

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11\_\_\_\_\_

DOCKET NO. UG-11\_\_\_\_\_

EXHIBIT No. \_\_\_\_ (BWF-4)

BRUCE W. FOLSOM

REPRESENTING AVISTA CORPORATION

# **Data Management Review for Demand Side Management Programs**

**May 2011**

Provided Pursuant to UTC Order 07  
Dockets UE-100467 & UG-100468



## Introduction

In response to the Washington Utilities and Transportation Commission's (UTC) Order No. 7 in Dockets UE-100467 & UG-100468, Avista Corporation dba Avista Utilities ("Avista or the Company") submits its report on the Company's "Data Management Review for Demand Side Management (DSM) Programs". The Company engaged a third party evaluator, Moss Adams, to perform a review of these processes and procedures, as shown in the attached report and in this summary.

## Background

Paragraph 17 of the Settlement Stipulation in the above-referenced Docket provides:

### Independent, External Review of Data Management Strategy.

Avista agrees that an independent, third-party will conduct an evaluation of Avista's data tracking systems and data strategy for its DSM programs. The review will examine Avista's internal operations for data entry, tracking, and reporting, and its systems for ongoing review, oversight and controls to ensure data accuracy. As part of this review, the selected external evaluator will share industry best practices regarding data management strategies. The review will also examine whether the documentation required from participating customers is appropriate. The review is expected to culminate in a final report with findings, as well as recommendations regarding any new systems and/or controls the company should implement to improve and enhance its DSM data management. In addition, the final report will include recommendations regarding effective and accurate procedures that should be followed to correct DSM data, when errors are discovered particularly in filings with the Commission. Avista shall furnish the final report resulting from this review in a report to be provided to all Parties, and the Triple E Board, upon completion and prior to Avista's next general rate case.

Pursuant to the above Settlement Stipulation, Avista agreed to an independent, third-party evaluation of the data tracking systems and data strategy for its DSM programs. This document summarizes recommendations from the Moss Adams *Demand Side Management Programs Observations and Recommendations* report.

The Moss Adams final report provided recommendations as it relates to effective and accurate procedures that should be followed to correct DSM data, as required in the Settlement Stipulation. It also presented favorable findings. For example, the sample selection used by Moss Adams was based upon the American Institute of Certified Public Accountants (AICPA) Audit Sampling Guide for an expected 1.75% error rate, a 90% confidence level and a 5% tolerable deviation rate. This error rate of 1.75% and the 90% confidence level allows for two errors within the sample set. During their testing and review process, Moss Adams found one error in a rebate; therefore the 90% confidence was achieved relating to the dollar amount of the rebates.

The processes in place are effective in that the Company is achieving less than the expected error rate. With a sample size of 105 processed rebates, only one error was identified. The value of the error was \$14.64.

The Moss Adams review provided specific findings and recommendations within the structures of Internal Controls, Nonresidential Testing, Residential Testing, Low Income Testing and Cut-off Testing. These findings and recommendations are categorized in the following categories of Residential, Non-residential and Low-income for application within Avista's DSM operations.

### **Avista's Response to Moss Adams Findings**

In order to provide further clarity and information regarding Moss Adam's findings, and the Company's response to those findings, we have inserted the relevant sections from their report (Pages 4-10) below in italics. Under each paragraph, the Company provides its response/reaction to their findings:

#### ***Internal Controls***

*We met with several program implementation staff and walked through the process related to residential, nonresidential, and low income rebates. We documented these processes and have provided the following recommendations based upon those discussions and our walk-through of the processes:*

- *Due to time constraints, as the current manual process is very time consuming, staff do not consistently monitor reports to ensure projects are moving ahead or updated. As a result, old projects are often maintained in the system that either need to be moved to completed status or deleted. An automated system would allow additional time for appropriate review and monitoring functions to be performed and is considered a best practice. In the interim time prior to automation, we make the following recommendations:*
  - *Management should perform a monthly review of reports (best practice) so that errors can be detected and corrected in a timely manner. (Report at page 4)*

**Avista Response** – Starting in November 2010, the Company started formal monthly reviews. DSM management maintains a log documenting the review of monthly activity reports serving to identify, track and correct errors in a timely fashion.

**Status** – Reviews have occurred on a regular basis. A management log documenting monthly reviews was established in November 2010.

