

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

**DATE:** October 20, 2014

**TO:** Philip Leiber, Chief Financial Officer  
Department of Water and Power

**FROM:** Farid Saffar, Director of Auditing  
Office of the Controller



**SUBJECT: AUDIT OF THE DEPARTMENT OF WATER AND POWER'S (DWP)  
BANK ACCOUNTS NOT CONTROLLED BY THE OFFICE OF FINANCE**

The Controller's Auditing Division has completed an audit of the Department of Water and Power's (DWP or Department) bank accounts not controlled by the Office of Finance/Treasurer's Office (OOF). As of March 31, 2014, DWP maintained 56 such trust fund bank accounts, and the authorized amount of these funds totaled \$3.9 million. The funds are primarily used for the following purposes:

- To make rebate payments to consumers under a variety of programs, such as rebates for electric vehicle chargers and high efficiency washers.
- To make small emergency purchases of needed supplies and services.
- To pay for specific expenses that are numerous and similar in nature, such as litigation related expenses and claims for property damage.

The objectives of the audit were:

- To evaluate the need for such a large number of bank accounts, and to determine whether the \$3.9 million authorized amount could be substantially reduced.
- To verify that expenditures were for authorized purchases and were properly supported by documentation.
- To evaluate whether the Department exercises adequate controls over the bank accounts (e.g., timely reconciliations of the accounts, management oversight over the funds, etc.).

The audit included a detailed review of three bank accounts, which comprise \$807,100 (21%) of the \$3.9 million in authorized funds. One account is used to pay rebates to DWP customers for installing electric vehicle (EV) chargers, one is used to pay rebates

to consumers who use high efficiency clothes washers, and one is primarily used to pay for certain travel expenditures.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Summary Results**

For the three bank accounts we reviewed in detail, all expenses we sampled were properly supported by documentation and were for authorized uses of the funds. However, we found that the authorized \$3.9 million for the 56 accounts can be substantially reduced – perhaps by as much as \$1.7 million. This would free-up monies for other uses and result in increased interest earnings. We also noted several areas where internal controls over the accounts/funds, particularly the EV Chargers Trust Fund, need to be strengthened. For example, bank accounts are not always reconciled in a timely manner, old outstanding checks are not always canceled, and reconciling bank statement items are not always promptly resolved in a timely manner.

Details of the audit's findings and recommendations are contained in the Observations section of this report.

### **Review of Report**

We provided a draft report to your Department on September 22, 2014. On October 9, 2014, we discussed the draft with Department management, who generally agreed with the findings and recommendations. By November 20, 2014, please provide my Office with planned actions your Department has taken or will take to implement the recommendations. We appreciate the cooperation and assistance provided by DWP staff and management during our audit.

## **BACKGROUND**

### **DWP Bank Accounts**

DWP maintains 56 trust fund bank accounts, with a total authorized amount of \$3.9 million that are not controlled by the OOF. This means that these bank accounts are maintained outside the City depository and are stand-alone bank accounts. The accounts are used for a variety of purposes, and the authorized amounts for each account ranges from \$2,000 to \$1 million.

DWP's Financial Services Organization (FSO) administers and controls the accounts. The Chief Accounting Employee (CAE) was granted the authority by DWP's Board of Water and Power Commission (Board) to establish new accounts, delete existing accounts and to determine the amount to be allocated to each account, within the \$3.9 million limit established by the Board.

In conducting our audit, we reviewed the following three bank accounts in detail:

A. Electric Vehicle (EV) Charger Rebate Trust Fund

The Electric Vehicle (EV) Charger Rebate Trust Fund bank account, which has an authorized revolving fund amount of \$100,000, is maintained by the Power System Engineering Unit. The account is used to pay rebates to DWP customers for the purchase and installation of EV chargers.

