

OFFICE OF
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July 31, 2008

Tony M. Royster, Interim General Manager
Department of General Services
111 East First Street
Los Angeles, CA 90012

Dear Mr. Royster:

**SUBJECT: EVALUATION OF RESPONSE TO THE AUDIT OF ENERGY
CONSERVATION MEASURES IN THE CITY**

My Audit Division has evaluated your July 18, 2008 response to the "Audit of Energy Conservation Measures in the City" issued on June 3, 2008. I have the following comments relating to recommendations #5, #6, #8, #9, #11 and #14 in the report.

Recommendation #5

Recommendation #5 is for the Department of General Services (GSD or the Department) to develop a formal risk assessment methodology to prioritize the order of buildings to be retrofitted for lighting replacements. You indicated that you have always considered the nine factors listed in your response. However, GSD could not demonstrate how it utilized these criteria to determine the priority of buildings to be retrofitted. For example, the Department does not have spreadsheets that assign point values (weightings) to each of the criteria and calculates a "score". In reviewing the Department's spreadsheets of completed projects, we noted several projects with large savings and low payback periods that were completed well after other projects that had much smaller savings and longer payback periods. The Department's new formalized risk assessment methodology should assign weightings to each criterion so that the Department can more clearly demonstrate how projects were selected.

Recommendation #6 and #9

Recommendation #6 is for the Department to identify labor costs incurred since the program's inception and transfer this amount from the Energy Conservation Loan Program Fund to the General Fund. While we are not opposed to the Department utilizing the uncommitted balance from the Loan Program Fund to defray loan payments after reimbursing the General Fund for the incurred labor costs, the uncommitted balance should be utilized to defray only current loan payments and not future loans.

Recommendation #8

Recommendation #8 is for GSD to develop procedures to periodically compare estimated costs to actual costs to assess whether the methodology to estimate costs needs to be adjusted. While your response indicates that it is a good idea to compare estimated versus actual costs, you also indicate that you do not believe that any variance between the two would suggest a need to adjust your methodology for estimating costs.

At the time of our audit, the Energy Conservation Loan Program Fund had a balance of \$980,000, even though there was only one project with an estimated cost of \$10,000 in progress. Since loan amounts requested from the Department of Water and Power (DWP) and deposited into the fund are based on estimated project costs, if GSD accurately estimates its costs, the balance in the fund should be close to zero. Although we determined that one reason for the large balance was because GSD did not consistently reimburse the General Fund for labor costs, excess funds could also accumulate in the fund if GSD overestimates its costs. For example, if GSD overestimates the number of labor hours required to complete a project, this would create an excess balance.

In summary, although variances between estimated and actual costs do not always mean the methodology is flawed, it may indicate that the methodology needs to be revised. By comparing estimated to actual costs, the Department should be able to assess whether the methodology for estimating costs needs to be adjusted.

Recommendation #11

The audit found that GSD does not use performance guarantee contracts to complete retrofit projects, even though its agreement with the DWP requires them. Your response indicates that GSD has evaluated the feasibility of using performance guarantee contracts and concluded that they are impractical to

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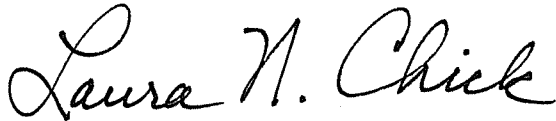
implement. If this is the case, as recommended, I encourage the Department to request Council's approval to modify its agreement with DWP to exclude the "performance guarantee" provision.

Recommendation #14

This recommendation was directed to the Council and the Mayor, so we recommend that the Department consult with the Council and Mayor to determine whether DWP's technical expertise and advice will suffice for an independent analysis of GSD's assumptions to estimate project savings.

As part of my office's follow-up program, we will be requesting a status report approximately six months after the reports issuance date. The objective of the follow-up program is to ensure that the audit recommendations have been properly addressed.

Sincerely,



LAURA N. CHICK
City Controller

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Raymond P. Ciranna, Interim City Administrative Officer
Karen E. Kalfayan, Interim City Clerk
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