- *If errors are detected that would amend a prior year's report, management should determine the impact to the prior year report. Prior year reports that would be significantly impacted by errors should be amended to reflect those*

*changes. If not significant, the current year report should be adjusted so that the cumulative reports are correct. (Report at page 4)*

**Avista Response** – The Company will reissue past DSM Annual Reports if in any calendar year the total adjustments identified would result in a 5% or larger change in the Total Resource Cost (TRC) or Program Administrator Cost Test (PACT) benefit to cost ratio of either the electric or natural gas portfolio of a previously filed report. If the magnitude of the adjustment is such that this condition is not met, the corrections will be incorporated into the DSM Annual Report of the year in which the adjustment was discovered.

**Status** – This policy will be effective for any adjustments that affect calendar year 2011 or beyond. This may result in the reissuance of prior DSM Annual Reports or the preceding Triple-E Reports.

- *Management should set a threshold with stakeholders to determine what would be considered material (a percentage of error and/or a dollar amount of error). When assessing what is significant or material, both qualitative and quantitative information should be used and an amount or error that would create a substantial likelihood that a reasonable user's view of the results would have been altered due to the change would be considered material. Therefore, not only the number of rebates should be considered, but also the cost effectiveness should be considered and those results that would alter a reasonable user's view should be considered material. (Report at page 4)*

**Avista Response** – A materiality threshold will be established for kWh and therms with input from the Avista Advisory Group.

**Status** – Avista has an Advisory Group meeting scheduled for May 25, 2011 and this item will be presented and discussed at that time.

- *Exceptions are currently investigated using a manual process, which is time consuming and prone to error. Best practices would dictate using an automated process. We recommend the use of data extraction software, such as a program called Audit Command Language (ACL) which can be used to look for exceptions. (Report at page 4)*

**Avista Response** – Avista has been evaluating process automation as described in Avista's "Rebate Processing Procedures for Demand Side Management Programs"<sup>1</sup> report.

**Status** - The DSM team will continue to research and pursue implementation of data extraction software, such as Audit Command Language, to automate and assist in identification of exceptions and error identification. The tentative date for completion, as stated in the Rebate Processing report noted above, is late summer 2011.

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<sup>1</sup> Provided Pursuant to UTC Order 07 Dockets UE-100467 & UG-100468, Settlement Stipulation, Paragraph 15

- *Currently the vouchers that are submitted for payment to accounts payable are not pre-numbered, which could lead to rebates on a voucher being paid twice. We recommend the use of pre-numbered vouchers to prevent duplicate payment. This is an internal control best practice. (Report at page 4)*

**Avista Response** – Serialized vouchers will be used in an effort to prevent duplicate payments.

**Status** - Accounts Payable currently have processes in place that are being incorporated into the rebate process to meet this requirement.

- *Currently, there are no checks or balances to ensure that a project is not double counted as completed in two separate years. For example, a project can be marked as completed in December 2010 and then moved back to the study phase in January 2011 until the project is actually completed and then moved back to completed status again once the project is done. This would lead to the deemed savings of the project being reported in both 2010 and 2011. Due to this concern, we were asked to select a sample of nonresidential projects marked “completed” during December 2010 to see if the projects were actually completed and paid. The results of our testing disclosed a risk of potential for duplicate reporting. See “Cut-off Testing” section of our report for these results. (Report at page 5)*

**Avista Response** – Please see Avista’s response to this under the “Cut-off Testing” section.

**Status** – Please see Avista’s response to this under the “Cut-off Testing” section below.

- *As only a copy of a receipt is needed for residential customers, there is a risk that a customer could make multiple copies of a receipt and give it to friends to also submit a rebate. At this time, Avista does not complete home inspections on certain rebates, including appliances. As each residential rebate is not significant, the risk is minimized; however, it does exist and is somewhat limited to purchases in which the receipt does not have the customer name or address. The only way to prevent this risk would be to require an original receipt or home inspection; however, customers would likely not want to provide original receipts in case they have problems with their purchases and need to return them and home inspections would probably cost more than the actual rebate. (Report at page 5)*

**Avista Response** – This issue is being considered by the Company, balancing the cost of this risk to our customers, including possible inconvenience, against the potential magnitude and frequency of the risk. Current standard process includes customer notification of an incomplete rebate submission, with the rebate request maintained in a Pending status until the information has been completed.

**Status** - The Accounts Payable disbursement process currently provides protection from duplicate payments for identical data records. The Accounts Payable process continues to be reviewed in order to decrease the likelihood of duplicate payments.