Customers who acquire a qualifying electric vehicle and who have an EV charger installed in their residence can apply for a rebate from DWP and can be reimbursed for up to \$2,000 in out-of-pocket expenses. To qualify for the rebate, certain requirements must be met such as:

- The rebate applicant must be a DWP residential customer or live in the same household as the DWP customer.
- The applicant must own an electric vehicle, and the EV charger must be located within DWP's service area.
- The charger must be installed by a qualified and licensed contractor, in accordance with local codes and permitting and inspection requirements.

Rebate applicants must submit documentation, such as a copy of their DWP utility bill; either a DMV vehicle registration or lease or purchase contract; photographs of the completed charger installation and separate EV meter; contractor's agreement or owner-builder certificate; Department of Building and Safety permit and final inspection forms; and evidence of payment for the equipment and installation.

The program was initially only available to residential customers, but was expanded in August 2013 to include commercial customers. For the period October 1, 2013 to January 31, 2014, the Department issued approximately \$450,000 in rebate payments.

B. High Efficiency Washer (HEW) Rebate Trust Fund

DWP initiated the high efficiency washer (HEW) rebate program in 1998. DWP customers who purchase qualified clothes washers can avail of the rebates offered by DWP. The typical rebate is \$300, and the authorized revolving fund amount for the

HEW Rebate Trust Fund is \$100,000. The bank account is maintained by the Water Conservation Group.

Prior to 2010, DWP handled the processing of rebates in-house. However, beginning in 2009, DWP customers began submitting their rebate applications with required supporting documents (water bill and receipt for the purchase of the qualified washer) to Metropolitan Water District's (MWD) contractor, Electric and Gas Industries Association (EGIA). EGIA is responsible for processing rebates for MWD's member agencies, including DWP.

Each week, EGIA sends DWP an electronic spreadsheet of rebate applicants. DWP then verifies that each individual listed in the spreadsheet is a DWP customer. Upon DWP's approval, EGIA then processes and pays the rebates. The payments **are not** made through the HEW Rebate Trust Fund. Rather, they are paid through a MWD bank account and subsequently reimbursed by DWP.

Although EGIA is responsible for processing these rebates, there are rare occasions when a rebate is paid through the HEW Rebate Trust Fund. An example is when EGIA has denied an application, but the applicant later proves to DWP that (s)he is entitled to receive the rebate. From October 1, 2013 through March 31, 2014, three rebate payments totaling \$900 were made from the HEW Rebate Trust Fund.

#### C. Finance Services System (FSS) Trust Fund

As of March 31, 2014, the FSS Trust Fund had an authorized amount of \$607,100. Typically, each new DWP bank account is established through the FSS Trust Fund. As such, this fund is also used to increase the authorized amount in existing bank accounts. Likewise, monies related to closed bank accounts and decreases in authorized amounts are returned to the FSS Trust Fund. The FSS Trust Fund account is also used to provide travel advances to employees, when processing the advance through the normal Accounts Payable process is not feasible due to time constraints. It is also used for payments of membership fees/sponsorships in selected associations, groups or affiliations approved by the General Manager or designee.

### **OBSERVATIONS**

**Finding #1 DWP does not periodically assess the authorized amount of each bank account for appropriateness. Based on our analyses, the \$3.9 million in authorized accounts could potentially be reduced by approximately \$1.7 million (44%). This would free-up monies for other uses and result in increased interest earnings.**

As part of our audit, we evaluated whether the Department could potentially reduce the number and amount of bank accounts. For example, certain accounts may have been

established several years ago, but due to changing circumstances (e.g., increased use of purchasing cards, elimination of certain programs, etc.), the account may now have significantly less activity.

First, we obtained the total amount of reimbursements made to each bank account for a one-year period to determine if any had little or no activity. We noted 18 accounts met this criteria. The total authorized amount for those 18 accounts is \$138,000. Based on our inquiries, DWP indicated that three accounts could be closed. In addition, one other account could be closed if the custodian was provided with a purchasing card.

