

June 22, 2016

REPORT #: 2016-07

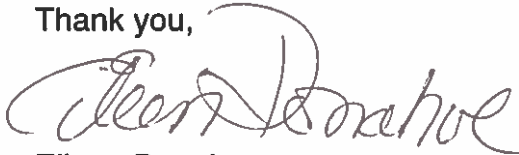
Steve Zurn, General Manager  
Glendale Water and Power

Dear Steve,

Enclosed is the final audit report for the Public Benefit Programs. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the audit.

Should you have any questions, please feel free to contact Natalie Minami-Valdivia or myself.

Thank you,



Eileen Donahue,  
Internal Audit Manager

Enclosure

CC: Yasmin Beers, Assistant City Manager  
Robert Elliot, Director of Finance  
April Fitzpatrick, Deputy General Manager  
Michele Flynn, Assistant Director of Finance  
Craig Kuennen, Business Transformation and Marketing Administrator  
Scott Ochoa, City Manager  
City Council  
Audit Committee

REPORT #: 2016-07



# **Public Benefit Programs Audit**

**June 22, 2016**

## Background

In accordance with Internal Audit's fiscal year 2015-16 annual work plan, Internal Audit performed an audit of the City of Glendale's Public Benefit Programs which are administered by the Glendale Water & Power (GWP), Conservation and Utility Modernization Division – Public Benefits Section.

Beginning January 1, 1998, the State mandated that each local publicly-owned electric utility, such as GWP, establish a separate surcharge referred to as a Public Benefit Charge (PBC) for funding programs in any or all of the following areas:

- Cost-effective demand-side management services to promote energy efficiency and energy conservation.
- New investment in renewable energy resources and technologies.
- Research, development and demonstration (RD&D) programs for the public interest to advance science or technology.
- Services provided for low-income electricity customers including, but not limited to, energy efficiency services, education, weatherization, and rate discounts.

The state-mandate was adopted by the City and codified in Glendale Municipal Code (GMC) 13.44.425 allowing GWP

to impose a PBC, currently set at 3.6%, on electric bills for specific purposes and retain PBC revenues in the Electric Public Benefit Fund. The PBC revenues projected for FY 2015-16 are approximately \$7 million.

Every two years GWP submits the PBC program plan to City Council for review and approval. The plan outlines the programs offered by GWP and provides the budget estimate. For the period July 1, 2014 through June 30, 2016, the plan included 17 public benefit programs in the four categories: Low income, Energy Efficiency, Renewable Energy and Modernization RD&D as shown in the table below.

PBC PROPOSED BUDGET (\$1000s)		
Program	FY 14-15	FY 15-16
<b>LOW INCOME</b>		
Senior Care*	\$ 506	\$ 458
Glendale Care*	\$ 1,526	\$ 1,831
Guardian*	\$ 192	\$ 200
Helping Hand*	\$ 10	\$ 10
<b>ENERGY EFFICIENCY</b>		
Smart Home AC Tune-Ups	\$ 25	\$ 25
Tree Power	\$ 40	\$ 40
Home Energy Reports	\$ 559	\$ 558
Smart Business Energy Saving Upgrades	\$ 300	\$ 300
Smart Business AC Tune-Ups	\$ 50	\$ 50
Business Energy Solutions*	\$ 300	\$ 300
Livingwise	\$ 60	\$ 60

<b>PBC PROPOSED BUDGET (\$1000s)</b>		
<b>Program</b>	<b>FY 14-15</b>	<b>FY 15-16</b>
Smart Home Rebates*	\$ 125	\$ 150
<b>RENEWABLE ENERGY</b>		
Solar Solutions – Residential*	\$ 900	\$ 900
Solar Solutions - Small Business*	\$ 150	\$ 150
Solar Solutions - Large Business*	\$ 500	\$ 500
Solar Schools	\$ 50	\$ 50
<b>MODERNIZATION RD&amp;D</b>		
CEIVA Logic Home Area Network Project	\$ 323	\$ 323
<b>OTHER</b>		
ADMINISTRATION	\$ 425	\$ 500
<b>TOTAL EXPENDITURES (rounded)</b>	<b>\$ 6,040</b>	<b>\$ 6,404</b>

\*Denotes the Public Benefit programs administered in-house by GWP staff.