- *Windows and insulation are only effective if installed properly. Currently, customers can install windows and/or insulation themselves (and therefore it may not be properly installed and not result in any deemed savings) and still obtain a rebate.*
  - *We recommend Avista consider either an inspection of window and insulation installations that are completed by the customer, or consider providing rebates only for professional installations. (Report at page 5)*

**Avista Response** – Avista will eliminate incentive opportunities for do-it-yourself installation programs.

**Status** - Effective April 2011, the rebates on DIY projects have been eliminated.

- *The nonresidential customers are tracked through the nonresidential database, which is a Customer Relationship Management (CRM) system typically used to manage a company's interactions with customers, clients, and sales prospects. Since a CRM system is not intended to be used as it is here, there are no controls to prevent a customer from being set up more than once as an account and therefore there is potential for a customer to be paid twice for the same rebate. Project implementation staff typically will do a search for a customer to try to ensure the customer is not entered more than once; however, the risk is still present. An integrated demand side management system that is integrated with customer accounts would prevent this from happening in the future. (Report at page 5)*

**Avista Response** – The Company agrees that duplicate customers and incentive entries are possible within SalesLogix, the Company's CRM system noted above. Avista is developing a process to minimize or eliminate the possibility of duplicate references.

**Status** – Avista's development of a process to identify and remove duplicate customer and incentive entries is targeted for implementation by the end of the third quarter, 2011.

- *When nonresidential rebates are submitted, the engineering department reviews the information and creates a report detailing the savings and project. Once that report is complete, another engineer within the department reviews the report. As the engineers are in the same department and likely peers, Avista may want to consider having engineers from the policy, planning, and analysis group to perform the review to provide an independent and fresh look. (Report at page 6)*

**Avista Response** – Avista will establish the thresholds of savings and incentive amounts, integrated with sample population criteria, where incentive and savings calculations that will require independent review outside of the Implementation Team.

**Status** – Definition of cross-department reviews within Avista is a component of the policy process currently in development. This action is targeted for implementation by the end of the third quarter, 2011.

- *Once rebates are entered for payment for residential rebates, a voucher is processed. This voucher is then reviewed by the program manager or program manager lead and then another reviewer. A program implementation staff does a thorough review and will make any changes manually on the voucher itself. The review by the program implementation staff is not apparent as the voucher is not signed or initialed by this person. The second review may be redundant and unnecessary, other than for authorization authority. In addition, accounts payable is making payments from the voucher, with the manual changes rather than being integrated with the CCS system. This again makes the process more time consuming and manual than it should be. (Report at page 6)*

**Avista Response** - Accounts Payable voucher requires manager sign-off, including approval of any manual adjustments. Current process allows manual edits to be processed by A/P without specific approval.

**Status** - In addition to manager sign-off on entire voucher, a policy to have the manager review and initial individual manual corrections was made effective April 25, 2011.

- *The nonresidential system does not currently have proper segregation of duties implemented for access to the system. This allows users to make changes to the system and does not allow for the proper checks and balances to be in place.*
  - *Best internal control practices require segregation of duties. Management should review who has access to the system and implement proper access controls, assuming the system will allow access controls, to ensure checks and balances are adequate. (Report at page 6)*

**Avista Response** – The SalesLogix application and present process flow does not allow for a segregation of duties or responsibilities related to data input, project status changes, related approvals or decision gates.

**Status** – For Company employees with responsibility for data entry and project status change, the Company will have training to communicate areas of responsibility within SalesLogix. At project completion, the current process provides for final validation and compliance with policy.

### ***Nonresidential Testing***

*We selected a random sample of 15 nonresidential rebates and tested the following attributes:*

- *Signed contract was in place if site specific, or signed incentive agreement if prescriptive.*



- *Customer rebate was for the same address or name as on the report.*
- *If site specific, an engineering report was completed.*
- *If site specific, the customer contacted Avista before the work took place.*
- *If site specific, there was evidence that an inspection took place.*
- *The measurement life agreed to the engineering study (if site specific) or the business plan (if prescriptive).*
- *If the customer noted maintenance savings, the engineering report also included those savings.*
- *The engineering tracking system showed approval of the engineering report (for those projects processed after the tracking system was put into place in 2010).*
- *The rebate was calculated appropriately and agreed to the dual fuel incentive calculator (DFIC) if site specific or the business plan or process document if prescriptive.*
- *Invoices supported the cost.*
- *The proper rate schedule was used.*
- *The amount of the rebate check was correct.*
- *The voucher was approved.*
- *If prescriptive, the incentive cost agreed to the business plan.*

*Based upon our testing, we found the following:*

- *With regards to inspections that are to take place for site specific projects, there were two instances in which there was no evidence that an inspection took place. There was evidence in the file that there was a visit; however, it was not clear if an inspection occurred. (Report at page 7)*

**Avista Response** - When required, post-verification audits for specific rebates will be consistently completed, documented and recorded.

