



T. Bert Fletcher, CPA, CGMA
City Auditor

HIGHLIGHTS

Highlights of City Auditor Report #1608, a report to the City Commission and City management

WHY THIS AUDIT WAS DONE

As part of its Demand Side Management (DSM) programs which promote energy conservation, the City of Tallahassee (City) offers utility rebates to residential and commercial customers who make energy efficient improvements such as purchasing energy efficient electric appliances, replacing HVAC (heating, ventilation, and air conditioning) systems with new systems that meet minimum energy efficiency standards, and converting appliances from electric to natural gas. The City issued approximately 8,000 utility rebates between January 1, 2013, and August 31, 2015, with rebate disbursements totaling nearly \$2.1 million.

The purpose of this audit was to determine whether: (1) City utility rebates disbursed to residential and commercial customers were accurate and properly supported, and issued in accordance with applicable Utility Customer Operations (UCO) criteria for only qualifying energy efficient equipment; and (2) adequate controls are in place and functioning to prevent and detect rebate errors, fraud, and abuse by customers and employees.

WHAT WE CONCLUDED

We concluded UCO effectively administered the utility rebate programs during the audit period. Our audit of the City's rebate programs disclosed Energy Star (ES), HVAC, and Natural Gas (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 UCO disbursed improper rebates to customers. However, we identified two areas for improvement and made recommendations that could strengthen controls over the rebate programs to help mitigate the risk of fraud and rebate errors.

Specifically, we determined: 1) there is a greater risk of fraud for ES rebates than for HVAC and NG rebates because there are no permit or inspection requirements for ES rebates; and 2) UCO's documented rebate procedures did not always reflect actual rebate processing practices.

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February 24, 2016

AUDIT OF THE CITY UTILITY REBATE PROGRAMS

We concluded Utility Customer Operations effectively administered the City's utility rebate programs. We determined rebates were properly paid and supported, and issued only for qualifying appliance/equipment purchases. Both control strengths and opportunities for improvement were identified.

WHAT WE RECOMMENDED

To enhance and strengthen existing procedures and practices, we made the following recommendations:

- UCO should consider performing random periodic inspections of customer premises to validate that ES appliances were actually purchased and installed. Such ES appliance inspections should also be documented. *(We discussed this recommendation with UCO management who acknowledged the additional risk of improper ES rebate payments. However, UCO management indicated performing periodic inspections of ES appliances at customer premises is neither practicable nor customer-service oriented. Therefore, UCO management elected to accept the increased risk.)*
- UCO management should periodically review documented procedures for the rebate process, updating them to reflect actual practices for all rebate types. Currently, UCO procedures for the rebate process should 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.
 - To authorize all applicable rebate staff to approve ES rebates for pool pumps.
 - To specify the exceptions to proof of purchase documentation requirements for ES, HVAC, and NG rebates.
 - To eliminate the requirement for recording the adjustment identification number(s) on rebate applications; or, alternatively, UCO rebate staff should be reminded to ensure the adjustment identification number(s) are recorded on all rebate applications when paid.
 - To provide for a supervisory review of all rebates.

We would like to thank UCO staff and management for their full and complete cooperation and support throughout this audit.

Office of the City Auditor

Audit of City Utility Rebate Programs



Report #1608
February 24, 2016



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

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Audit of City Utility Rebate Programs



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Report #1608

February 24, 2016

Executive Summary

Our audit of the City's utility rebate programs disclosed rebates were properly paid and supported, and issued only for qualifying appliance/equipment purchases.

We concluded Utility Customer Operations effectively administered the rebate programs.

As part of its Demand Side Management (DSM) programs which promote energy conservation, the City of Tallahassee (City) through its Utility Customer Operations (UCO) offers utility rebates to residential and commercial customers who make energy efficient improvements. Those improvements include purchasing energy efficient electric appliances, replacing HVAC (heating, ventilation, and air conditioning) systems with new systems that meet minimum energy efficiency standards, and converting appliances from electric to natural gas. 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.

The objectives of this audit were to determine whether: (1) 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 UCO criteria; and (2) adequate controls are in place and functioning to prevent and detect rebate errors, fraud, and abuse by customers and employees. To satisfy these objectives, we reviewed controls in the rebate process and selected a sample of rebates for each category; on which we performed substantive tests of transactions to determine whether rebate payments were accurate, properly supported, and issued only for qualifying appliances. We also performed analytical procedures to identify potential improper rebate payments. The scope of this audit focused on Energy Star (ES), HVAC, and Natural Gas (NG) rebate activity for the 32-month period January 1, 2013, through August 31, 2015.

We concluded UCO effectively administered the utility rebate programs for the period covered by this audit. Our audit of the City's rebate programs showed 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 UCO disbursed improper rebates to customers. However, we identified two areas for improvement and made recommendations that could strengthen controls over the rebate programs to help mitigate the risk of fraud and rebate errors. Specifically, we determined:

Because there are no permit or inspection requirements, the risk of improper rebate payments is greater for ES appliances.

- There are less stringent rebate eligibility requirements for ES appliances compared to those of HVAC and NG rebates. Specifically, customers must submit only a paid receipt with the rebate application for ES rebates as opposed to the appliance/equipment inspection and proof of purchase requirements for HVAC and NG rebates. Accordingly, there is a greater risk of fraud for ES rebates than for HVAC and NG rebates. To further mitigate the risk of improper ES rebate payments, we recommend that UCO consider performing random periodic inspections of customer premises to validate that ES appliances were actually purchased and installed. Such ES appliance inspections should also be documented. *(We discussed this recommendation with UCO management who acknowledged the additional risk of improper ES rebate payments. However, UCO management indicated performing periodic inspections of ES appliances at customer premises is not practicable or customer-service oriented. Therefore, UCO management elected to accept the increased risk.)*
- UCO's documented rebate procedures did not always reflect actual rebate processing practices. We recommend UCO management periodically review and update those procedures to reflect actual practices.

UCO's documented rebate procedures did not always reflect actual rebate processing practices.

We wish to acknowledge and thank UCO staff and management for their full and complete cooperation and support throughout this audit.

