

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 4/1/2014	(3) CONTACT/PHONE Jim Erb 781-5831; Kerry Bailey 788-2979	
(4) SUBJECT Submittal of a compliance audit of the Los Osos Water Conservation Rebate Program. District 2.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review and file the Los Osos Water Conservation Rebate Program compliance audit report and Public Work's response.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input type="checkbox"/> Board Business (Time Est. ___)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) District 2 -			

County of San Luis Obispo



TO: Board of Supervisors
FROM: James Erb, CPA, Auditor - Controller - Treasurer - Tax Collector
DATE: 4/1/2014
SUBJECT: Submittal of a compliance audit of the Los Osos Water Conservation Rebate Program. District 2.

RECOMMENDATION

It is recommended that the Board receive, review and file the Los Osos Water Conservation Rebate Program compliance audit report and Public Work's response.

DISCUSSION

The Auditor-Controller-Treasurer-Tax Collector-Public Administrator was approached by County Counsel, Public Works, and the Administrative office to review a concern regarding the Los Osos Water Conservation Rebate Program. In response to the concern an audit was initiated to determine whether the rebate program was being administered in accordance with program guidelines and if the rebates were accurate and eligible for the rebate program.

Public Works developed an adequate process for tracking and reviewing properties, fixtures, and rebate applications; however, some errors were found in the database which raised questions as to rebate eligibility. Additionally, Public Works staff's well-intentioned goal of issuing rebates to homeowners within ten days of receipt of the application created an environment which limited critical review of the rebate applications.

As a consequence, rebate applications were approved which should have raised concerns regarding their accuracy and eligibility for the rebate program. Our testing identified \$4,869 (3%) of rebates which were questionable. The majority of the questionable applications were submitted for work done by a single plumbing company which was responsible for \$2,952 (61%) of the questionable rebates. The attached Los Osos Water Conservation Rebate Program compliance audit report details our observations and recommendations along with Public Works' responses. Public Works has also provided additional comments included in the attached departmental response.

Auditing standards require a follow-up process to monitor and ensure that management actions have been effectively implemented or that management has accepted the risk of not taking action. Accordingly, we will perform a follow-up audit of the Los Osos Water Conservation Rebate Program to monitor Public Works' implementation of our recommendations.

OTHER AGENCY INVOLVEMENT/IMPACT

Public Works, Planning and Building, County Counsel, Administrative Office.

FINANCIAL CONSIDERATIONS

Public Works issued rebates totaling \$502,055 between October 23, 2012 and October 16, 2013.

RESULTS

Performing compliance audits provides oversight and accountability of funds and contributes to the County's vision of a well governed community.

ATTACHMENTS

1. Los Osos Water Conservation Rebate Program Report
2. Public Works Response



COUNTY OF SAN LUIS OBISPO
AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

**Los Osos Water Conservation Rebate Program
Compliance Audit**

March 2014

JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

TO: PAAVO OGREN, PUBLIC WORKS DIRECTOR

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR 

DATE: MARCH 5, 2014

SUBJECT: LOS OSOS WATER CONSERVATION REBATE PROGRAM COMPLIANCE AUDIT

Our office recently completed a compliance audit of the Los Osos Water Conservation Rebate Program (Rebate Program). We have included Public Works' responses to our findings in the report below. Should you wish to provide any additional information please do so within 10 business days of receiving this report.

Summary

The Auditor-Controller-Treasurer-Tax Collector-Public Administrator was approached by County Counsel, Public Works, and the Administrative office to review a concern regarding the Los Osos Water Conservation Rebate Program. In response to the concern a compliance audit was initiated to determine whether the rebate program was being administered according to program guidelines and if the rebates were accurate and eligible for the rebate program.

To monitor the rebate program, Public Works (PW) created and maintained a database detailing fixtures for each property, rebates authorized, and the plumbers associated with the rebates. Our procedures included interviewing Public Works staff, and reviewing supporting documentation and the Public Works database for rebates paid. Public Works database records indicate that 1,090 rebates totaling \$502,055 were issued between October 23, 2012 and October 16, 2013.