**Status** – A process is being developed to ensure post-verification events are scheduled and completed with results included in the database associated with the specific rebate. This process will be completed by the end of 2011.

- *There were three instances in which the customer did not contact Avista before the site specific work took place. It is our understanding this was because the customers originally believed they were prescriptive and Avista determined they should have been site specific. This change took place after the work was completed. It is our understanding that Avista will try to make accommodations for their customers if it appears an error like this is reasonable. (Report at page 7)*

**Avista Response** - Avista works with its customers, and if it appears an adjustment is reasonable, then the Company will provide the correct incentive to our customers.

**Status** – Not applicable.

- *We noted one instance in which the measurement life was different than the engineering study (as it was site specific). (Report at page 7)*

**Avista Response** - Measure life values and associated criteria are being monitored for consistent application. The Measure Life values are elements of the Company's Dual-Fuel Incentive Calculator, an analytic tool used for the calculation of site-specific incentives and program design. The Calculator is in the process of being updated.

**Status** - Updated policies, including Measure Life, will be communicated to all DSM employees on a regular basis, starting no later than June 30, 2011, with specific reference and instruction regarding significant policy changes.

### ***Residential Testing***

*We selected a random sample of 86 residential rebates and tested the following attributes:*

- *The application was signed.*
- *If a weatherization incentive, the application noted the primary heat source was not wood, oil, or propane.*
- *The customer name and address agreed to the name and address on the invoice (when there was an invoice rather than a receipt).*
- *The date of installation was within 90 days (rounded to within a month) of when the application was received.*
- *The total cost in the system agreed to or was less than the invoice or receipt.*
- *The measure, model, size and/or efficiency rating of the equipment noted agreed to the invoice or receipt.*
- *If the equipment was a pump or furnace and was variable, the variable calculation was input properly.*
- *The amount of the rebate was calculated properly.*
- *If the customer is gas only, the estimated kilowatt hour savings was blank and if electric only, the estimated therm savings was blank.*
- *Information on the voucher agreed to the system.*
- *The voucher was approved for payment.*
- *The copy of the check agreed to the amount of the calculated rebate.*
- *The rebate amount was 50% or less of the total cost or incremental cost of improvements.*

*Based upon our testing, we found one residential rebate was calculated incorrectly. In addition, we found several rebates that contained missing information or incorrect information provided, although the total rebate was correct. These are noted as follows:*

- *Of the residential rebate forms tested, we noted 19 of those were for weatherization incentives, which require the customer to indicate their primary heating source to ensure it is not wood, oil, or propane. We noted that 3 of the 19 tested did not note their primary heating source on the application. (Report at page 8)*

**Avista Response** – Data entry protocols ensure all required fields and values are captured.

**Status** – Data entry into CSS includes required fields that include validation calculations. This process has been in place since January, 2010.

- *Of the 86 residential rebate forms tested, we noted 4 rebate applications that were not signed by the applicant although the rest of the application was completed. (Report at page 9)*

**Avista Response** - Rebate applications that are incomplete will be rejected and returned to the originator.

**Status** – Implemented.

- *One application did not include the actual receipt or invoice for the unit purchased. There was however, a shipping bill of lading that was included, which indicated the item listed on the application and that it was a catalog purchase. The bill of lading ship to address was the same as the application. There was no indication of the cost of the unit purchased (a dishwasher); however, there was no indication the unit was a used unit rather than new and therefore there is minimal risk the cost was not at least twice as much as the rebate. (Report at page 9)*

**Avista Response** - The Company will implement a process to cross check original receipt for name, address and account number.

**Status** – This has previously been considered and additional research is required to identify a cost effective solution. The Company will continue to look into this issue and report its findings periodically to the DSM Advisory Group.

- *We found one rebate in which \$14.64 was overpaid on a \$400 rebate. This was related to a furnace installation, which was variable and therefore required a calculation to determine how much of the rebate went to each component. As the rebate is capped at 50% of the cost, when each component was separated out, the variable speed portion amounted to \$170.72 of the total cost of \$4,268.00. If the 50% cap is applied to each component (rather than the total cost) then the \$100 rebate paid for the variable portion was \$14.64 too much ( $\$170.72 * 50\% = \$85.36$  rather than \$100). We do want to note however, that the total rebate was significantly less than 50% of the total cost of the furnace. The policy itself is not clear if the 50% is related to each component or the total cost. (Report at page 9)*

**Avista Response** - Avista performed a comprehensive review and update of pre-existing written policies governing the implementation of the DSM portfolio. The written policies contained within the Company's Dual-Fuel Incentive Calculator (used for the calculation of site-specific incentives as well as for program design) is in the process of being updated. These written policies contain clear guidance indicating when the components of projects will be combined and when they must be separated.