Audit of City Utility Rebate Programs



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City Auditor

Report #1608

February 24, 2016

Scope, Objectives, and Methodology

The objectives of this audit were to determine whether (1) City utility rebate disbursements to residential and commercial customers were accurate and properly supported, and issued only for qualifying energy efficient equipment; and (2) adequate controls are established to prevent and detect rebate errors, fraud, and abuse.

The objectives of this audit were to determine whether: (1) 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 Utility Customer Operations (UCO) criteria; and (2) adequate controls are established and working as intended to prevent and detect rebate errors, fraud, and abuse by customers and employees. To satisfy these objectives, we interviewed UCO management, reviewed relevant rebate policies and procedures, mapped UCO's rebate process, and examined supporting rebate documentation. We also selected a sample of rebates for each rebate category and performed substantive tests of transactions to determine whether rebates were accurate, properly supported, and issued only for qualifying appliance purchases. Finally, we performed certain analytical procedures to identify potential improper rebate payments. The scope of this audit included Energy Star (ES); Heating, Ventilation, and Air Conditioning (HVAC); and Natural Gas (NG) rebate activity during the period January 1, 2013, through August 31, 2015.

We conducted this audit 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 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 objectives.

Background

The City's Electric Utility is the fourth largest municipal electric utility in Florida and the 26th largest of over 2,000 municipal systems in the United States.

The City projects additional power supply resources will be required to maintain electric system adequacy and reliability through the year 2024.

Demand Side Management

Since 1902, the City has owned, operated, and maintained an electric generation, transmission, and distribution system that supplies electric power in and around the corporate limits of the City. Supplying power to over 116,000 customers in a 221 square mile service area, the City's Electric Utility is the fourth largest municipal electric utility in Florida and the 26th largest among over 2,000 municipal systems in the United States. The City's two main generating stations are the Sam O. Purdom Generating Station and the Arvah B. Hopkins Generation Station, located in St. Marks and on Geddie Road west of the City, respectively. The City also generates electricity at the C. H. Corn Hydroelectric Station, located west of Tallahassee on Lake Talquin. Since 1960, the City has also provided natural gas energy to more than 28,000 customers residing in Leon, Gadsden, and Wakulla counties through 850 miles of underground gas mains.

In the City Utilities' *Ten-Year Site Plan: 2015-2024*, prepared by Electric System Integrated Planning (a division of the Electric Utility responsible for short and long range electric system planning), it is projected additional power supply resources will be required to maintain electric system adequacy and reliability through 2024. In 2006, based on forecasted growth in residential and commercial demand for energy, the City Commission directed staff to begin developing a strategy to reduce the need for increased electric generation capacity in the future. The Energy Services Department (ESD) was assigned the task of designing a plan aimed at managing customer demand for energy. On January 24, 2007, ESD staff outlined a Demand Side Management (DSM) plan to implement new programs promoting energy efficiency. The City's DSM programs are focused on increasing energy efficiency and reducing peak demand by encouraging utility customers to modify their patterns of electricity usage. Energy efficiency is generally achieved when electric customers install equipment that has a greater output per unit of energy input than standard equipment.

With successful implementation of DSM programs, the City can defer the construction of costly new power plants and purchases of electric power on the market.

Demand reduction, on the other hand, is the reduction in customer energy usage at the time of peak demand for the utility system.

Through its DSM programs, the City's immediate goal is to reduce customers' energy consumption in a manner that shifts usage from the utility's peak demand period. In the long-term, the City aims to reduce projected peak electric demand by 167 Megawatts (MW) and projected energy consumption by 561,000 MW-hours (MWh) by the year 2026. With successful implementation of its DSM program, the City can defer the construction of costly new power plants and purchases of electric power on the market. DSM initiatives also benefit customers by lowering their utility bills, reducing environmental pollution, and creating local job opportunities for contractors who install more energy efficient equipment.

DSM Authority

Electric directs the planning and funding for DSM programs, while USD manages the day-to-day operations of the programs.

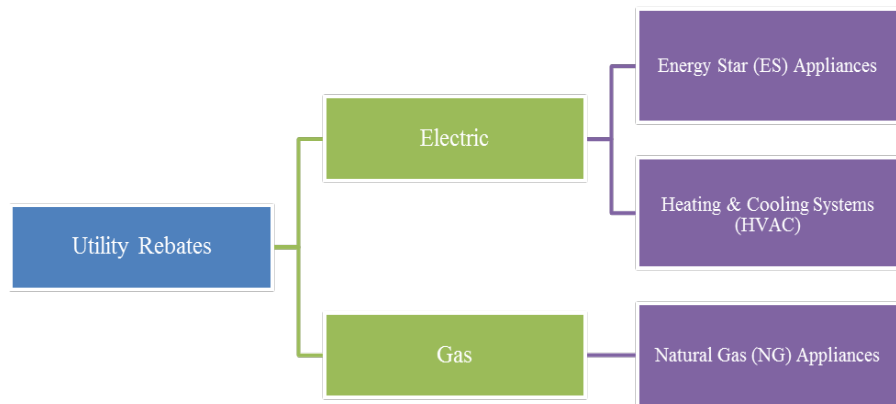
Overall policy direction for DSM programs resides with the City Commission. Prior to October 2013, ESD was responsible for the day-to-day administration of DSM programs. During that time, ESD consisted of two divisions – Wholesale Energy Services (WES) and Retail Energy Services (RES). WES was responsible for managing fuel and energy support portfolios. RES, which included Energy Conservation/Customer Services, provided retail utility customers with education as well as financial assistance and incentives designed to improve energy efficiency and lower their utility bills. In October 2013, the City's Utilities Services Area experienced a significant reorganization. ESD functions and positions were absorbed by both the Electric Utility (Electric) and Utility Business & Customer Services (UBCS), resulting in the complete disbanding of ESD. Effectively, UBCS merged with parts of ESD to become the Utility Services Department (USD). Currently, Electric and USD are separate but related departments within the Utility Services Area. One outcome of this organizational restructuring was that Electric and USD now share responsibility for the City's DSM programs. While Electric is responsible for the planning and funding of DSM programs, USD manages the day-to-day operations and activities of the programs.

