



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

- **Internal Audit Report for June 2004**

Summary

- **Commercial, Industrial and Institutional Fixture Retrofit Rebate Program Process and Controls Report**
 - **State Audit Report**
-

Detailed Report

This report highlights significant activities of the Audit Department during June 2004. In addition to identifying the opinions expressed in the Audit Report, background information and a discussion of findings noted during the review are presented.

Commercial, Industrial and Institutional Fixture Retrofit Rebate Program Process and Controls Report

Opinion

In our opinion, the accounting and administrative procedures over the Commercial, Industrial and Institutional (CII) Rebate Program include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period July 1, 2001 through March 31, 2004.

Background

The Commercial, Industrial and Institutional Fixture Retrofit Rebate Program's objective is to promote water conservation by providing rebates up to \$2,000 for the installation of water-conserving fixtures within member agencies' service areas. The program is designed to give rebates for the installation of fixtures such as ultra low-flush toilets, high-efficiency cooling tower controllers, commercial clothes washers and X-ray processors. Targeted customers include hotels, restaurants, office buildings and commercial businesses, as well as schools, hospitals and government facilities. This program is funded jointly by Metropolitan and six-member agencies, while participation has included all member agencies with the exception of San Fernando and San Marino.

This program is administrated by Honeywell DMC Services LLC and is known as the "Save Water Save a Buck" promotion. Honeywell's contract, which is for \$7.9 million, also includes the "Rinse and Save" Program (a separate water conservation program), which was not included within the scope of this audit. In addition to this outside program administrator, Metropolitan also has contracted with ConserVision to verify the installation of the water-conserving fixtures at customer facilities. As of March 31, 2004, the CII Rebate Program has paid \$6.6 million for the "Save Water Save a Buck" Program and \$2,000 to ConserVision for their verification services.

Comments and Recommendations

Comments were noted in the areas of rebate applications and in the development of written administrative procedures related to the CII Rebate Program. However, we understand that the CII Rebate Program was a pilot program that required the development of processing procedures and the establishment of documentation and reporting standards. We encourage management to complete these efforts.

Specific comments and recommendations are summarized below.

Rebate Processing

Honeywell reviews applications for rebates for completeness, accuracy, and adequacy of supporting documentation prior to processing.

We noted that rebate applications did not always include the necessary information or adequate documentation to support the rebate. Examples include customers' address or shipping destination and suppliers invoices.

We recommend that Metropolitan's Program management and Honeywell discuss methods to effectively communicate documentation requirements to prospective customers and process rebates only for complete and adequately documented applications. We further recommend that management review the rebate application to ensure that it includes all necessary information.

Rebate Processing and Billing Guidelines

Written rebate processing procedures should be established to provide a framework for achieving CII Rebate Program goals and to satisfy Metropolitan's water conservation objectives. Agreements with Honeywell and ConserVision require Metropolitan to make payment within thirty-five days after the receipt of a properly prepared and complete invoice.

During our review, we noted that Honeywell does not have written procedures for processing rebates. Specifically, we noted the lack of guidelines for determining the adequacy of supporting documentation, eligibility for rebated equipment under lease, and the qualification of certain brands or models. We also noted that invoices submitted by Honeywell did not always include adequate supporting documentation for marketing pass-through expenses or complete billing information in support of the billings. We also noted that Metropolitan did not always pay such invoices on time.

We recommend that Program management, in conjunction with Honeywell, create written guidelines to process rebate requests and establish documentation and reporting standards. We further recommend that Program management perform random testing of rebate payments to ensure compliance with these guidelines. Finally, we recommend that management establish procedures to ensure prompt payment to vendors.

Installation Verification and Inspection/Interview Results

Metropolitan's agreement with ConserVision requires establishing written procedures to verify the installation of water conserving fixtures, prepare periodic reports on program results, and report problems or issues identified for resolution.

During our review, we noted that Metropolitan has not established written procedures to verify installed fixtures. We also noted that ConserVision has not developed selection, verification, and reporting procedures. Specifically, our review of ConserVision inspection reports revealed uninstalled equipment, unknown contact person, and an unpaid rebate application.

We recommend that Program management and ConserVision establish a target date for the completion of written procedures to verify installed water conserving fixtures.

Rebate Billing to Member Agencies

Metropolitan has entered into agreements with six member agencies to co-fund the Program. During our testing of rebate billings to participating member agencies, we noted that billings were not always sent to

member agencies on a timely basis. Specifically, we noted billings issued to member agencies three to four months after payment was made to Honeywell for rebates processed.

We recommend that Program management establish procedures to ensure timely reimbursement of program costs from participating member agencies.

State Report

State report action items status, to be distributed the day of the Board of Directors meeting.