**Status** - Updated policies, including Measure Life, will be communicated to all DSM employees on a regular basis, starting no later than June 30, 2011, with specific reference and instruction regarding significant policy changes.

- *We found one instance in which a rebate customer was gas only; however, the kilowatt hour savings of 14 kilowatt hours was not deleted; therefore, outside reporting would be overstated by the 14 kilowatt hours. (Report at page 9)*

**Avista Response** - Data entry verification protocols insure appropriate fields and values are captured.

**Status** – New protocols are in the process of being put into place by late summer 2011 as referenced in the Company’s Rebate Processing report.

### **Low Income Testing**

*We selected a random sample of four low income rebates and tested the following attributes:*

- *The address on the account agreed to the invoice.*
- *If pre-approval was required, pre-approval was indicated on the form.*
- *The total cost was equal to or less than the amount on the invoice.*
- *The amount of the rebate was calculated properly.*
- *The rebate information on the voucher agreed to the system.*
- *The voucher was approved for payment.*
- *The amount of the rebate check was correct.*

*Based upon our testing, we did not identify any errors with the low income rebates. (Report at page 10)*

**Avista Response** – No response required

**Status** – Not applicable

### **Cut-off Testing**

*We selected a random sample of 27 out of 241 nonresidential rebates (under our sampling guidance this was considered a small population and a very important attribute and high assurance) that were shown as “completed” in the system during December 2010 to test if the projects were in fact complete. This was done as Avista has seen a higher number of rebates during the last month of the year and was concerned there was incentive to change the status to “complete” for reporting purposes and then back again to “study” in the system in January until the project was in fact complete. As multiple people have access to the system, including those out in the field who help customers with rebates, there is a risk that a change can be made without anyone knowing of the change. For the sample selected, we tested to see if the check was processed by January 15, 2011, as all paperwork would have to be completed for the check to be processed. Based upon our testing, we found that 5 of the 27 tested (or 18.5%) had*

*been marked as “complete” during December 2010 and then moved back to the “study” phase during January 2011. Based upon this testing, it seems there is a large percentage of nonresidential projects that are being claimed on reports as completed in the last month of the year, and then reported again as complete in the following year when the project is actually completed.*

- *We recommend Avista either edit the program so that only the program implementation staff can change a project to “completed” or if this is not possible, either deny access to others (which would put a large burden on the program implementation staff) or perform an internal audit or review of all nonresidential rebates marked “complete” during the last month or two of the year. Best practices would be to ensure that access to the program is limited to those that need it and to ensure proper segregation of duties. (Report at page 10)*

**Avista Response** - Avista will:

- Implement a system to prevent project status changes that shift energy efficiency achievement across calendar years or reporting periods, and
- Develop a system to account for “de-completes” (or re-opened projects) within SalesLogix.

**Status** – Avista will report its progress on this issue periodically to the DSM Advisory Group and will seek to implement changes by no later than December 31, 2011.

**AVISTA CORPORATION**  
**DEMAND SIDE MANAGEMENT PROGRAMS**  
**OBSERVATIONS AND RECOMMENDATIONS**  
**DECEMBER 31, 2010**

Ms. Lori Hermanson  
Avista Corporation  
Spokane, Washington

The following findings and comments resulted from performance of procedures as outlined in our professional services agreement with Avista Corporation (Avista) dated December 28, 2010, related to Avista's Demand Side Management programs (Programs) and the scope of work that was included in Avista's Request for Proposal R-37058. We have performed certain consulting procedures focusing on Avista's Programs. We make no representations as to the sufficiency of our procedures, but note that our report is designed to comment on improvements Avista can make with the Programs. Our procedures were not designed to detect fraud or represent an audit made in accordance with generally accepted auditing standards. Accordingly, we have not expressed an opinion or any other form of assurance as a result of this engagement. Our comments are intended to help you add efficiencies and improved controls to your existing system. This report pertains to only those items and procedures described below. It is not intended to be a complete, thorough review and testing of the entire internal control system.