Rebate Incentives

The City’s DSM initiatives, which include the rebate programs, drive a wide array of programs focused on helping customers manage their energy consumption.

The City’s DSM program is comprised of a wide array of measures focused on helping customers manage and reduce their energy consumption. DSM promotes energy efficiency and conservation through programs which include energy audits, energy retrofit loans, grants, and utility rebates. In particular, rebates are financial incentives offered by the City to residential and commercial customers who make energy efficient improvements. Rebates are provided for purchases of energy efficient appliances and heating and cooling systems (electric rebates), as well as for the conversion from electric to natural gas appliances (gas rebates). Such enhancements by customers help the City achieve its DSM goals by reducing the load on the City’s electric power plants. The City began offering gas rebates in 1984, followed by electric rebates in 2008. The electric and gas rebates offered by the City are categorized in Diagram 1 below:

**Diagram 1
Utility Rebate Types**



The City offers rebates for qualifying ES, HVAC, and NG appliance and equipment purchases.

The City offers rebates for qualifying ES, HVAC, and NG appliance and equipment purchases. Residential and commercial customers may apply for those rebates using the rebate forms (applications) found on the City’s website (www.talgov.com). The rebates are prescriptive, meaning the rebate amounts are pre-determined based on the appliance/equipment type and not based on the amount of energy actually conserved. Utility Customer Operations (UCO), a

component of USD that handles utility account inquiries, connections, and other utility service-related requests, is responsible for processing customer rebate requests. Rebates are generally paid in the form of credit adjustments to customer utility accounts or, less often, as physical checks to applicants (rebate payments). Both credit adjustments and checks are recorded and reflected in the City’s PeopleSoft Customer Information System (PS CIS).

Electric and Underground Utilities jointly fund the rebate programs.

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

The City issued approximately 8,000 rebates between January 1, 2013, and August 31, 2015. As shown in Table 1 below, rebate disbursements paid during this period totaled nearly \$2.1 million.

**Table 1
Rebate Summary Data
1/1/13 through 8/31/15**

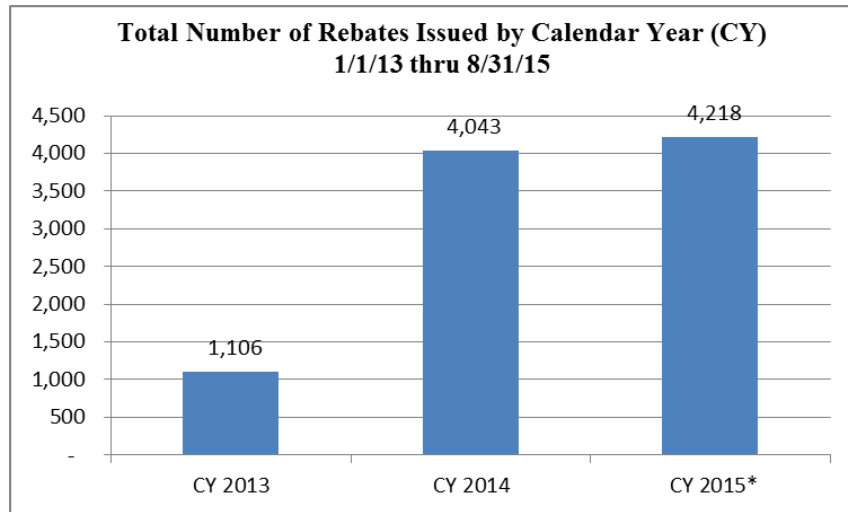
The City issued approximately 8,000 rebates between January 1, 2013, and August 31, 2015, with rebate disbursements totaling nearly \$2.1 million.

	Total Number of Rebates Issued	Total Rebate Disbursements
Calendar Year 2013	1,106	\$ 533,474
Calendar Year 2014	4,042	1,086,726
January 2015 through August 2015 (8 months)	2,811	450,470
Total	7,959	\$ 2,070,670

As shown in Diagram 2 below, there has been a nearly fourfold increase in the number of annual rebates issued since calendar year 2013.

Diagram 2

There has been a nearly fourfold increase in the number of annual rebates issued since CY 2013.



*For this chart only, extrapolated data was used to estimate the CY 2015 total.

Summary of Rebate Activity

As previously described, there were roughly 8,000 rebates approximating \$2.1 million issued during the period January 1, 2013, through August 31, 2015. Our analysis of rebate activity showed ES rebates accounted for the majority of the number of rebates issued, while NG rebates accounted for the majority of rebate dollars expended. Specifically, there were 4,278 (54%) ES rebates issued and over \$1.1 million (54%) expended in NG rebates. The following diagrams show the breakdown of rebates based on both numbers of rebates issued and dollar amounts expended by category.

Diagram 3

The majority (54%) of all rebates issued between January 1, 2013, and August 31, 2015, were ES rebates.

