

Final Audit Follow-Up

As of March 31, 2016



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Audit of City Utility Rebate Programs

(Report #1608 issued February 24, 2016)

Report #1610

April 21, 2016

Summary

Customer Programs (formerly Utility Customer Operations) has taken appropriate steps to update rebate processing procedures to strengthen controls over the utility rebate programs.

This is the first and final follow-up of the Audit of City Utility Rebate Programs, Report #1608, issued February 24, 2016. The scope of the original audit focused on Energy Star (ES), HVAC (heating, ventilation, and air conditioning), and Natural Gas (NG) rebate activity for the 32-month period January 1, 2013, through August 31, 2015. In audit report #1608, we concluded Customer Programs effectively administered the rebate programs for the period covered. Specifically, we concluded ES, HVAC, and NG rebates were properly paid and supported, and issued only for qualifying appliance/equipment purchases in accordance with established rebate criteria. Additionally, we identified no instances in which Customer Programs disbursed improper rebates to customers.

Notwithstanding that conclusion, during the original audit we identified one issue for which improvements were needed. We determined Customer Programs' documented rebate procedures did not always reflect actual rebate processing practices. The use of outdated procedures increases the risk of improper and/or inconsistent processing of rebates. Accordingly, in audit report #1608 we recommended that Customer Programs management periodically review and update rebate procedures to help ensure compliance with rebate processing requirements and good business practices. Five action plan steps were developed and address the need to revise documented rebate processing procedures to:

- Give the rebate supervisor the authority to grant an extension to the 90-day rebate application cutoff date for ES and HVAC rebates.

- Authorize all applicable rebate staff to approve ES rebates for pool pumps.
- Specify the exceptions to proof of purchase documentation requirements for ES, HVAC, and NG rebates.
- Eliminate the requirement for recording the adjustment identification number(s) on rebate applications; or, alternatively, remind Customer Programs rebate staff to ensure the adjustment identification number(s) are recorded on all rebate applications when paid.
- Provide for a supervisory review of all rebates.

The five above-identified action plan steps were due for completion as of March 31, 2016. All five action plan steps were completed by Customer Programs on February 16, 2016. Moreover, management voluntarily took additional steps to expand rebate procedures to incorporate more detailed language regarding the proper segregation of rebate processing duties. Adequate segregation of duties mitigates the risk that intentional and unintentional errors could be made and concealed from timely detection. We commend Customer Programs management for the prompt completion of the action plan steps and for the added effort to develop more robust rebate procedures.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our

findings and conclusions based on our audit follow-up objectives.

Original Audit Report #1608

The scope of audit report #1608 focused on ES, HVAC, and NG rebate activity for the 32-month period January 1, 2013, through August 31, 2015.

The objectives of the audit were to determine whether:

- City utility rebates disbursed to residential and commercial customers were accurate and properly supported, and issued only for qualifying energy efficient equipment, in accordance with applicable Customer Programs criteria.
- Adequate controls are in place and functioning to prevent and detect rebate errors, fraud, and abuse by customers and employees.

Various audit procedures were conducted to meet the stated audit objectives.

Follow-Up Report #1610

This is our first and final follow-up on action plan steps identified in audit report #1608. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion as of March 31, 2016. To determine the status of the action plan steps, we inquired of staff and reviewed relevant documentation.

Background

Overview. As part of its Demand Side Management programs which promote energy conservation, the City of Tallahassee (City) through its Customer Programs division offers utility rebates to residential and commercial customers who make energy efficient improvements. Those improvements include purchasing energy efficient electric appliances, replacing HVAC systems with new systems that meet minimum energy efficiency standards, and converting appliances from electric to natural gas. Specifically, the City offers rebates for qualifying ES, HVAC, and NG appliance and equipment purchases.

The City issued approximately 8,000 utility rebates between January 1, 2013, and August 31, 2015, with rebate disbursements totaling nearly \$2.1 million during that period. ES rebates accounted for the majority of the number of rebates issued, while NG rebates accounted for the majority of rebate dollars

expended. The Electric Utility funds the ES and HVAC rebate programs, while the Electric and Underground Utilities jointly fund the NG rebate program.

ES Rebates. ES appliance rebates are available to any residential or commercial (residential-grade appliances only) City electric customer who purchases a qualifying new ES-certified appliance that meets the energy efficiency requirements instituted by the U.S. Environmental Protection Agency. Qualifying ES-certified appliances include dishwashers, refrigerators, freezers, clothes washers, and pool pumps. ES appliance rebate amounts range from \$40 to \$200.

HVAC Rebates. HVAC rebates are available to or on behalf of any residential or commercial (residential-grade equipment only) City electric customer who purchases a qualified new heating or cooling system. Qualifying HVAC equipment includes air conditioners, heat pumps, and water heaters (heat pump style) that meet the City's minimum energy efficiency standards. For a customer to receive a rebate, an installation permit and a final passed inspection must be obtained from the City's Growth Management Department (or the appropriate county building inspection agency) for all installed HVAC equipment. HVAC equipment rebate amounts range from \$100 to \$750.