As denoted by the asterisk in the table above, nine of the public benefit programs offered are administered in-house by GWP staff. Of the remaining programs, six are administered by contracts executed by the Southern California Public Power Authority and two are administered by outside contractors procured by the City.

## Objective, Scope and Methodology

The primary objectives of this audit were to assess whether the programs funded by the PBC meet the required purpose of GMC 13.44.425 and that effective controls are in place to ensure funds are appropriately and accurately distributed.

The scope of the audit included public benefit programs administered by GWP and the rebates and/or incentive credits applied to GWP utility invoices and payments made from July 1, 2015 – March 16, 2016.

In order to accomplish the audit objectives, Internal Audit performed the following:

- Reviewed the public benefits program related policies, procedures, and municipal code.
- Interviewed and walked-through the public benefit program processes with key staff.
- Performed testwork on a selected sample of benefits provided to confirm the eligibility of the recipient, completeness of documentation, and accuracy of amount allowed. This focus of detailed testwork on eligibility and payment accuracy was limited to the programs administered in-house.
- Reviewed user access controls and billing module edit report for the NorthStar system utilized for some credits applied for the public benefit programs.

## Summary of Results

Information was gathered on the 17 public benefit programs currently offered by GWP that are funded with PBC revenues. For each program it was identified that GWP has developed policies and procedures which are individually documented and reviewed on a bi-annual basis. It was noted that the policies provide a description of each

program and criteria for participation while the procedures provide a high-level outline of program responsibility by position.

By performing a walk-through of each program we obtained an understanding of the application receipt, processing, and payment processes. In addition, test procedures were conducted on a sample of records to examine the application documentation for eligibility of recipients and accuracy of benefits allowed. In most instances the recipient was eligible and the PBC benefit was appropriate.

Finally we also performed a review of the user accounts with access to the NorthStar miscellaneous billing module. It was identified that 33 users have access.

Overall, from the information gathered and testwork performed we found the public benefit programs funded with PBC revenues meet the required purpose of City code and controls in place are generally effective for ensuring the funds distributed are appropriate and accurate.

However, through the walk-throughs and testwork conducted improvement areas were identified. These observations are summarized by risk rating in the chart that follows and are included in the Observation, Recommendation, and Management Response Section of this report.

<b>Priority 1</b>
Critical control weakness that exposes the City to a high degree of combined risks.
None noted.
<b>Priority 2</b>
Less than critical control weakness that exposes the City to a moderate degree of combined risks.
<ul style="list-style-type: none"> <li>o Inadequate segregation of duties and no independent review.</li> <li>o Some sensitive applicant information lacked adequate security.</li> <li>o No low-income requirement for Guardian program.</li> <li>o Control enhancements identified for Solar solution programs and Energy efficiency programs.</li> </ul>
<b>Priority 3</b>
Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks.
<ul style="list-style-type: none"> <li>o Internal schedules do not agree to other systems.</li> <li>o Three NorthStar user accounts identified for change.</li> <li>o Documentation on income determination not maintained.</li> <li>o Glendale Care program process improvements identified for supporting eligibility.</li> <li>o Improper award of multiple Helping Hand deposits.</li> </ul>