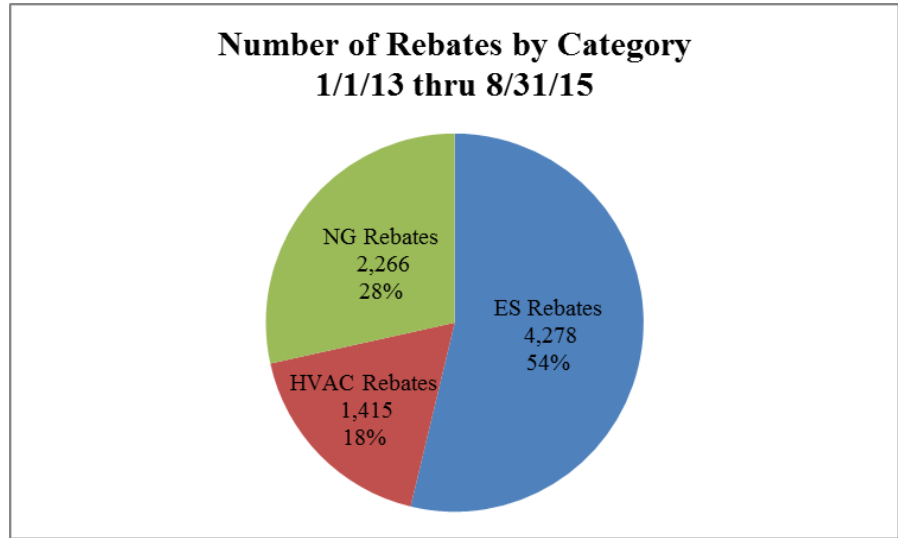
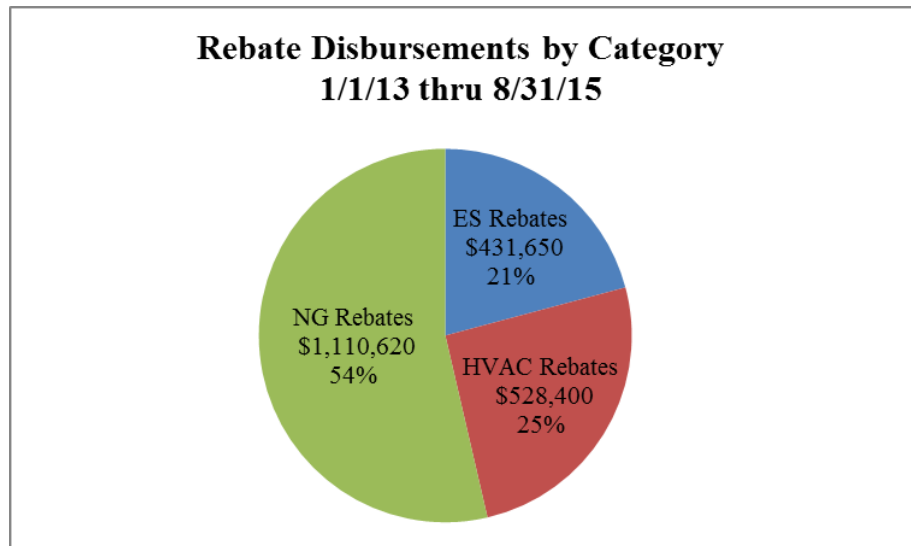


Diagram 4

NG rebate disbursements exceeded the combined total of ES and HVAC disbursements.



Energy Star Appliance Rebates

Energy Star (ES) appliance rebates are available to any residential or commercial City electric customer who purchases a qualifying new ES-certified appliance. Products earn the “ENERGY STAR” certification (label) by meeting the energy efficiency requirements instituted by the U.S. Environmental Protection Agency (EPA). The intent of those requirements is to reduce greenhouse gas emissions

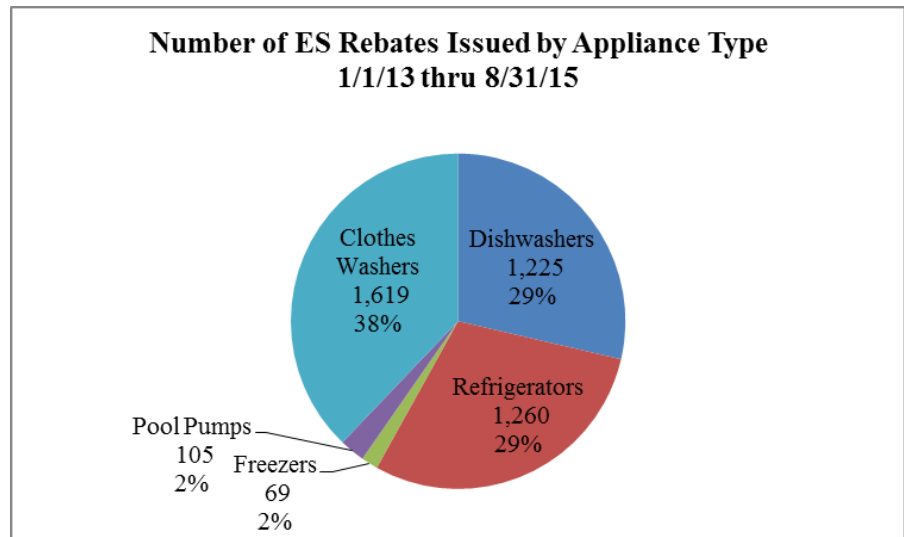
Qualifying ES-certified appliances include dishwashers, refrigerators, freezers, clothes washers, and pool pumps, and the rebate amounts range from \$40 to \$200.

and other pollutants. The ES label was established to make it easy for consumers to identify and purchase energy efficient products that offer savings on utility bills. Qualifying ES-certified appliances include dishwashers, refrigerators, freezers, clothes washers, and pool pumps. The rebate amounts for those appliances range from \$40 to \$200.

To apply for ES rebates, customers must submit the ES Electric Appliance rebate application found on the City’s website along with proof of purchase of an ES-certified appliance in the form of a paid receipt. As part of the rebate approval process, the City verifies the appliance is ES-certified through the federal government’s ES website (www.energystar.gov).

As previously shown in Diagram 3 and Diagram 4, the City issued 4,278 ES rebates between January 1, 2013, and August 31, 2015, totaling \$431,650. By appliance type, clothes washers, refrigerators, and dishwashers are the appliances for which rebates were most frequently provided. For the audit period reviewed, the City disbursed \$194,600, \$137,850, and \$61,840 in rebates for clothes washers, refrigerators, and dishwashers, respectively. Diagram 5 below shows the breakdown of ES rebates by appliance type.

Diagram 5



ES clothes washers were the most heavily rebated appliance, comprising 38% of total rebates issued.

HVAC Rebates

HVAC rebates are available to or on behalf of any residential or commercial City electric customer who purchases a qualified new heating or cooling system. In those instances where a contractor installs the qualified HVAC system on behalf of a City electric customer, the rebate may be either credited to that customer's utility account or paid to the contractor (with the contractor in turn crediting the customer for those costs).