Public Works developed an adequate process for tracking and reviewing properties, fixtures, and rebate applications; however, some errors were found in the database which raised questions as to rebate eligibility. Additionally, Public Works staff's well-intentioned goal of issuing rebates to homeowners within ten days of receipt of the application created an environment which limited critical review of the rebate applications.

As a consequence, rebate applications were approved which should have raised concerns regarding their accuracy and eligibility for the rebate program. We tested 33% of all rebates issued, 359 rebates totaling \$177,715. Our testing identified \$4,869 (3%) of rebates which were questionable. The majority of the questionable applications were submitted for work done by a single plumbing company which was responsible for \$2,952 (61%) of the questionable rebates.

Public Works staff should request additional supporting documentation from the plumbers for the questioned items identified in our testwork and summarized in the table below. If the proper documentation is not available or confirmable, the plumbers should be required to refund amounts determined to be ineligible for rebate to the Water Conservation Rebate Program.

Plumber	Actual Rebate Amount	Auditor estimated rebate amount	Rebates in Question
B	\$460	\$190	\$270
C	\$885	\$805	\$80
E	\$255	\$250	\$5
F	\$150	\$0	\$150
G	\$500	\$0	\$500
J	\$320	\$10	\$310
K	\$446	\$94	\$352
M	\$9,072	\$6,120	\$2,952
N	\$500	\$250	\$250
Total	\$12,588	\$7,719	\$4,869

Lastly, Public Works should suspend any plumbing contractors that they believe displayed gross negligence in submitting rebate applications from participation in the program.

Additional details of our test results, findings and recommendations continue below.

Purpose

The purpose of our audit was to determine whether rebate program applications were accurate and eligible for the rebate program.

Scope & Methodology

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function is subject to a program of quality assurance; and that the results of the engagements are communicated to management.

The methodology for our audit included five tests:

1. A comparison of rebated fixtures, including, toilets, showerheads, faucet aerators, and washing machines replaced by plumbers against fixtures documented by Public Works (PW) staff on the Water Conservation Checklist during a pre-inspection. We also compared the rebated fixtures to those recorded in the PW database.

2. A comparison of fixtures rebated against fixtures documented on the Title 8: Retrofit Verification forms filed with the Planning department.
3. A comparison of rebates given where either three or more toilets or three or more showerheads were rebated with the number of bathrooms on record with the Assessor's office.
4. A comparison of a random sample of rebates with the supporting documentation for the rebates.
5. A comparison of rebates where the fixtures were both pre and post-inspected by Public Works staff.

Results

Test 1: Rebates for fixtures pre-inspected by Public Works and replaced by plumbers

We tested 77 Public Works pre-inspected homes to their corresponding rebates. Of the 77 rebates, we found 18 (23%) rebates with one or more issues. Public Works did not document explanations when rebates were approved that varied from pre-inspections.

- For 11 of the 18 rebates we noted that the fixture information on the PW pre-inspection Water Conservation Checklist completed by Public Works' staff did not agree to the fixture information in the PW database.
- We found instances on 13 of the 18 rebates where the number of fixtures on the rebate application was greater than the amount recorded in the PW database.

Based on our comparison of the rebate forms to the PW pre-inspection Water Conservation Checklists, \$1,785 of approved rebates were questionable. The following is a summary of questionable rebates by number of households replacing fixtures:

# of Households	Fixture	Max rebate amount each	Rebates in Question
1	Toilets	\$250	\$250
10	Showerheads	\$40	\$1,240
8	Aerators	\$5	\$145
1	Washers	\$150	\$150
		Total	\$1,785

Test 2: Rebates for fixtures documented on Title 8: Retrofit Verification Forms

We reviewed 19 additional rebates for which the PW database indicated a Title 8 Retrofit had been performed prior to the rebate application being submitted.