Next, we performed analyses to determine the extent to which the \$3.9 million in authorized funds could be reduced. As a general rule, the authorized amount of a revolving fund should approximate two months of expenses. Therefore, if a fund averages \$1,000 per month in expenditures, a \$2,000 authorized amount would usually be sufficient if the fund is reimbursed on approximately a monthly basis. A higher authorized amount may be needed in situations where the amount of expenditures fluctuates widely on a monthly or per check basis.

Using the two-month guideline, we analyzed activity for the 56 accounts for a one-year period and found the following:

- 18 accounts had little or no expenses.
- 11 had expenses where it would take five or more years to exhaust the fund, assuming no reimbursements to the fund.
- 11 had expenses where it would take one year to five years to exhaust the fund.

There were only four accounts where it would take less than three months to exhaust the account balance (assuming no reimbursements to the fund).

Based on the two-month guideline, we estimate that the \$3.9 million in authorized funds could be reduced by approximately \$1.7 million (44%). We recognize that certain accounts with minimal authorized amounts may need to remain open in the event that an emergency purchase is required. However, for these accounts, it may be possible to significantly reduce the authorized amounts, especially if purchasing cards have been or can be assigned to the section/division handling these accounts. Reducing the authorized amount of bank accounts would free-up monies for other uses and result in increased investment earnings.

We noted that the Department does not have any policies and procedures in place to periodically assess the authorized amount of each bank account for appropriateness. If the Department had performed such reviews, it may have identified "excess" funds in specific accounts, which we found in two of the three funds we reviewed in detail. The following provides our analyses of these two funds:

### High Efficiency Washers (HEW) Rebate Trust Fund

The associated bank account for this fund was initially authorized for \$25,000. However, in 2010, the amount was increased to \$100,000 to accommodate a pilot program in anticipation of increased rebate requests. The program ended in November 2011, but DWP never reverted the authorized amount back to its prior level, nor has it performed any analyses to evaluate the amount of the fund.

According to DWP's records, the total amount of rebates paid was \$232,000 in 2011. However, this amount decreased to \$10,000 in 2012 and to \$7,000 in 2013. For the six month period from October 1, 2013 to March 31, 2014, only three rebates totaling \$900 were issued. Based on this level of activity, it would take over 50 years to exhaust the \$100,000 fund amount. It appears that the authorized amount for this fund could be reduced to between \$1,000 and \$2,000.

### FSS Trust Fund

This bank account has an authorized amount of \$607,100. As previously indicated, the account is used to establish new accounts and to increase existing accounts. When accounts are closed or their amounts reduced, the monies are deposited to the FSS Trust Fund.

The other primary use of the FSS Trust Fund is to provide travel advances to employees when processing them through the normal Accounts Payable (A/P) process is not feasible due to time constraints. Based on our analysis, approximately 8% of travel advances are processed through the FSS Trust Fund. The fund is also used for payments of membership fees/sponsorships in selected associations, groups or affiliations approved by the General Manager or designee.

The FSS Trust Fund has been used as DWP's main account to establish or adjust amounts of other bank accounts and other miscellaneous purposes. However, with proper planning, DWP should usually know well in advance whether it needs to establish a new fund or increase the amount of an existing fund. In addition, for other payments, a check processed through the Department's A/P system should only take about one week to issue. In emergencies, the check should be able to be issued within a few days, possibly by the following day.

Other than two large checks to increase existing funds for other bank accounts, which could have been avoided if DWP did not use the FSS bank account to fund new accounts and increase funds in existing accounts, DWP issued only \$63,000 in checks for direct expenditures between January 1, 2014 and June 25, 2014. Using the two-month guideline, the FSS Trust Fund could be reduced to about \$20,000 if the fund was limited to being used for emergency travel advances and membership fees/sponsorships.