NG Rebates. The City offers NG rebates to or on behalf of existing City residential and commercial NG customers, as well as to those customers in the process of connecting to the City's NG system who purchase a qualified NG appliance. Residential customers may receive rebates for the conversion from electric to new NG appliances or for the replacement of existing NG appliances; these qualifying NG appliances include water heaters (tank or tankless style), furnaces, ranges/stoves, dryers, fire logs, grills, pools/spa heaters, and gas lights. Only water heater rebates are offered to commercial customers. As with HVAC equipment, there are permit and inspection requirements for installed NG equipment. NG rebate amounts range from \$50 to \$700.

Double Rebates. Periodically, the City offers double rebates as a way to further stimulate the local economy and drive business to area contractors. For a designated period the traditional rebate amounts are doubled for qualifying ES, HVAC, and NG appliance/equipment purchases. Between January 1, 2013, and August 31, 2015, double rebates constituted 21% of the total number of rebates (i.e., single and double rebates) issued for the period. In terms of

rebate disbursements, double rebates accounted for 25% of the total value of all rebates issued (approximately \$2 million) during the same period.

stronger controls could help mitigate the risk of intentional and unintentional rebate errors. Customer Programs has established rebate procedures that detail the review, approval, and payment process for ES, HVAC, and NG rebates. In the original report, we reported Customer Programs’ documented procedures did not always reflect actual rebate processing practices. To enhance and strengthen existing procedures and practices, we recommended Customer Programs management periodically review documented procedures for the rebate process, updating them to reflect actual rebate practices.

Previous Conditions and Current Status

In audit report #1608, we concluded Customer Programs effectively administered the utility rebate programs for the 32-month period January 1, 2013, through December 31, 2015. Our audit disclosed ES, HVAC, and NG rebates were properly paid and supported, and issued only for qualifying appliance/equipment purchases in accordance with established rebate criteria. Additionally, we identified no instances in which Customer Programs disbursed improper rebates to customers. However, we identified one area for improvement for which

Five action plan steps were developed to address the identified issue, and all five steps were due for completion no later than March 31, 2016. As shown below in **Table 1**, as of the end of our follow-up fieldwork, all five steps had been completed.

**Table 1
Action Plan Steps from Audit Report #1608
Due as of March 31, 2016, and Current Status**

Action Plan Steps Due as of March 31, 2016	Current Status
<i>Ensure rebate procedures reflect actual rebate practices.</i>	
<ul style="list-style-type: none"> • Rebate procedures will be updated to give the rebate supervisor the authority to grant an extension to the 90-day rebate application cutoff date for ES and HVAC rebates. 	<ul style="list-style-type: none"> ✓ ES rebate procedures were updated to allow the rebate supervisor to approve a rebate if the rebate application is received more than 90 days after the purchase of the appliance, provided the appliance is ES-certified. HVAC rebate procedures were also updated to allow the rebate supervisor to approve a rebate if the rebate application is received more than 90 days after the purchase or final inspection of the equipment. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Rebate procedures will be updated to authorize all applicable rebate staff to approve ES rebates for pool pumps. 	<ul style="list-style-type: none"> ✓ ES rebate procedures were updated to authorize all applicable staff (i.e., no longer one exclusive employee) to approve ES rebates for pool pumps by using the www.energystar.gov website to verify the ES certification of the pool pumps. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Rebate procedures will be updated to specify the exceptions to proof of purchase documentation requirements for ES, HVAC, and NG rebates. 	<ul style="list-style-type: none"> ✓ ES, HVAC, and NG rebate procedures were updated to delineate exceptions to proof of purchase documentation requirements for all rebates. Our review of those exceptions showed the alternate forms of proof of purchase documentation acceptable by Customer Programs are reasonable in that they require either confirmation of appliance/equipment delivery or proof of equipment inspection. Accordingly, this step has been completed.

Action Plan Steps Due as of March 31, 2016	Current Status
<ul style="list-style-type: none"> • Rebate procedures will be updated to eliminate the requirement for recording the adjustment identification number(s) on rebate applications; or Customer Programs rebate staff will be reminded to ensure the adjustment identification number(s) are recorded on all rebate applications when paid. 	<ul style="list-style-type: none"> ✓ ES, HVAC, and NG rebate procedures were updated to include the requirement for recording the adjustment identification number(s) (as well as the adjustment date and initials of the individual who completed the adjustment) on rebate applications. Additionally, procedures were updated to require the rebate supervisor to review each adjustment in the PeopleSoft Customer Information System for the accuracy of rebate amount and adjustment type. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Rebate procedures will be updated to provide for a supervisory review of all rebates. 	<ul style="list-style-type: none"> ✓ ES, HVAC, and NG rebate procedures were updated to provide that the rebate supervisor review each rebate, initialing and dating rebate applications to document the review. Accordingly, this step has been completed.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and action completed.

Conclusion

Table 1 above shows each of the five action plan steps established to address issues identified in our original audit and due for completion by March 31, 2016, has been completed.

We appreciate the assistance and cooperation provided by Customer Programs during this follow-up engagement.

Appointed Official's Response

City Manager:

I am pleased that all of the action items have been addressed. These actions will serve to improve a program that greatly benefits our community by reducing energy usage and lowering bills. I would like to thank the Auditor for his thorough review and follow-up of the program.

Copies of this audit follow-up #1610 or audit report #1608 may be obtained from the City Auditor's website (<http://www.tal.gov.com/auditing/AuditingHome.aspx>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@tal.gov.com).

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