- Of the 19 rebates, the Planning and Building Department was unable to provide Title 8 Retrofit documentation to perform our testwork in 3 (16%) cases.
- Of the remaining 16 cases, we found 8 (50%) rebates with one or more issues.

- We found one instance where an owner submitted a rebate application for fixtures that had two months earlier been replaced by a different plumber. The second rebate contained both eligible and ineligible fixtures. Public Works rejected the entire rebate request.
- We found one instance where the number of fixtures on the rebate application was greater than the amount recorded in the PW database.

We identified 7 (44%) instances where it appears that the plumber replaced fixtures that had previously been replaced in the Title 8 retrofit program, and rebates were then issued for these fixtures for a total of \$2,584. The following is a summary of questionable rebates by number of households replacing fixtures:

# of Households	Fixture	Max rebate amount each	Rebates in Question
5	Toilets	\$250	\$2,352
4	Showerheads	\$40	\$232
	Total		\$2,584

Test 3: Rebates for fixtures compared to Assessor's records

We reviewed 81 rebates where either three or more toilets or three or more showerheads were rebated. For these rebates we used Assessor information to obtain the property details regarding the number of bathrooms, and we compared this information against the rebates. Although differences were noted, we recognize that Assessor records would not include any unpermitted bathrooms which probably exist given a multi-decade building moratorium in Los Osos.

The following is a summary of differences between the water conservation rebate applications and the Assessor's records by number of households replacing fixtures:

# of Households	Fixture	Max rebate amount each	Differences
10	Toilets	\$250	\$2,500
12	Showerheads	\$40	\$480
	Total		\$2,980

Test 4: Rebates for fixtures compared to supporting documentation for the rebates

We randomly selected 122 (25%) rebates for which Plumber M performed the retrofit and 35 (10%) rebates for which other plumbers performed the retrofit. We reviewed the supporting documentation for the rebates for accuracy and retrofit compliance.

In our review of the 122 rebates associated with Plumber M we noted the majority of rebates were approved based on plumber invoices which either did not identify fixture costs or which listed the maximum rebate allowed as the fixture cost. Although program guidelines adopted

by the Board of Supervisors do not require plumbers to itemize fixture costs, Public Works had modified the rebate form to state that reimbursements would not exceed fixture costs. Additionally, for 34 of the 122 rebates (28%) it appeared Invoices and applications were filled out prior to the installer performing the work, which raised auditor concerns regarding the accuracy of the rebates.

We also identified 3 rebates (2%) with additional issues including:

- One rebate where, according to the rebate application, the aerators removed from the home (2) were fewer than the aerators installed (3).
- Two rebates were submitted for the same fixtures in the same residence with different dates. The second rebate application was rejected by Public Works staff.
- One rebate where aerator replacement was not included on the invoice; however, two aerators were included on the application and a rebate was issued for them.

Test 5: Rebates for fixtures pre and post-inspected by Public Works

We reviewed 25 rebates where the Public Works database identified Public Works staff as performing a pre-inspection and then also verifying the completed retrofit work. Of the 25 rebates reviewed, we identified:

- 1 rebates (4%) where the pre-inspection form was incomplete
- 2 rebates (8%) where there was no documentation of a pre-inspection
- 4 rebates (16%) where there was no documentation of a post-inspection verifying the completed retrofit work
- 10 rebates (40%) where the information in the database did not agree with the supporting documentation.

We also identified 2 (8%) rebates that were questionable totaling \$500. The following is a summary of questionable rebates by household:

# of Households	Fixture	\$ each	Rebates in Question
2	Toilets	\$250	\$500
		Total	\$500

Findings & Recommendations

1. Unclear Documentation and Inaccurate Public Works database information

As discussed in the Test 1 section above, we found that in a number of cases, the Public Works database information did not agree to the supporting Pre-Inspection Water Conservation Checklist and/or the Pre-Inspection Water Conservation Checklist was incomplete. The ability to confidently judge data on the rebate applications is contingent on the reliability of the PW database. Staff stated that the incompleteness of the forms and inaccuracy of the database information was due to lack of staff continuity. When the PW database is inaccurate the risk of issuing rebates for ineligible fixtures increases.