### **Recommendations**

#### **DWP management should:**

- 1. Close or reduce the authorized amount for bank accounts specifically noted in this audit.**
- 2. Periodically review each bank account to determine whether any can be closed or consolidated with another account. This review should include an assessment as to whether expanded use of purchasing cards could result in elimination, reduction, or consolidation of accounts.**
- 3. Periodically assess the appropriateness of the authorized amount for each bank account.**

**Finding #2 Some bank accounts are not replenished in a timely manner. We noted eight bank accounts where expenses were made from the accounts over one year ago, but the accounts had not been reimbursed for the issued checks. Nine un-replenished checks date back to 2003 and 2005.**

DWP's bank accounts operate on a revolving fund basis. The fund custodian should periodically request replenishment, as a check made payable to the account, to reimburse prior disbursements, up to the authorized amount of the account. These bank accounts should be reimbursed in a timely manner to ensure the account has sufficient funds to pay future expenses. Submitting timely requests for replenishment may also help minimize problems with providing adequate support documentation to the unit/division responsible for processing the request. Specifically, the failure to replenish funds in a timely manner increases the risk that supporting documentation for expenses could become lost.

Our review of quarterly bank statements submitted by DWP to the Office of Finance disclosed eight accounts/funds with disbursements issued more than a year ago where the fund custodians had not sought replenishment through submission of reimbursement requests. For example, the Power System Training Fund had issued 11 checks prior to 2013, totaling \$1,972, that had not been replenished as of March 31, 2014. In fact, one check was written in 2003, and seven checks were issued in 2005. We also noted that the Telecommunications Section Fund had 29 un-replenished checks, totaling \$2,378 from 2010, and the Street Lighting Maintenance Headquarter's Fund had an un-replenished check from 2005.

### **Recommendation**

- 4. DWP management should ensure that bank accounts are replenished within a reasonable time period for checks issued.**

**Finding #3 DWP has not adequately monitored the EV Charger Rebate Trust Fund. Due to improper accounting practices and inadequate recordkeeping, we were unable to determine if there is any overage or shortage in the fund.**

The EV Charger Rebate Trust Fund is supposed to function as a revolving cash account. Considered a more efficient way to do business, a separate bank account is used to pay authorized rebates, and the account is then periodically reimbursed by the Department's General Fund for payments made. As a standard practice, a revolving fund maintains a consistent approved balance, so at any time, the cash on hand in the account, plus the disbursements that have been issued but not yet reimbursed from the General Fund, should equal that balance. The fund's custodian should maintain a check ledger that records all disbursements and deposits, noting a current available balance. Requests for replenishment should be made periodically as reimbursement requests up to the approved balance, based on prior checks issued. Finally, internal records should be reconciled to the bank statement monthly.

Our review found such poor accounting practices in the management of this fund that we are unable to determine if there is any overage or shortage in the account.

The EV Unit did not have an internal accounting record for the account noting receipts and disbursements or reflecting the remaining account balance. Rather, the Unit maintains a rebate log that is used to track the status of a rebate check. While the EV Unit prepares a monthly "Revolving Fund Reconciliation" that shows the available bank balance after outstanding checks are deducted, the available bank balance is not reconciled with the fund balance in accordance with EV Unit's records.

We also noted that the EV Unit requests replenishments of the fund, even before checks have been issued. For example, for the six-month period October 2013 to March 2014, the majority of reimbursements were made between one and three months before the checks were issued. The amounts were based on estimated amounts, which frequently differed from the actual amount of the checks. These differences complicate the bank reconciliation process. Also, this practice resulted in large bank balances at certain times; in November 2013 and December 2013, the bank balances reached \$252,715 and \$228,532, respectively. As noted above, the cash balance accounts maintained on a revolving fund basis, should not exceed the authorized amount for the account. These amounts were substantially higher than the \$100,000 authorized amount.