## **PROJECT APPROACH AND SAMPLE SIZE**

We selected a sample size of 105 rebates from nonresidential, residential and low income rebates processed during 2010. The listing of rebates was provided by Avista. This sample selection was chosen based upon the American Institute of Certified Public Accountants Audit Sampling Guide based upon an expected error rate of 1.75% and providing a 90% confidence rate and a 5% tolerable deviation rate. This error rate of 1.75% allowed for two errors to obtain a confidence level of 90%. During our testing, we found one error in the rebate amount and therefore the 90% confidence was achieved related to the dollar amount of the rebates. The original sample selected only resulted in 4 nonresidential rebates, which did not seem representative of the population. Although there are not a lot of rebates on the nonresidential side compared to the total rebates (residential, nonresidential, and low income), the dollar amount for the nonresidential rebates are much greater than the others. Because of this, we judgmentally determined that a sample of 15 nonresidential was more representative of the population. Therefore we replaced 11 of our random sample with the next 11 nonresidential rebates. Ultimately, we tested 15 nonresidential rebates, 4 low income rebates, and 86 residential rebates, which were selected using a random number generator and provided us with our total population of 105 items.

Ms. Lori Hermanson  
Avista Corporation  
February 25, 2011  
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## **EXECUTIVE SUMMARY**

Overall, we found the Demand Side Management programs to be working as intended. However, the current process is very manual and labor intensive, which increases the potential for error. As Avista processes over 35,000 rebates during a year, we do not believe the current system to be an efficient process. We recommend a more integrated system that includes fields, which are updated from the current customer contact system (CCS), would result in a much more efficient and effective process. We also found that because the process is so manual, there is not enough time devoted to the review and monitoring of outstanding projects to determine why they may still be outstanding. Therefore, projects may sit for a period of time when they should actually be closed out or deleted as they are no longer a viable project.

We also noted that there are weaknesses in the review and approval process over the closure of nonresidential projects, particularly with those closed near to year end. There are a number of projects that were coded as complete during December and then moved back to the study phase in January. As a result, there is a risk of duplicate reporting for the two separate fiscal years involved.

We also identified several areas for improvement, which are detailed in our report below. In addition, although there was only one rebate in which the dollar amount was incorrect, we found several small clerical/processing errors that would not necessarily change the rebate amount, but do not follow policy. Those are also identified in our report below.

We would like to thank your staff for their openness, cooperation, and assistance during our fieldwork. We enjoyed working with them and found them to be very helpful and we appreciate their time.

*Moss Adams LLP*

Spokane, Washington  
February 25, 2011

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Avista Corporation  
February 25, 2011  
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### ***Internal Controls***

We met with several program implementation staff and walked through the process related to residential, nonresidential, and low income rebates. We documented these processes and have provided the following recommendations based upon those discussions and our walk-throughs of the processes:

- Due to time constraints, as the current manual process is very time consuming, staff do not consistently monitor reports to ensure projects are moving ahead or updated. As a result, old projects are often maintained in the system that either need to be moved to completed status or deleted. An automated system would allow additional time for appropriate review and monitoring functions to be performed and is considered a best practice. In the interim time prior to automation, we make the following recommendations:
  - Management should perform a monthly review of reports (best practice) so that errors can be detected and corrected in a timely manner.
  - If errors are detected that would amend a prior year's report, management should determine the impact to the prior year report. Prior year reports that would be significantly impacted by errors should be amended to reflect those changes. If not significant, the current year report should be adjusted so that the cumulative reports are correct.
  - Management should set a threshold with stakeholders to determine what would be considered material (a percentage of error and/or a dollar amount of error). When assessing what is significant or material, both qualitative and quantitative information should be used and an amount or error that would create a substantial likelihood that a reasonable user's view of the results would have been altered due to the change would be considered material. Therefore, not only the number of rebates should be considered, but also the cost effectiveness should be considered and those results that would alter a reasonable user's view should be considered material.
  - Exceptions are currently investigated using a manual process, which is time consuming and prone to error. Best practices would dictate using an automated process. We recommend the use of data extraction software, such as a program called Audit Command Language (ACL) which can be used to look for exceptions.
  - Currently the vouchers that are submitted for payment to accounts payable are not pre-numbered, which could lead to rebates on a voucher being paid twice. We recommend the use of pre-numbered vouchers to prevent duplicate payment. This is an internal control best practice.

