,723,306,494²</u>	<u>\$179,401,405</u>	<u>10%</u>

In addition, UAB judgmentally selected \$733,245, or approximately 24 percent, of the total \$3.1 million in program expenses reported by SCE in 2017.

² Amount excludes \$1,086,107 in LGBTBE purchases as reported by SCE on page 9, Table 9.1.2 of its 2017 Annual Report.

SCOPE

Based on consultation with and concurrence by the Business and Community Outreach Office of the CPUC's Executive Division, UAB's examination primarily focused on evaluating the accuracy of the supplier diversity procurement amounts that SCE reported on page 9 of its Supplier Diversity 2017 Annual Report. On page 9 of the Annual Report, SCE summarizes its procurement by ethnicity, including whether by prime (Direct \$) or subcontractor (Sub \$), and the relationship of the subtotals by ethnicity to its total WMDVLGBTBE procurement. In addition, UAB reviewed the adequacy of SCE's internal controls and judgmentally selected and tested the reported supplier diversity program expenses in order to verify its relevance to the program and are supported with appropriate documentation.

METHODOLOGY

To determine SCE's compliance with the requirements established in GO 156 and to assess SCE's internal controls over its reporting of diverse procurement purchases, UAB obtained sufficient, appropriate evidence and analyzed it to address the examination objectives. The specific procedures performed during this examination included, but were not limited to, the following:

1. Reviewed GO 156 and relevant amendments.
2. Reviewed applicable CPUC directives and SCE's internal policies and procedures.
3. Reviewed SCE's "*Supplier Diversity 2017/2018 Annual Plan*" filed with the CPUC.
4. Interviewed key personnel at SCE to obtain an understanding of the accounting and reporting processes relating to internal controls.
5. Evaluated SCE's internal controls related to its Supplier Diversity Program.
6. Performed risk assessment pertaining to the examination of the Supplier Diversity Program.
7. Obtained an understanding of SCE's methodology for the recording and reporting of transactions related to its Supplier Diversity Program.
8. Judgmentally selected and verified Direct and Subcontractor expenditures reported for the Supplier Diversity Program to determine the accuracy and legitimacy of those expenditures.
9. Judgmentally selected and verified program expenses charged to the Supplier Diversity Program to determine the accuracy and legitimacy of those expenditures.

CONCLUSION

UAB's examination of SCE's Supplier Diversity Program for the period January 1, 2017 through December 31, 2017 did not detect any material errors when it sampled and tested SCE's procurement data associated with the total amounts shown spent in 2017 for WMDVLGBTBE procurement on page 9 of SCE's 2017 Supplier Diversity Annual Report.

In conducting our examination, UAB obtained a reasonable understanding of SCE's internal controls, which were considered relevant and significant within the context of our examination objectives. UAB does not provide any assurance on SCE's internal control. Deficiencies in internal control that were identified during the examination and determined to be significant were communicated to SCE's management.

SCE's management is responsible for the development of its policies and procedures to ensure that its Supplier Diversity expenditures were reported completely, accurately, and timely. CPUC reviews whether the transactions recorded in the Supplier Diversity Program are supported by appropriate documentation.

The CPUC has statutory authority to inspect and audit the books and records of the utilities to ensure that ratepayers' money is well spent, specifically, pursuant to PU Code Sections 314.5, 581, 582, and 584. UAB conducted the examination of SCE's Supplier Diversity Program for the year ended December 31, 2017 to comply with GO 156 reporting requirements.

UAB determined that SCE has complied, in all material respects, with the recording and reporting requirements for its diverse supplier procurement during the examination period of January 1, 2017 to December 31, 2017.

This report is intended solely for the information and use of the CPUC and SCE and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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cc: Alice Stebbins, Executive Director, CPUC
Stephanie Green, Supervisor, Executive Division
Kevin Nakamura, Supervisor, UAB
Stanton Puck, Auditor, UAB

APPENDIX A Applicable Rules and Regulations

Public Utilities Code (PUC)	Section 314	Provides the CPUC, each Commissioner, and each officer and person employed by the CPUC to inspect the accounts, books, papers, and documents of any public utility at any time.
	8281-8286	Finds and declares the economic benefits of full and free participation by women-, minority-, and disabled veteran-, and LGBT-owned business enterprises in utility procurement.
Decisions (D.)	D.92-06-030	Amended GO 156 to include disabled veteran-owned business enterprises.
	D.95-12-045	Decision established a 1.5 percent goal for Disabled Veteran Business Enterprises (DVBEs) bringing the overall Supplier Diversity goal to 21.5 percent.
	D.11-05-019	Decision made several amendments to GO 156, including but not limited to, electric filing of GO 156 reports, posting of reports on the CPUC website, reporting of amounts spent by utilities on technical assistance, and periodic random audits of the GO 156 reports.
	D.15-06-007	Decision implemented Assembly Bill (AB) 1678 2014 to include lesbian, gay, bisexual, and transgender (LGBT) business enterprises.
General Order (GO)	28	CPUC rules governing the preservation of records of public utilities and common carriers.
	156	Rules governing the development of programs to increase participation of women, minority, disabled veteran, and lesbian, gay, bisexual and transgender (LGBT) business enterprises in procurement of contracts from utilities as required by PU Code Sections 8281-8286.

APPENDIX B

SCE Response

In an email addressed to Angie Williams, Director, Utility Audits, Risk and Compliance Division (UARCD), on February 12, 2020, SCE stated that “SCE has reviewed the CPUC’s SCE General Order (GO) Draft Examination report and has no comments.”

APPENDIX C

Evaluation of Response

UARCD did not have any response to evaluate since SCE did not have any comment to UARCD's draft report dated January 29, 2020.