Recommendation: We recommend that all Pre-Inspection Water Conservation forms be reviewed by a second staff person, and that a sample of data entered into the PW database be reviewed on a routine basis for accuracy and completeness.

Department response:

Public Works agrees with this recommendation and has already implemented the changes.

2. Inadequate Documentation of Questionable Rebate Applications

We found a number of rebate applications whose appearance and content raised concerns about their accuracy and eligibility. These applications were primarily submitted for work done by one plumbing company. Public Works staff noted issues with some of the rebate applications and appropriately denied them; however, a number of questionable applications were approved without staff documenting the reasons for approval when supporting documentation (Pre-inspection or Title 8 forms) conflicted with the rebate application. Public Works staff stated that reviews were sometimes rushed due to the desire to provide homeowners rebate checks within 10 days of receipt of the rebate application. Questionable rebates issued without documentation increase the risk of fraudulent rebate submittals.

Recommendation: We recommend that all rebate applications be carefully reviewed for both accuracy and eligibility. When rebates are approved that vary from available data (Pre-inspection or Title 8 forms), we recommend that sufficient explanation is documented to justify the variance. We also recommend Public Works suspend any plumbing contractors that they believe displayed gross negligence in submitting rebate applications from participation in the program.

Department Response:

Public Works agrees with this recommendation. Variances from supporting documents will be investigated and the reason for the variance will be adequately documented. Public Works will work with County Counsel to consider suspending any plumbing contractors that display gross negligence in submitting rebate applications.

3. Inconsistent Application of Rebate Requirements

Public Works did not require receipts for fixtures submitted for rebate by licensed plumbers. The rebate instruction form states that "rebate reimbursements will not exceed the purchase price of each fixture." This requirement was not part of the procedures adopted by the Board of Supervisors and appears to have been added after the fact by Public Work's staff. According to staff, the requirement of providing receipts was meant for self installations only and not for fixture replacements performed by a license plumber. Inconsistent requirements can create confusion among rebate applicants and make program evaluation difficult.

Recommendation: We recommend Public Works review the rebate application Instructions and align the requirements with those approved by the Board of Supervisors on October 23, 2012 or enforce the qualifications outlined in the Instructions.

Department Response:

Public Works agrees with this recommendation. It was never the intent for plumbers to provide supporting documentation. The purpose of the programs is to install as many water conservation fixtures as possible. Public Works has changed the instructions to comply with the procedures and goals approved by the Board of Supervisors.

4. Rebates Issued based on Questionable Documentation

We identified instances where rebates were issued despite questionable documentation. Public Works staff stated that in instances where a plumber documented a fixture's water flow as greater than that observed by staff or documented on a Title 8 form, the plumber's assessment was considered more accurate, and a rebate was approved in the interest of achieving maximum water conservation. Such reliance could result in fraudulent rebate applications.

Recommendation: In instances where rebate applications differ from supporting documentation (Pre-inspections or Title 8 forms), Public Works should verify the accuracy of the application prior to approving the rebate.

Any rebates identified in our testwork as questionable, and subsequently verified by Public Works as ineligible, should be refunded.

Department Response:

Public Works agrees with the recommendation. In instances where rebate applications differ from supporting documentation (Pre-inspections or Title 8 forms), Public Works will verify the reasons for the difference and, if approved, clearly document why the rebate was approved. Public Works will work with the plumbers to substantiate the questionable rebates identified by the audit, and any rebates deemed ineligible will be requested to be refunded.