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Avista Corporation  
February 25, 2011  
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### ***Internal Controls, Cont.***

- Currently, there are no checks or balances to ensure that a project is not double counted as completed in two separate years. For example, a project can be marked as completed in December 2010 and then moved back to the study phase in January 2011 until the project is actually completed and then moved back to completed status again once the project is done. This would lead to the deemed savings of the project being reported in both 2010 and 2011. Due to this concern, we were asked to select a sample of nonresidential projects marked “completed” during December 2010 to see if the projects were actually completed and paid. The results of our testing disclosed a risk of potential for duplicate reporting. See “Cut-off Testing” section of our report for these results.
- As only a copy of a receipt is needed for residential customers, there is a risk that a customer could make multiple copies of a receipt and give it to friends to also submit a rebate. At this time, Avista does not complete home inspections on certain rebates, including appliances. As each residential rebate is not significant, the risk is minimized; however, it does exist and is somewhat limited to purchases in which the receipt does not have the customer name or address. The only way to prevent this risk would be to require an original receipt or home inspection; however, customers would likely not want to provide original receipts in case they have problems with their purchases and need to return them and home inspections would probably cost more than the actual rebate.
- Windows and insulation are only effective if installed properly. Currently, customers can install windows and/or insulation themselves (and therefore it may not be properly installed and not result in any deemed savings) and still obtain a rebate.
  - We recommend Avista consider either an inspection of window and insulation installations that are completed by the customer, or consider providing rebates only for professional installations.
- The nonresidential customers are tracked through the nonresidential database, which is a Customer Relationship Management (CRM) system typically used to manage a company’s interactions with customers, clients, and sales prospects. Since a CRM system is not intended to be used as it is here, there are no controls to prevent a customer from being set up more than once as an account and therefore there is potential for a customer to be paid twice for the same rebate. Project implementation staff typically will do a search for a customer to try to ensure the customer is not entered more than once; however, the risk is still present. An integrated demand side management system that is integrated with customer accounts would prevent this from happening in the future.

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Avista Corporation  
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### ***Internal Controls, Cont.***

- When nonresidential rebates are submitted, the engineering department reviews the information and creates a report detailing the savings and project. Once that report is complete, another engineer within the department reviews the report. As the engineers are in the same department and likely peers, Avista may want to consider having engineers from the policy, planning, and analysis group to perform the review to provide an independent and fresh look.
- Once rebates are entered for payment for residential rebates, a voucher is processed. This voucher is then reviewed by the program manager or program manager lead and then another reviewer. A program implementation staff does a thorough review and will make any changes manually on the voucher itself. The review by the program implementation staff is not apparent as the voucher is not signed or initialed by this person. The second review may be redundant and unnecessary, other than for authorization authority. In addition, accounts payable is making payments from the voucher, with the manual changes rather than being integrated with the CCS system. This again makes the process more time consuming and manual than it should be.
- The nonresidential system does not currently have proper segregation of duties implemented for access to the system. This allows users to make changes to the system and does not allow for the proper checks and balances to be in place.
  - ❑ Best internal control practices require segregation of duties. Management should review who has access to the system and implement proper access controls, assuming the system will allow access controls, to ensure checks and balances are adequate.

### ***Nonresidential Testing***

We selected a random sample of 15 nonresidential rebates and tested the following attributes:

- Signed contract was in place if site specific, or signed incentive agreement if prescriptive.
- Customer rebate was for the same address or name as on the report.
- If site specific, an engineering report was completed.
- If site specific, the customer contacted Avista before the work took place.
- If site specific, there was evidence that an inspection took place.

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### ***Nonresidential Testing, Cont.***

- The measurement life agreed to the engineering study (if site specific) or the business plan (if prescriptive).
- If the customer noted maintenance savings, the engineering report also included those savings.
- The engineering tracking system showed approval of the engineering report (for those projects processed after the tracking system was put into place in 2010).
- The rebate was calculated appropriately and agreed to the dual fuel incentive calculator (DFIC) if site specific or the business plan or process document if prescriptive.
- Invoices supported the cost.
- The proper rate schedule was used.
- The amount of the rebate check was correct.
- The voucher was approved.
- If prescriptive, the incentive cost agreed to the business plan.

Based upon our testing, we found the following:

- With regards to inspections that are to take place for site specific projects, there were two instances in which there was no evidence that an inspection took place. There was evidence in the file that there was a visit; however, it was not clear if an inspection occurred.
- There were three instances in which the customer did not contact Avista before the site specific work took place. It is our understanding this was because the customers originally believed they were prescriptive and Avista determined they should have been site specific. This change took place after the work was completed. It is our understanding that Avista will try to make accommodations for their customers if it appears an error like this is reasonable.
- We noted one instance in which the measurement life was different than the engineering study (as it was site specific).