Qualifying HVAC equipment includes air conditioners (AC), heat pumps (HP), and water heaters (heat pump style). HP rebates are offered for air source HPs, which are more conventional, as well as for water source HPs. The City's minimum efficiency requirements for ACs and HPs are based on standards developed by the Air Conditioning, Heating, and Refrigeration Institute (AHRI), a trade association representing more than 300 manufacturers of HVAC equipment. AHRI standards establish rating criteria and procedures for measuring and certifying HVAC product performance. AHRI rates HVAC equipment using the Seasonal Energy Efficiency Ratio, or SEER. In general, the higher the SEER rating is for an HVAC system, the more energy efficient the system. Currently, the City's minimum efficiency rating for ACs and HPs is SEER 15, higher than the existing federal minimum SEER 14 rating set by the U.S. Department of Energy. While ACs and HPs must conform to established AHRI standards to be eligible for a rebate, the City's rebate eligibility requirements for heat pump style water heaters are based upon the equipment having ES certification at the time of application. HVAC rebate amounts range from \$100 to \$750, depending on equipment type and SEER rating.

The City's minimum efficiency requirements for ACs and HPs are based on standards developed by the Air Conditioning, Heating, and Refrigeration Institute (AHRI).

Qualifying HVAC equipment includes air conditioners, heat pumps, and water heaters, with rebate amounts ranging from \$100 to \$750.

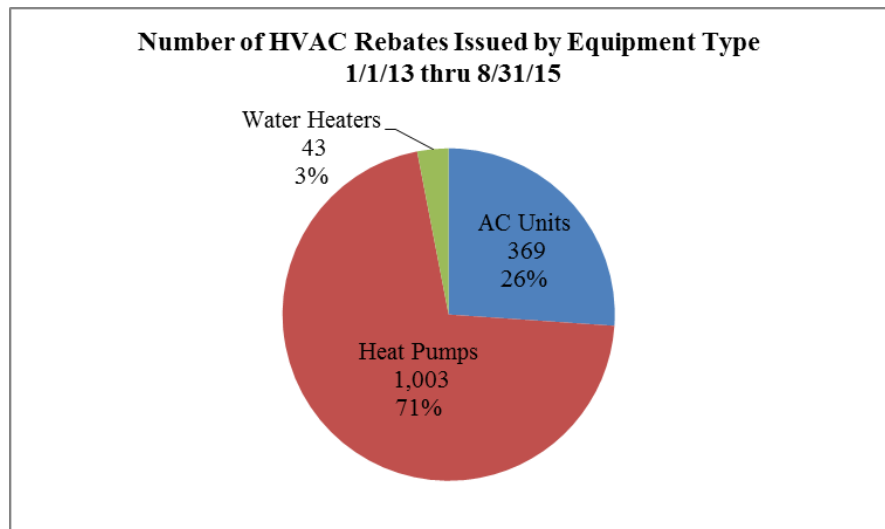
To apply for an AC or HP rebate, customers must submit the Energy Efficient AC & Heat Pump rebate application with a paid receipt or contractor's paid invoice, as well as the Certificate of AHRI Certified Performance provided by the contractor who installed the equipment. The AHRI certificate demonstrates the HVAC equipment efficiency rating claims of manufacturers have been independently measured and verified and are compliant with federal

All installed HVAC equipment must pass an inspection conducted by the City's Growth Management Department (or county inspection agency) before an HVAC rebate can be issued to a utility customer.

minimum efficiency standards. For water source HPs and heat pump water heaters, which do not have AHRI-based efficiency requirements, the customer must submit the rebate application with the contractor's paid invoice, receipt, or proposal which includes the product's brand, model number, and manufacturer's efficiency specifications. For all installed HVAC equipment, 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).

The City issued 1,415 HVAC rebates between January 1, 2013, and August 31, 2015, comprising 18% of the total number of rebate disbursements. The value of those 1,415 HVAC rebate disbursements totaled \$528,400, or 25% of the total value of all rebates disbursed during that period. Of the total HVAC rebates issued, the majority (71%) were issued for energy efficient heat pumps. Diagram 6 below shows the allocation of HVAC rebates by equipment type.

Diagram 6



Of the 1,415 HVAC rebates issued between January 1, 2013, and August 31, 2015, the majority (71%) were issued for energy efficient heat pumps.

Natural Gas Rebates

The City offers Natural Gas (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. Numerous NG appliance rebates are available for residential customers; however, only water heater rebates are offered to commercial customers. As with HVAC rebates, when a contractor installs the NG appliance on behalf of the City NG customer, the rebate may either be credited to that customer's utility account or paid to the contractor (with the contractor in turn crediting the customer for those costs).

Qualifying NG appliances include water heaters, furnaces, ranges/stoves, dryers, fire logs, grills, pools/spa heaters, and gas lights, and the rebate amounts range from \$50 to \$700.

Residential customers may receive rebates for the conversion from electric to new NG appliances or for the replacement of existing NG appliances. Qualifying NG appliances include water heaters (tank or tankless style), furnaces, ranges/stoves, dryers, fire logs, grills, pools/spa heaters, and gas lights. Residential customers are eligible to receive a NG range, dryer, fire log, grill, pool/spa heater, or gas light rebate only if they have or are also installing a NG water heater or furnace. NG appliance rebate amounts range from \$50 to \$700, with higher rebates offered for first-time NG appliances (i.e., compared to customers replacing existing NG appliances).

For commercial customers, a NG rebate in the amount of \$450 is available for the replacement of an existing non-NG (electric, propane gas, or fuel oil) water heater with a NG water heater; commercial customers may also be eligible for a piping allowance rebate for the installation of a NG water heater in the amount of \$750.

The City offers a "Gold" rebate for the first-time installation of a NG water heater and furnace, in combination with either a gas range or dryer.

In addition to individual NG appliance rebates, residential customers may also apply for the \$2,000 "Gold Package Bonus" (Gold rebate) for the first-time concurrent installation of a NG water heater, furnace, and either a gas range or dryer.