SAN LUIS OBISPO COUNTY
DEPARTMENT OF PUBLIC WORKS

Paavo Ogren, Director

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March 18, 2014

MEMORANDUM

TO: James P. Erb, CPA, Auditor-Controller-Treasurer-Tax Collector

FROM: Will Clemens, Department Administrator *WC*

VIA: Paavo Ogren, Director of Public Works *PO*

SUBJECT: San Luis Obispo County Public Works Department - Response to Los Osos Water Conservation Rebate Program Compliance Audit

We would like to thank you and your staff for completing this audit at the request of County Counsel, Public Works, and the Administrative Office in response to a concern we uncovered in the course of managing this program. While the audit only identified questions relating to 3% of the tested rebates, we expect that following your recommendations will improve this even further. Since this is a new program and one unlike any other that we have implemented previously, we expected that recommendations for process improvements would be made, and we plan to implement suggested improvements to the maximum extent practical. We especially appreciate the professionalism of your staff and your leadership on this effort.

Overall, we agree that Public Works needs to do a better job of maintaining the program database as well as documenting the rationale for decisions that may on the surface seem inconsistent with program requirements. We also found that Public Works produced rebate forms that were not consistent with the forms adopted by the Board of Supervisors, and this caused confusion as to what documentation was required to be submitted. We also agree with your recommendations and will follow up as indicated.

As requested, we will respond to the specific findings and recommendations below.

FINDINGS & RECOMMENDATIONS

Recommendation 1:

We recommend that all Pre-Inspection Water Conservation forms be reviewed by a second staff person, and that a sample of data entered into the PW database be reviewed on a routine basis for accuracy and completeness.

Reply:

Public Works agrees with this recommendation and has already implemented the changes.

Recommendation 2:

We recommend that all rebate applications be carefully reviewed for both accuracy and eligibility. When rebates are approved that vary from available data (Pre-inspection or Title 8 forms), we recommend that sufficient explanation is documented to justify the variance. We also recommend Public Works suspend any plumbing contractors that they believe displayed gross negligence in submitting rebate applications from participation in the program.

Reply:

Public Works agrees with this recommendation. Variances from supporting documents will be investigated and the reason for the variance will be adequately documented. Public Works will work with County Counsel to consider suspending any plumbing contractors that display gross negligence in submitting rebate applications.

Recommendation 3:

We recommend Public Works review the rebate application instructions and align the requirements with those approved by the Board of Supervisors on October 23, 2012 or enforce the qualifications outlined in the instructions.

Reply:

Public Works agrees with this recommendation. It was never the intent for plumbers to provide supporting documentation. The purpose of the programs is to install as many water conservation fixtures as possible. Public Works has changed the instructions to comply with the procedures and goals approved by the Board of Supervisors.

Recommendation 4:

In instances where rebate applications differ from supporting documentation (Pre-inspections or Title 8 forms), Public Works should verify the accuracy of the application prior to approving the rebate.

Any rebates identified in our test work as questionable, and subsequently verified by Public Works as ineligible, should be refunded.

Reply:

Public Works agrees with the recommendation. In instances where rebate applications differ from supporting documentation (Pre-inspections or Title 8 forms), Public Works will verify the reasons for the difference and, if approved, clearly document why the rebate was approved. Public Works will work with the plumbers to substantiate the questionable rebates identified by the audit, and any rebates deemed ineligible will be requested to be refunded.

Moving forward, Public Works will require plumbers to provide better justification for replacing fixtures that might be questionable and documenting the rationale for decisions to rebate those fixtures. However, implementation of the program in a cost-effective manner relies on the professional determination and certification of the licensed plumbers performing the work. Public Works originally proposed a program that budgeted significantly more staff time for inspections. However, in response to public comment that too much money was going to be spent on staff time, that budget was reduced and the trade off was that licensed plumbers would certify the work in accordance with the program.

File: CF 310.86.02 LOWWP – Water Conservation Rebate Program Compliance Audit

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