	Item	Observation/Risk	Recommendation	Management Response
Priority 2	1.	<p>Public Benefit Program staff perform the following incompatible duties:</p> <ul style="list-style-type: none"> <li>• Authorizing participant's eligibility in low income programs.</li> <li>• Updating rates within the NorthStar billing module.</li> <li>• Recording the rate change or discounts granted within the program tracking spreadsheet.</li> </ul> <p>A lack of segregation of duties increases the risk for error or inappropriate action. The potential for error is further increased as there is no independent review of the applicant documentation and supporting benefit calculations for the Low Income programs and/or Smart Home Rebate program, updates made within the NorthStar billing module, and/or a quality control report to review for erroneous or fraudulent bill credits.</p>	<p>It is recommended that management perform the following to improve controls:</p> <ul style="list-style-type: none"> <li>• Implement an independent review process of the program applications and supporting documentation.</li> </ul> <p><u>and</u></p> <ul style="list-style-type: none"> <li>• Segregate the responsibilities for authorizing, recording, and applying the bill credits within the NorthStar billing module.</li> </ul> <p><u>or</u></p> <p>Periodically review a billing module edit report and spot-check a sample of processed rebates and incentives from the report to the program schedule and application packet.</p>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>• Implement a procedure to randomly select a sample of applications and the related supporting documentation to be independently reviewed on a monthly basis.</li> <li>• Work with GWP Information Services (IS) to generate monthly reports in order to periodically spot-check a sample of processed rebates and incentives to the program schedule and application packet.</li> </ul> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
2.	<p>Sensitive social security number and/or medical information contained in Glendale Care and Helping Hand applications were not securely locked in filing cabinets.</p> <p>Precautions for proper protection of this information is critical, if it were to be lost, compromised, or disclosed without authorization, it could result in substantial harm to the individual and liability to the City.</p>	<p>It is recommended that management ensure that all sensitive customer information is properly safeguarded in locked cabinets.</p>	<p>Management agrees with this recommendation and took appropriate action upon notification to lock all file cabinets containing Public Benefit Program applications. Additionally, access to the work location has been limited to employees with swipe cards.</p>

Priority 2

Item	Observation/Risk	Recommendation	Management Response
Priority 2	3. Although the Guardian program is categorized as a Low Income program that benefits households with special electric powered medical equipment, there is no income verification of applicants.	It is recommended that management update the Guardian application process to require income documentation to enable program administrators to properly identify low income recipients for the discounts that are eligible to be funded by PBC revenues and should properly identify an alternative budget source for the non-low income applicants.	Management agrees with the recommendation and will evaluate the most appropriate funding for the program.
	As a result, some Guardian program recipients receiving a discount funded by PBC revenues may have income above the low income threshold which is not in accordance with the low income purpose of the PBC program.	Additionally, it is recommended that the conditions for participating, included within the application, be updated to include electric customer's household members.	Additionally, the conditions for participating, included within the application, will be updated to include electric customer's household members.
	Additionally, it was noted that the application does not clearly indicate that bill discounts are available for household members with prescribed electric powered medical equipment.		The anticipated completion date is December 31, 2016.