To apply for a NG appliance or water heater rebate, customers must submit a NG Appliance rebate application with a paid receipt or paid invoice demonstrating the eligible NG appliance or equipment was acquired and/or installed. Unlike ES and HVAC equipment, the City has no efficiency requirements for NG appliances; the City is primarily interested in encouraging "fuel-switching" by customers as it benefits both the electric and gas utilities by helping achieve the City's DSM goals and expanding the customer base of the gas

As with HVAC rebates, NG rebates have inspection requirements for the installed equipment.

For the period January 1, 2013, through August 31, 2015, the City paid \$1,110,620 in NG rebates, or 54% of total rebate disbursements.

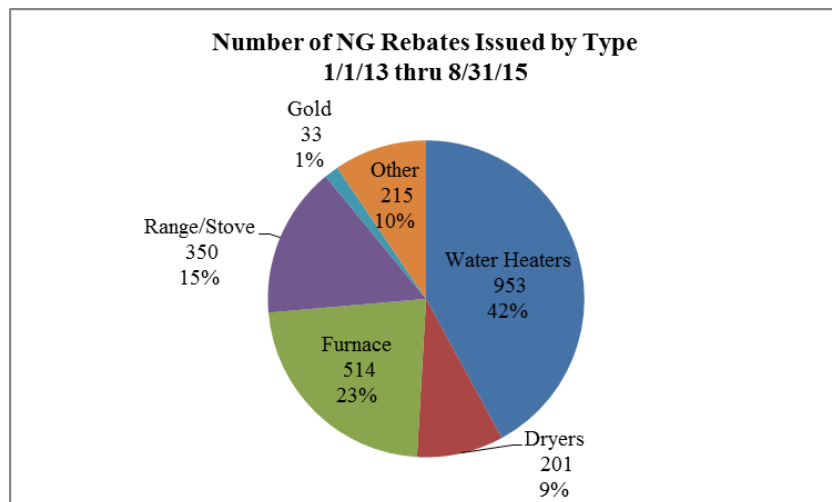
Water heaters and furnaces accounted for the majority of all rebated NG appliances.

Periodically, the City offers double rebates as a way to further stimulate the local economy and drive business to area contractors.

utility. NG rebates are similar to HVAC rebates in that there are permit and inspection requirements for the installed equipment; applicable NG appliances/equipment must be permitted and inspected by the City’s Growth Management Department or the appropriate county building inspection agency for Leon, Gadsden, or Wakulla County residents (who are City natural gas utility customers).

Between January 1, 2013, and August 31, 2015, the City issued 2,266 NG rebates, representing 28% of the total number of rebates issued during that period. NG rebate disbursements totaled \$1,110,620, or 54% of the total value of rebate disbursements during that period. Of the total number of NG rebates issued, water heater and furnace rebates constituted 42% and 23%, respectively. The City disbursed \$625,593 in water heater rebates and \$289,725 in furnace rebates. Diagram 7 below shows the breakdown of NG rebates by appliance/equipment type.

Diagram 7



Double Rebates

Periodically, the City offers double rebates as a way to further stimulate the local economy and drive business to area contractors. Specifically, for a designated period the traditional rebate amounts are doubled for qualifying ES, HVAC, and NG appliance/equipment purchases. Double rebate amounts range from \$80 to \$400 for ES

appliances; \$200 to \$1,500 for HVAC equipment; and \$100 to \$1,400 for NG appliances/equipment.

*The City Commission
has approved four
double rebate periods
since the rebate
program's inception in
1984.*

To be eligible for a double rebate, a customer must purchase a qualifying ES, HVAC, or NG appliance within the allowable double rebate period. Since the rebate program's inception in 1984, the City Commission has approved four double rebate periods as follows: May 27 - September 7, 2010; February 14 - April 30, 2013; June 27 - July 14, 2013; and September 15 - September 21, 2014.

For illustrative purposes, Table 2 below shows the single and double rebate amounts available to residential customers for qualifying new equipment/appliance purchases by rebate category and type.

Table 2
Single and Double Rebate Amounts by Category and Type

Rebate Category	Rebate Type	Single Rebate Amount	Double Rebate Amount
Energy Star (ES)	Dishwasher	\$40	\$80
	Freezer	\$40	\$80
	Refrigerator	\$75	\$150
	Clothes Washer	\$100	\$200
	Pool Pump	\$200	\$400
HVAC	AC (SEER14.5)	\$100	\$200
	AC (SEER 16)	\$350	\$700
	HP (SEER 14.5)	\$100	\$200
	HP (SEER 15)	\$350	\$700
	HP (water source)	\$750	\$1,500
	Water Heater	\$300	\$600
Natural Gas (NG)	Water Heater	\$675	\$1,350
	Furnace	\$700	\$1,400
	Range/Stove	\$200	\$400
	Fire logs	\$50	\$100
	Dryer	\$200	\$400
	Grill	\$100	\$200
	Pool/Spa heater	\$450	\$900
	Lights	\$50	\$100

Table Legend:

HVAC – Heating, Ventilation, and Air Conditioning

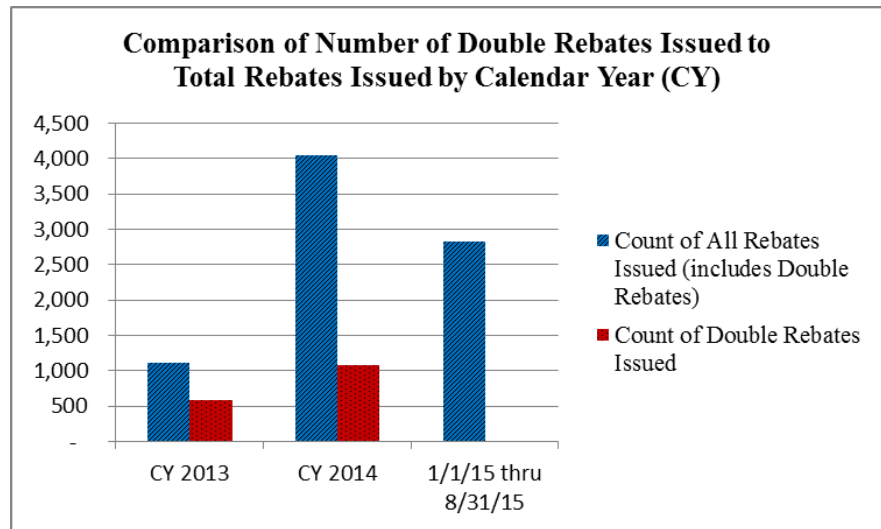
HP – Heat pump

SEER – Seasonal Energy Efficiency Ratio

A total of 1,653 double rebates were issued between January 1, 2013, and August 31, 2015, representing 21% of all rebates issued for the period.

