



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Office of General Auditor

Internal Audit Report for August 2021

Summary

One report was issued during the month:

Conservation Credits Program Audit Report

Discussion Section

This report highlights the significant activities of the Internal Audit Department during August 2021. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Conservation Credits Program

The Audit Department has completed a review of the accounting and administrative controls over the Conservation Credits Program as of December 31, 2020.

Scope

Our review evaluated the accounting and administrative controls over the Conservation Credits Program (CCP.) The CCP provides incentives to customers who replace grass lawns with “California Friendly” gardens, install water-saving devices, and take other measures to save water. Our review included activities that occurred between January 1, 2019, and December 31, 2020. Specifically, we reviewed controls over application submission, approval, processing, incentive payments, and the contract with the Electric & Gas Industries Association (EGIA), which administers the CCP on Metropolitan’s behalf.

Background

Conservation and water-use efficiency play an essential role in Metropolitan’s Integrated Water Resource Plan (IRP). CCP financial incentives and rebates include Regional and Member Agency Turf Removal Programs, Regional and Commercial Devices Programs, the Public Agency Landscape Program, Member Agency Administered Program, and Regional Pilot Program.

On April 10, 2018, the Board approved an annual budget of \$43 million for the CCP. Subsequently, on December 11, 2018, they approved an additional \$3 million for the 18-month Regional Pilot Program, resulting in a total budget of \$89 million for Fiscal Years 2018/19 and 2019/20. Moreover, the biennial budget for Fiscal Years 2020/21 and 2021/22 was \$86 million.

Our review spanned across parts of these two biennial periods, from January 2019 thru December 2020. CCP expenditures for this interval totaled \$41.7 million.

Opinion

In our opinion, the accounting and administrative procedures governing the CCP include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance provided effective control between January 1, 2019, and December 31, 2020.

Comments and Recommendations

NON-COMPLIANCE WITH TERMS AND CONDITIONS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting detail, and adequate control over the administration of agreements. Furthermore, compliance with agreement terms and conditions confirms that parties fully discharge their duties and obligations and exercise their rights associated with the contracts. In addition, procedures should ensure that invoices are reviewed for accuracy before payment, and that management reporting is timely and accurate.

Metropolitan's contract with EGIA requires them to verify customer data input, review customer landscape plans for consistency with Metropolitan guidelines, and, when appropriate, confirm completed projects for rebate eligibility.

During the period under review, EGIA processed 6,030 Turf Removal Rebates, which includes 2,520 paid rebates. We tested a sample of 56 paid rebates and found the following exceptions:

- One applicant did not appear to have installed the required number of drought-resistant plants. The EGIA Program Manager stated that this was an error in processing.
- Two applicants did not remove sufficient square footage to justify the payment they received; neither had been selected for sample post-inspection.

EGIA stated that all three cases resulted from processing errors.

During the period under review, EGIA processed 79,430 Device Rebates, which includes 56,782 paid rebates. We tested a sample of 57 paid rebates and found one application on which the applicant's name did not match the water bill submitted. EGIA stated that the exception resulted from a processing error.

Failure to comply with the terms and conditions of the EGIA contract could result in incorrect payments to applicants or EGIA. In addition, improper payments could result in inaccurate Board and management reporting.

We recommend that WRM address the noted discrepancies. We also recommend that management remind staff and EGIA personnel of the importance of compliance with the terms

and conditions of the contract and conduct a periodic review of applications to ensure compliance.

DUPLICATE BILLING

MWD should review EGIA invoices for completeness, accuracy, and compliance with contractual terms and conditions. Such reviews should include procedures to prevent duplicate payments.

We searched for duplicate payments in all CCP applications processed and paid during 2020. We found one \$85 duplicate payment; EGIA agreed to refund it.

EGIA includes multiple rebates associated with the same rebate number on the same invoice. We recommend that WRM establish procedures for the Water Efficiency Team (WET) to perform periodic searches for duplicate payments. Duplication search queries of EGIA data downloads, commonly included in database software, could be used for this purpose.