

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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 4/7/2015	(3) CONTACT/PHONE Kerry Bailey 788-2979	
(4) SUBJECT Submittal of a follow-up 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 Follow-up Compliance Audit Report which contains one suggested improvement.			
(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 type="checkbox"/> N/A Date: <u>April 1, 2014</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

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

DATE: 4/7/2015

SUBJECT: Submittal of a follow-up 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 Follow-up Compliance Audit Report which contains one suggested improvement.

DISCUSSION

Our office previously performed a compliance audit of the Los Osos Water Conservation Rebate Program and submitted a report for the Board's review on April 1, 2014. Our follow-up compliance audit was initiated to determine whether the department implemented the recommendations identified in our original report.

We determined Public Works has implemented our recommendations. We have one suggested improvement for documenting secondary reviews of the Pre-Inspection Water Conservation Forms.

OTHER AGENCY INVOLVEMENT/IMPACT

Public Works

FINANCIAL CONSIDERATIONS

The Los Osos Water Conservation Rebate Program has issued \$853,388 in rebates since program implementation.

RESULTS

Monitoring activities help maintain program accountability and responsibility and contribute to the County's vision of a well-governed community.

ATTACHMENTS

1. Los Osos Water Conservation Rebate Program Follow-Up Compliance Audit Report



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

Los Osos Water Conservation Rebate Program Compliance Audit Follow-Up

March 2015

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



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

TO: WADE HORTON, PUBLIC WORKS DIRECTOR

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

DATE: MARCH 12, 2015

SUBJECT: LOS OSOS WATER CONSERVATION REBATE PROGRAM COMPLIANCE
AUDIT FOLLOW-UP

Our office previously performed a compliance audit of the Los Osos Water Conservation Rebate Program and issued a report on March 5, 2014. We recently performed a follow-up audit to determine whether the recommendations we identified in our report were implemented. We determined Public Works has implemented our recommendations. We have one suggested improvement for documenting secondary reviews of the Pre-Inspection Water Conservation forms.

Purpose

The purpose of our audit was to determine whether Public Works implemented the recommendations provided in our March 5, 2014 report.

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 the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require internal auditors to perform their engagements with proficiency and due professional care; the internal audit function be subject to a program of quality assurance; and the results of the engagements be communicated.

Our audit included reviewing the Water Conservation Program forms and database for the time period June-September 2014 and interviewing Program staff. Documentation reviewed included: pre-inspection and post-inspection forms, rebate applications, Title Eight documentation, and the Board of Supervisors' adopted Water Conservation Implementation Plan.

Results

We found Public Works implemented the recommendations from the prior report. The follow-up results and our suggested improvement are discussed below:

Previous Findings & Recommendations and Follow-Up Results

1. Unclear Documentation and Inaccurate Public Works Database Information

We found that in a number of cases, the Public Works (PW) 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.

Follow-Up Results

Implemented: Public Works staff stated they are performing a second review of the Pre-Inspection Water Conservation forms.

Suggested Improvement: We sampled 35 rebate applications with associated Pre-Inspection Water Conservation forms. While we found no unexplained issues, there was no documentation of a second review. We suggested Public Works indicate on the Pre-Inspection Water Conservation form or the rebate application that a second review has been performed. Subsequent to fieldwork staff informed us that a procedure to document the second review had been implemented.

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 Forms 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 Forms 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.

Follow-Up Results

Implemented: Public Works staff was documenting variances from the supporting documents in all material respects. Public Works determined no contractors displayed gross negligence in submitting rebate applications; consequently no plumbing contractors were suspended from participation in the program.

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 be 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.

Follow-Up Results

Implemented: The rebate application instructions were revised to align with the requirements approved by the Board of Supervisors on October 23, 2012.

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 test work as questionable, and subsequently verified by Public Works as ineligible, should be refunded.

Follow-Up Results

Implemented: Public Works requested refunds from one plumber based on findings in the original audit. The refunds were paid in full.

We appreciate the courteous attitude of your staff and the cooperation we received during the course of our audit.