Item	Observation/Risk	Recommendation	Management Response
Priority 2	<p>4. Based upon testwork for the Solar Solutions program we identified:</p> <ul style="list-style-type: none"> <li>One claim form included over \$16,500 in installation costs that were inappropriately supported with vendor quotes and a packing slip instead of the itemized paid-in-full invoice as required in the program instructions and procedures.</li> <li>There is no evidence of supervisory review performed prior to approval notification being sent to the applicant.</li> <li>There is no verification that the details of the required shade analysis are accurately entered for the incentive calculation.</li> <li>There is no verification that the components used in the incentive calculation are the same as those included within the invoice.</li> </ul>	<p>It is recommended that management enhance controls for the Solar Solution program to:</p> <ul style="list-style-type: none"> <li>Ensure that all payments are properly supported by an itemized paid-in-full invoice.</li> <li>Evidence review and approval of the incentive package prior to notification being sent to the applicant.</li> <li>Implement a procedure to verify the shading analysis provided is accurately reflected within the incentive calculation.</li> <li>Implement a procedure to agree the components used in the calculation to the detailed invoice.</li> </ul>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Require that an itemized paid-in-full invoice be submitted prior to the incentive payment being processed and include it within the packet for the review process performed by the Public Benefits Coordinator.</li> <li>Begin evidencing the review and approval of the Solar Solutions Incentive application packets on a going forward basis.</li> <li>Implement a procedure to verify that the shading analysis provided is accurately reflected within the incentive calculation and will verify the shading analysis and seek a refund for any overpaid incentives.</li> <li>Develop a procedure to agree the components.</li> </ul> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
Priority 2	<p>5. Walk-through procedures of Energy Efficiency programs and specific testwork identified the following:</p> <ul style="list-style-type: none"> <li>The Business Energy Solution (BES) incentive payment limit of 14 years of PBC contributions is not enforced.</li> <li>The supervisor's review of the BES application package is not evidenced.</li> <li>There are no pre-established Smart Home Rebate billing codes and discounts for the various programs (refrigerator, clothes washer, air conditioning, etc.). Alternatively, the credit amount is manually entered into the NorthStar billing module which increases the possibility of error.</li> <li>Continued availability of Smart Home Rebate funding is not confirmed prior to sending an applicant a reservation letter.</li> <li>Smart Home Rebate applications are not date-</li> </ul>	<p>It is recommended that management add to program controls by performing the following:</p> <ul style="list-style-type: none"> <li>Implement a procedure to calculate the maximum incentive payment that the customer is eligible to receive. <u>or</u> Update the policy to reflect current practice of not limiting the program to 14 years of PBC contributions.</li> <li>Establish a procedure to document the supervisor's review of the BES applications performed.</li> <li>Work with GWP IS to establish billing rate codes for the Smart Home Rebates within the NorthStar billing module.</li> <li>Establish a procedure to ensure that all Smart Home Rebates reserved and/or expended are properly tracked and monitored for budget availability.</li> <li>Date-stamp Smart Home</li> </ul>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Update the policy to eliminate the 14 years of PBC contributions limit.</li> <li>Establish a signature line under the "project stats" worksheet for each BES application to evidence the supervisor's review which was completed prior to issuance of this report.</li> <li>Work with GWP IS to implement rate codes within the NorthStar billing module for each residential rebate issued.</li> <li>Update current internal spreadsheet to reflect monthly expenditure totals and monitor rebate expenditures monthly to ensure budget availability.</li> <li>Date-stamp Smart Home Rebate applications upon receipt.</li> <li>Our current windows calculation template will be made available to customers and will also be a required document that needs to</li> </ul>