During our audit period (January 1, 2013 - August 31, 2015), which included the three latter double rebate periods identified above, a total of 1,653 double rebates were issued, representing 21% of all rebates issued during that period. The two double rebate periods offered in 2013 lasted a total of 13 weeks. The number of double rebates issued during those 13 weeks accounted for over half (53%) of all rebates issued during that year. For the one-week double rebate period offered in 2014, the number of double rebates issued accounted for 26% of all rebates issued during that year. No double rebate periods were offered in 2015. In terms of rebate disbursements, the dollar amount of double rebates issued during our audit period (which included three double rebate periods) totaled \$523,357, representing 25% of the total value of all rebates issued (approximately \$2 million) during that period. Diagram 8 and Table 3 below show the double rebate activity for the audit period.

Diagram 8



The total dollar amount of double rebates issued for the period was \$523,357, or 25% of all rebates issued.

Table 3

Single and Double Rebate Data by Calendar (CY)

	Single Rebates		Double Rebates		Total	Total
	Number Issued	Disbursements	Number Issued	Disbursements	Number Issued	Disbursements
CY 2013	523	\$ 250,384	583	\$ 283,090	1,106	\$ 533,474
CY 2014	2,972	846,459	1,070	240,267	4,042	1,086,726
CY 2015*	2,811	450,470	0	0	2,811	450,470
Totals	6,306	\$1,547,313	1,653	\$ 523,357	7,959	\$ 2,070,670

*Data reflects audit period reviewed (1/1/15 through 8/31/15)

Audit Results, Issues, and Recommendations

For the scope of this audit, we concluded UCO effectively administered the rebate programs.

ES rebate requirements are less stringent than HVAC and NG rebate requirements, which increases the risk of fraudulently submitted ES rebate applications.

UCO has established procedures for the processing of ES, HVAC, and NG rebate applications. We selected and tested a random sample of residential and commercial rebates for each category to determine whether rebate applications were processed in accordance with City rebate procedures and other applicable criteria included in the rebate application at the time of submission. We also performed detailed rebate transaction testing to determine whether rebate payments were accurate, properly supported, and issued only for qualifying appliances. Our testing included an examination of all rebate transactions for samples of 22 premises for each of the ES, HVAC, and NG rebate categories (i.e., rebates for 66 premises were tested). Additionally, we performed analytical procedures to test for improper payments.

We concluded UCO effectively administered the utility rebate programs for the 32-month period January 1, 2013, through December 31, 2015. Our audit of the City’s rebate programs showed 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 UCO disbursed improper rebates to customers. However, we identified two areas for improvement for which stronger controls could help mitigate the risk of intentional and unintentional rebate errors. Those areas and our recommendations are addressed in the following report sections.

Risk of Improper Payments for ES Rebates

Customers who apply for ES rebates are required to submit a paid receipt for the ES-certified appliance along with the ES rebate application found on the City’s website. Notwithstanding the requirement for a paid receipt, ES rebate eligibility requirements are less stringent than HVAC and NG rebates. Specifically, customers who apply for HVAC or NG rebates must have the installation of the appliance/equipment pass an inspection by the City’s Growth

Management Department (or appropriate county building inspection agency) in addition to submitting proof of purchase documentation in the form of a paid receipt or paid contractor's invoice. Such inspections are not required for ES rebates.

There is a risk the City may pay rebates for ES appliances that were never purchased or installed.

The less stringent rebate eligibility requirements for ES appliances increase the risk of fraud for ES rebates compared to HVAC and NG rebates. Another factor that increases the risk of fraudulent ES rebates is that there is no limit to the number or frequency of ES rebates a customer may receive, even for the same appliance type. One example of potential fraudulent activity is that a customer could apply for an ES rebate using an altered receipt for an appliance that was previously purchased and/or submitted for a rebate by a different customer (i.e., "receipt sharing"). Another example of fraudulent activity could occur if a customer purchases a qualifying ES appliance, receives an ES rebate, and subsequently returns the appliance to the supplier/vendor. In both of the aforementioned examples, the City risks paying rebates for ES appliances that were never purchased or installed.

We recommend UCO perform random periodic inspections of customer premises to validate ES appliances were actually purchased and installed.

As previously discussed in the background section of the report, ES rebates constituted 54% of all rebates (including HVAC and NG rebates) issued by the City between January 1, 2013, and August 31, 2015. To further mitigate the risk of improper ES rebate payments, we recommend that UCO consider performing random periodic inspections of customer premises to validate ES-rebated appliances were actually purchased and installed. Such ES appliance inspections should be documented.

For customer service purposes, UCO management elected to accept the increased risk of improper rebate payments.

(We discussed the above recommendation with UCO management who acknowledged the described risk of improper ES rebate payments. However, UCO management indicated periodic inspections of ES appliances at customer premises are not practicable or customer service-oriented. According to UCO management, one emphasis of the rebate program is to serve customers, and random periodic inspections of ES appliances at customer premises would place an undue burden on utility customers. Furthermore, UCO management informed us there is no

timeframe documented on rebate applications specifying the length of time an ES appliance must be installed at a premise. As such, UCO could not be assured the ES appliance would still be installed at the date of the inspection. Accordingly, UCO management elected to accept the described risk.)

Rebate Process and Related Procedures

UCO's documented rebate procedures did not always reflect actual rebate processing practices.

As part of our audit we observed and performed walkthroughs to map (document for audit purposes) and obtain an understanding of the actual rebate processing practices (e.g., review, approvals, payments) applied by UCO staff. We compared those actual practices to UCO's documented procedures established for the rebate process. That comparison showed several differences and inconsistencies between practices and procedures. Those differences and inconsistencies show that some procedures need to be updated as noted in the following:

Rebate procedures do not provide for extensions to the 90-day rebate application period.