We noted the following additional improper accounting practices:

- Checks that had not been issued were included in the Department's listing of outstanding checks. For example, in the November 2013 bank reconciliation, outstanding checks were shown at approximately \$194,000. However, of that amount, approximately \$22,000 (11%) was for checks issued in the following months of December 2013 up to February 2014. Likewise, in the December 2013 reconciliation, \$24,000 (19%) of the total outstanding checks of approximately \$129,000, were issued in the following months of January and February 2014.
- We identified seven instances where the account was replenished twice for the same checks (i.e., double reimbursements). The seven checks were requested for replenishment of the account, once in December 2013 and again in January 2014. Each check was for \$2,000. These exceptions had not been addressed as of the end of our fieldwork.
- Some checks issued in December 2013 and in January 2014, totaling \$13,000, which had been cashed by the payees by the end of February 2014, had not been requested for replenishment as of March 2014.
- Adjustments for discrepancies, such as over or under reimbursements or correction for double reimbursements, were not completed timely. We noted that these discrepancies were carried over from month to month.
- For funds operating on a revolving basis, generally, requests to replenish the fund are made when approximately  $\frac{1}{4}$  of the fund has been depleted. This helps ensure that the fund does not become fully depleted. In fact, DWP's procedures state "requests for reimbursements shall be prepared when the funds are one-fourth expended, or as necessary." Therefore, for a \$100,000 authorized fund amount, each request for replenishment should be for approximately \$25,000. However, we noted four requests for replenishments, made between August 2013 and March 2014, for more than \$100,000. This included one request for \$218,083. Therefore, in essence, the EV Unit has exceeded the authorized amount for the fund.

As a result of these poor accounting practices, there is no assurance that the authorized trust fund amount is properly accounted for.

### **Recommendations**

- 5. DWP's Accounting and Financial Reporting Bureau should provide adequate guidance for the EV Chargers Rebate Trust Fund, regarding**

**proper bank reconciliations and maintaining basic internal accounting records to properly account for the funds.**

- 6. DWP management should assign its Internal Audit Unit or the Accounting and Financial Reporting Bureau to review the EV Chargers Rebate Trust Fund to determine if any overage or shortage exists in the account.**

**Finding #4 Eight of 14 (57%) bank reconciliations for accounts we reviewed were not performed within 30 days from the bank statement date, as required by DWP's policies and procedures for bank accounts.**

According to DWP's policies and procedures, bank accounts should be reconciled within 30 days of the bank statement date. Timely reconciliations help ensure adequate financial controls and the accuracy of DWP's bank records, because they would identify any errors made by the bank and/or inaccurate postings in DWP's internal records.

For the three bank accounts covered in this audit, we reviewed 14 bank reconciliations to determine if they were reconciled in a timely manner. We found that eight (57%) were not performed within 30 days of the bank statement date. The number of days late ranged from 4 to 51 days. Also, an additional reconciliation was not dated by both the preparer and reviewer, so we were unable to determine whether it was prepared in a timely manner.

#### **Recommendation**

- 7. DWP financial management should ensure that bank reconciliations are performed within 30 days of the bank statement date and that all reconciliations are signed/dated by both the preparer and reviewer.**

**Finding #5 Outstanding checks are not always canceled in a timely manner. For example, the HEW Rebate Trust Fund had five checks totaling \$1,500 that had been outstanding for more than two years but had not been canceled.**

Section 1.17 of the Controller's Manual requires checks outstanding for more than one year to be canceled (i.e., payment stopped). The failure to cancel checks in a timely manner complicates the bank statement reconciliation process, and can lead to inaccurate records. Also, long outstanding checks result in an overstatement of the authorized amount of the associated funds, because the funds would usually have already been reimbursed for the amount of the checks.

We noted that the HEW Rebate Trust Fund had six checks, totaling \$1,585, that had been outstanding for more than one year as of March 31, 2014. This included two

checks totaling \$600 that had been outstanding for four years; and three, totaling \$900, that had been outstanding for between two and four years. Two other bank accounts also had at least one check outstanding for more than four years.

**Recommendation**

- 8. DWP management should ensure that checks outstanding for more than one year are canceled in a timely manner, with the associated monies being returned to the correct fund.**

September 22, 2014