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### ***Residential Testing***

We selected a random sample of 86 residential rebates and tested the following attributes:

- The application was signed.
- If a weatherization incentive, the application noted the primary heat source was not wood, oil, or propane.
- The customer name and address agreed to the name and address on the invoice (when there was an invoice rather than a receipt).
- The date of installation was within 90 days (rounded to within a month) of when the application was received.
- The total cost in the system agreed to or was less than the invoice or receipt.
- The measure, model, size and/or efficiency rating of the equipment noted agreed to the invoice or receipt.
- If the equipment was a pump or furnace and was variable, the variable calculation was input properly.
- The amount of the rebate was calculated properly.
- If the customer is gas only, the estimated kilowatt hour savings was blank and if electric only, the estimated therm savings was blank.
- Information on the voucher agreed to the system.
- The voucher was approved for payment.
- The copy of the check agreed to the amount of the calculated rebate.
- The rebate amount was 50% or less of the total cost or incremental cost of improvements.

Based upon our testing, we found one residential rebate was calculated incorrectly. In addition, we found several rebates that contained missing information or incorrect information provided, although the total rebate was correct. These are noted as follows:

- Of the residential rebate forms tested, we noted 19 of those were for weatherization incentives, which require the customer to indicate their primary heating source to ensure it is not wood, oil, or propane. We noted that 3 of the 19 tested did not note their primary heating source on the application.

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### ***Residential Testing, Cont.***

- Of the 86 residential rebate forms tested, we noted 4 rebate applications that were not signed by the applicant although the rest of the application was completed.
- One application did not include the actual receipt or invoice for the unit purchased. There was however, a shipping bill of lading that was included, which indicated the item listed on the application and that it was a catalog purchase. The bill of lading ship to address was the same as the application. There was no indication of the cost of the unit purchased (a dishwasher); however, there was no indication the unit was a used unit rather than new and therefore there is minimal risk the cost was not at least twice as much as the rebate.
- We found one rebate in which \$14.64 was overpaid on a \$400 rebate. This was related to a furnace installation, which was variable and therefore required a calculation to determine how much of the rebate went to each component. As the rebate is capped at 50% of the cost, when each component was separated out, the variable speed portion amounted to \$170.72 of the total cost of \$4,268.00. If the 50% cap is applied to each component (rather than the total cost) then the \$100 rebate paid for the variable portion was \$14.64 too much ( $\$170.72 * 50\% = \$85.36$  rather than \$100). We do want to note however, that the total rebate was significantly less than 50% of the total cost of the furnace. The policy itself is not clear if the 50% is related to each component or the total cost.
- We found one instance in which a rebate customer was gas only; however, the kilowatt hour savings of 14 kilowatt hours was not deleted; therefore, outside reporting would be overstated by the 14 kilowatt hours.

### ***Low Income Testing***

We selected a random sample of four low income rebates and tested the following attributes:

- The address on the account agreed to the invoice.
- If pre-approval was required, pre-approval was indicated on the form.
- The total cost was equal to or less than the amount on the invoice.
- The amount of the rebate was calculated properly.
- The rebate information on the voucher agreed to the system.
- The voucher was approved for payment.

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### ***Low Income Testing, Cont.***

- The amount of the rebate check was correct.

Based upon our testing, we did not identify any errors with the low income rebates.

### ***Cut-off Testing***

We selected a random sample of 27 out of 241 nonresidential rebates (under our sampling guidance this was considered a small population and a very important attribute and high assurance) that were shown as “completed” in the system during December 2010 to test if the projects were in fact complete.

This was done as Avista has seen a higher number of rebates during the last month of the year and was concerned there was incentive to change the status to “complete” for reporting purposes and then back again to “study” in the system in January until the project was in fact complete. As multiple people have access to the system, including those out in the field who help customers with rebates, there is a risk that a change can be made without anyone knowing of the change. For the sample selected, we tested to see if the check was processed by January 15, 2011, as all paperwork would have to be completed for the check to be processed. Based upon our testing, we found that 5 of the 27 tested (or 18.5%) had been marked as “complete” during December 2010 and then moved back to the “study” phase during January 2011. Based upon this testing, it seems there is a large percentage of nonresidential projects that are being claimed on reports as completed in the last month of the year, and then reported again as complete in the following year when the project is actually completed.

- ❑ We recommend Avista either edit the program so that only the program implementation staff can change a project to “completed” or if this is not possible, either deny access to others (which would put a large burden on the program implementation staff) or perform an internal audit or review of all nonresidential rebates marked “complete” during the last month or two of the year. Best practices would be to ensure that access to the program is limited to those that need it and to ensure proper segregation of duties.