Item	Observation/Risk	Recommendation	Management Response
	<p>stamped upon receipt.</p> <ul style="list-style-type: none"> <li>Window rebates were either inaccurately paid or lacked sufficient documentation to verify the payment accuracy. Additionally, the square footage calculation used to determine the rebate amount was not attached as supporting documentation.</li> <li>Energy Star eligibility was not consistently documented.</li> </ul>	<p>Rebate applications upon receipt.</p> <ul style="list-style-type: none"> <li>Provide the applicants with a calculation template to be completed, signed, and submitted with the Smart Home Rebates - High Performance Windows program application. Allowing Public Benefits Section staff to shift the responsibility for obtaining the necessary window dimensions and calculating the rebate amount to the applicant. Thus, enabling staff to focus their efforts on review of the calculation and identifying necessary corrections.</li> <li>Include printouts of the product's Energy Star eligibility within the file.</li> </ul>	<p>be submitted along with the Energy Star window rebate application.</p> <ul style="list-style-type: none"> <li>When customer does not submit Energy Star documentation of the appliance, Customer Services Utility Representative will research and print Energy Star eligibility documentation and attach it to the rebate application packet.</li> </ul> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
Priority 3	<p>6. Some discrepancies exist between the internal schedules maintained and the systems for processing benefits such as NorthStar and the Glendale Financial System (GFS). These differences affect the reliability and accuracy of the information as summarized below:</p> <ul style="list-style-type: none"> <li>For the Solar Solutions program there were four discrepancies identified from the reconciliation between the internal schedule and GFS. Two differences resulted in incentive overpayments that totaled \$1,110 and the other two were input errors that had no financial effect.</li> <li>For the Smart Home Rebate program there were multiple differences between the schedule and NorthStar billing system report as follows: <ul style="list-style-type: none"> <li>6 rebates in the schedule could not be traced to the NorthStar report.</li> <li>15 rebates in the schedule did not indicate the rebate type received (i.e. washing machine, high efficiency toilet, or refrigerator) or were incorrectly entered</li> </ul> </li> </ul>	<p>It is recommended that the management of the Public Benefits Section consider the following:</p> <ul style="list-style-type: none"> <li>For the Solar Solutions program establish a procedure to verify and record the payment information (payee, amount, date) within the internal schedule resolving any identified variances and determining the feasibility of requesting a refund of the two overpayments.</li> <li>For the Smart Home Rebate program, <ul style="list-style-type: none"> <li>Work with the GWP IS Section to develop a report of the Smart Home Rebates processed on a monthly basis to reduce the number of missing records and other errors within the schedule and the date to be used for the NorthStar report (i.e. the scheduled date in the CARE call maintenance screen or the Added on Date on the miscellaneous billing screen).</li> </ul> </li> </ul>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Implement a procedure to record the payment information within its Solar Solutions Incentive schedule. Additionally, management will determine the feasibility of requesting refunds for the overpaid solar solutions incentive payment.</li> <li>For the Smart Home Rebate program, management will perform the following: <ul style="list-style-type: none"> <li>Work with GWP IS section to develop a quarterly report of Smart Home Rebates processed.</li> <li>Reconcile rebates schedule to the credits listed in NorthStar on a periodic basis.</li> <li>Add a column to the rebate schedule to identify approved versus denied rebates.</li> <li>Explore the possibility with GWP IS to be able to have a</li> </ul> </li> </ul>