- UCO documented rebate procedures provide ES rebate applications must be submitted by the utility customer within 90 days of the appliance purchase date. For HVAC rebates, those procedures provide rebate applications must be submitted within 90 days of the equipment's final installation date. However, in practice, the cutoff date for receipt of both ES and HVAC rebate applications may be up to one year if a UCO supervisor approves an extension. We were informed the 90-day closeout dates were originally established to protect the City should the rebate program ever be abruptly terminated. We were also informed the City subsequently decided to allow for delayed rebate applications because of the desire to further encourage customers to install additional energy efficient appliances. As such, we recommend the procedures be updated to reflect the supervisor's ability to grant an exemption to the 90-day rebate application cutoff date.
- Because the federal government's website (www.energystar.gov) for energy efficient appliances and

Rebate procedures should be revised to allow all rebate staff to process rebate applications for pool pumps.

Rebate procedures do not provide for exceptions to proof of purchase documentation requirements.

Efforts should be made to ensure adjustment identification numbers are included on rebate applications or rebate procedures should be revised to eliminate that requirement.

equipment did not include pool pumps at the date procedures were established, ES rebate procedures provide that only one specifically named and knowledgeable UCO employee is authorized to approve pool pump rebates. However, since pool pumps have recently been added to the federal government's ES website, in actual practice any UCO employee authorized to process and approve utility rebates may now approve pool pump rebates, as specialized knowledge is no longer required. Accordingly, we recommend the procedures be revised to allow all applicable rebate staff to approve rebates for pool pumps.

- UCO documented rebate procedures require utility customers applying for ES, HVAC, or NG rebates to submit proof of purchase with the rebate application in the form of a paid receipt from a vendor/supplier. (Installing contractors who submit NG rebates are permitted to submit an invoice in the place of a paid receipt.) In actual practice, however, UCO makes certain reasonable exceptions regarding documentation that will be accepted in conjunction with the rebate application for each rebate category. Moreover, for HVAC and NG rebates, verification of the permitting and inspection of the appliance/equipment by UCO rebate staff serves as further confirmation of the customer's purchase. We recommend UCO rebate procedures be updated to provide for those proof of purchase documentation exceptions for each rebate category.
- ES and HVAC rebate procedures require rebate staff to record the adjustment identification number on the rebate form after the adjustment is entered into PS CIS. However, our testing disclosed rebate staff did not record the adjustment identification number on nearly 25% (16 of 66) of rebates sampled. We were informed the adjustment identification number is not critical for rebate processing and is available in PS CIS when needed. We recommend procedures either eliminate that requirement or UCO make efforts to ensure adjustment identification numbers are recorded on rebate applications when paid.

Rebate procedures should be updated to provide for a supervisory review of all rebates.

The use of outdated procedures increases the risk of improper and/or inconsistent processing of rebates.

- While supervisory review and approval is required for all utility rebates, in actual practice there is no language in the rebate procedures requiring such supervisory review and approval of rebates. Such language should be added to the rebate procedures.

The use of outdated procedures increases the risk of improper and/or inconsistent processing of rebates, especially in the event of employee turnover. Additionally, updated procedures are important to help ensure compliance with rebate processing requirements and good business practices. In addition to the specific updates and revisions recommended above, UCO management should establish a process to periodically review and update documented rebate procedures.

Conclusion

We identified two areas for improvement and made recommendations that would strengthen controls over the rebate programs and help mitigate the risk of fraud and rebate errors.

The City issued approximately 8,000 utility rebates, totaling nearly \$2.1 million, between January 1, 2013, and August 31, 2015. We concluded UCO effectively administered the rebate programs and that ES, HVAC, and NG rebates were properly paid and supported, and issued only for qualifying appliance/equipment purchases in accordance with the City's established rebate criteria. However, we identified two areas for which improvements should be made to strengthen controls over the rebate programs and help mitigate the risk of fraud and rebate errors. Our audit disclosed:

- There is a risk improper rebate payments could be made due to fraudulently submitted ES rebates for appliances that were never purchased and/or installed by utility customers.
- UCO's documented rebate procedures did not always reflect actual rebate processing practices.

We have made recommendations to mitigate the risks associated with each of the two above identified issues.

We wish to acknowledge and thank UCO staff and management for their full and complete cooperation and support throughout this audit.

***City Manager's
Response***

City Manager:

The Utility Rebate Program is an important part of the City's Demand Side Management program and has resulted in reduced energy and water consumption, which has lowered utility bills, reduced environmental pollution, reduced demands on our drinking water supply, reduced the need for additional power generation, and created local jobs weatherizing homes and installing energy efficient equipment.

I am pleased that the Auditor found the Energy Star, Heating Ventilating and Cooling, and Natural Gas rebates were properly paid and processed in accordance with the City's established rebate criteria. I also believe the recommended actions will further improve our processes. I would like to thank the City Auditor and his staff for their thorough review of the program.

Appendix A Management's Action Plan		
Action Steps	Responsible Employee	Target Date
A. To ensure rebate procedures reflect actual rebate practices.		
1. 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.	Kim Meeks, Customer Operations	March 15, 2016
2. Rebate procedures will be updated to authorize all applicable rebate staff to approve ES rebates for pool pumps.	Kim Meeks, Customer Operations	March 15, 2016
3. Rebate procedures will be updated to specify the exceptions to proof of purchase documentation requirements for ES, HVAC, and NG rebates.	Kim Meeks, Customer Operations	March 15, 2016
4. Rebate procedures will be updated to eliminate the requirement for recording the adjustment identification number(s) on rebate applications; or UCO rebate staff will be reminded to ensure the adjustment identification number(s) are recorded on all rebate applications when paid.	Kim Meeks, Customer Operations	March 15, 2016
5. Rebate procedures will be updated to provide for a supervisory review of all rebates.	Kim Meeks, Customer Operations	March 15, 2016