Item	Observation/Risk	Recommendation	Management Response
	<p>making it difficult to match to the NorthStar system.</p> <ul style="list-style-type: none"> <li>○ 20 rebates within the schedule were either missing a digit in the occupancy suffix or were incorrectly entered.</li> <li>○ 1 rebate was duplicated in the schedule, but correctly had only one utility bill credit in NorthStar.</li> <li>○ 50 NorthStar bill credits could not be located within the schedule.</li> <li>○ 5 rebates were excluded from the NorthStar report because a call was not recorded or the call had an incorrect call status.</li> <li>○ There are inconsistencies when multiple rebates are processed on a single date, between the number of line items/records entered into the schedule, NorthStar call maintenance log, and NorthStar miscellaneous billing screen making it difficult to reconcile rebates for residential accounts.</li> </ul>	<ul style="list-style-type: none"> <li>○ Establish a procedure to reconcile the Smart Home Rebate schedule to the Smart Home Rebates credits listed within the NorthStar system on a periodic basis.</li> <li>○ Add a column to the Smart Home Rebate schedule to identify approved versus denied rebates.</li> <li>○ Establish a procedure to enter each rebate as a separate line item and specify the program within the Smart Home Rebate schedule, the NorthStar call log, and the NorthStar miscellaneous billing screens when processed to facilitate the process of identifying the number of times and frequency of the rebates granted comply with the program terms and simplify the reconciliation process.</li> </ul>	<p>separate line item specifically identifying each rebate.</p> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
Priority 3	<p>7. Through review of the user accounts with access to the NorthStar miscellaneous billing module, we identified the following:</p> <ul style="list-style-type: none"> <li>One generic user account is utilized by multiple individuals on the NorthStar team making it difficult to hold an individual accountable for actions associated with its use.</li> <li>Two terminated employees have user accounts that are still active.</li> </ul>	<p>It is recommended that management perform the following:</p> <ul style="list-style-type: none"> <li>Establish individual accounts for each NorthStar user.</li> </ul> <p><u>or</u></p> <p>Establish individual user remote access controls to enable the GWP to track individual user's access to the NorthStar system.</p> <p><u>and</u></p> <ul style="list-style-type: none"> <li>Establish a procedure to inactive employees within the NorthStar system upon termination.</li> </ul>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Establish individual user remote access controls to enable the GWP to track individual user's access to the NorthStar system.</li> <li>Establish a procedure to inactive employees within the NorthStar system upon termination.</li> </ul> <p>The anticipated completion date is December 31, 2016.</p>
	<p>8. Based on a walk-through of the processes for evaluating Public Benefit program applications, we identified that there is no documentation maintained of the calculation of the applicant's annualized income for the Senior Care, Glendale Care, and Helping Hand programs. This lack of documentation makes it difficult to substantiate the recipient's eligibility in the low income programs.</p>	<p>It is recommended that management develop a process to document and maintain the calculation of the applicant's annualized income and low income eligibility calculation for all low income public benefit programs.</p>	<p>Management agrees with the recommendation and will develop an internal form for PBC staff to input applicant's annualized income and be able to calculate and document applicant's income and income eligibility for applicable PBC low income programs.</p> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
Priority 3	<p>9. Detailed testwork performed on a selection of 24 Glendale Care program approved applications, identified the following policy exceptions:</p> <ul style="list-style-type: none"> <li>One applicant did not meet the primary residence eligibility requirement and was granted an exception given the family household structure.</li> <li>Twelve applications did not have the required income documentation to support the low income determination for the gross annual household income. Specifically, <ul style="list-style-type: none"> <li>In nine instances, proof of age and/or income for household members 18 years of age or older was not provided. The practice has been to accept documentation that any household member receives a form of public assistance (i.e. Medi-Cal, Food Stamps, and Supplemental Security Income) in lieu of confirming household income.</li> </ul> </li> </ul>	<p>It is recommended that management perform the following:</p> <ul style="list-style-type: none"> <li>Establish a procedure to document exceptions to the current policies and/or procedures.</li> <li>Confirm that the records obtained under current practice for verifying low income eligibility meets the purpose of the program requirements and if so update the policy, procedure, and application form to be consistent with the current practices or if the documentation currently obtained is not appropriate enforce the current policy and procedure on required documentation.</li> </ul>	<p>Management agrees with the recommendation and will perform the following:</p> <ul style="list-style-type: none"> <li>Establish a procedure to document exceptions to the current policies and/or procedures.</li> <li>Review and update current Glendale Care policy and procedures to be consistent with current practices.</li> </ul> <p>The anticipated completion date is December 31, 2016.</p>

Item	Observation/Risk	Recommendation	Management Response
	<ul style="list-style-type: none"><li>Individually for the remaining three instances, a zero income declaration form was accepted instead of the food stamp award letter, a Medicare card was incorrectly accepted as proof of participation in a public low income program, and no income documentation was provided for the account holder.</li></ul>		



Item	Observation/Risk	Recommendation	Management Response
Priority 3	<p>10. Based on information gathered it was noted that the Helping Hand program is intended to provide a one-time temporary bill relief and deposit assistance to low income GWP customers. However, from our analysis of the data we identified at least eight individuals that inappropriately received up to \$150 of multiple Helping Hand low income program assistance.</p>	<p>It is recommended that management develop a method to track the one-time Helping Hand assistance that provides for consistent recording of information by recipient. As well, the use of a social security number should be discontinued due to the sensitivity and liability of maintaining this information in an internal spreadsheet.</p>	<p>Management agrees with the recommendation and will consider the feasibility of revising the policy to limit to program eligibility to once every two years and using another less sensitive unique identifier, such as the customer number, for tracking purposes.</p> <p>The anticipated completion date is December 31, 2016.</p>
	<p>These additional payments likely occurred due to the use of an internal spreadsheet for tracking the approximate 5,300 Helping Hand Program recipients and the inconsistent recording of the unique identifier which is often the social security number.</p>	<p>Further if exceptions are granted that allow for multiple Helping Hand assistance it should be clearly documented in the policies and procedures.</p>	