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H. DAVID NAHAL,
Chief Executive Officer and General Manager

May 21, 2009

The Honorable City Council
c/o Office of the City Clerk
Room 395, City Hall
Mail Stop 160

Honorable Members:

Subject: Audit of the Loan Program for the Calendar Year Ended
December 31, 2008

Los Angeles Administrative Code (LAAC) Section 23.141 requires that audits be conducted to validate the number of the loan agreements that the Los Angeles Department of Water and Power (LADWP) entered into, to analyze and summarize delinquency and default rates by borrowers and administrative costs and expenses, and to verify whether the requirements stipulated in LAAC Section 23.141 have been met. Section 23.141 also requires that the General Manager report the audit findings to the City Council on at least an annual basis.

Enclosed, please find the report on the Audit of Compliance with the Loan Program Requirements under LAAC Section 23.141 for the Calendar Year Ended December 31, 2008, completed by the Internal Audit Division of the LADWP.

There were 58 loans totaling \$23.2 million awarded from 2002 to 2008, of which 29 loans totaling \$11.2 million were outstanding as of December 31, 2008. Sixteen (16) of the outstanding loans totaling \$10.4 million were made to the City of Los Angeles. The remaining thirteen (13) loans totaling \$0.83 million were made to other qualified LADWP customers.

The prior audit dated March 25, 2008, noted two loans with a total outstanding amount of \$190,725 in default. The City Attorney's Office has collected \$53,333 of the amount and is collecting the remaining balance. The current audit did not note any additional defaults.

Water and Power Conservation ... a way of life

111 North Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles 90051-5700
Telephone: (213) 367-4211 Cable address: DEWAPOLA



The Honorable City Council
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The current audit concludes that the Loan Program is in compliance with the requirements stipulated in LAAC Section 23.141.

If you have any questions, please call me at (213) 367-1338, or have a member of your staff contact Mr. James Tan, Director of Internal Audit, at (213) 367-4436.

Sincerely,



H. David Nahai
Chief Executive Officer
and General Manager

JT:jt

Enclosure

c/enc: The Honorable Councilmembers
City Administrative Officer
Mr. Gerry F. Miller, Chief Legislative Analyst
Ms. Winifred J. Yancy

Date: April 30, 2009

**DEPARTMENT OF WATER AND POWER
CITY OF LOS ANGELES
INTERNAL AUDIT DIVISION**

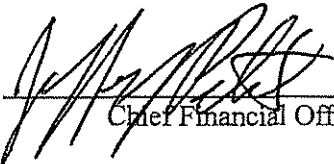
Internal Audit Report of:

**AUDIT OF COMPLIANCE WITH LOAN PROGRAM REQUIREMENTS
UNDER LOS ANGELES ADMINISTRATIVE CODE SECTION 23.141
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2008**

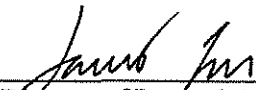
Distribution	Copies	FOR	
		Securing Action	Information
H. David Nahai - Chief Executive Officer and General Manager	1		X
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Cecilia T. Weldon	1		X
Kathy J. Irish	1		X
Tom Gackstetter	2		X
Stephen H. Matsuda			
Ann M. Santilli	2		X
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Mario Ignacio	2		X
Peter Huynh			
Board of Water and Power Commissioners			
KPMG LLP			
Internal Audit Division File			

An X following your name in the column "For Securing Action" means that you are requested to report in writing to the Chief Financial Officer, JFB Room 456, within 60 days the status of corrective actions stated in your response. A copy of your letter should be sent to the Chief Executive Officer & General Manager, JFB Room 1550, and the Director of Internal Audit, JFB Room 412.

Released by:



Chief Financial Officer



Director of Internal Audit

**FINANCIAL SERVICES ORGANIZATION
INTERNAL AUDIT DIVISION**

April 30, 2009

**AUDIT OF COMPLIANCE
WITH THE LOAN PROGRAM REQUIREMENTS
UNDER LOS ANGELES ADMINISTRATIVE CODE SECTION 23.141
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2008**

BACKGROUND

We have completed an audit of compliance with the Loan Program (Loan Program) Requirements under Los Angeles Administrative Code (LAAC) Section 23.141 as required by LAAC Section 23.141 (i).

The Loan Program was originally authorized by Ordinance number 172606 and DWP Board Resolution 002-170. It was most recently amended by Ordinance 179147. The ordinances are codified under LAAC Section 23.141.

LAAC Section 23.141 allows the Los Angeles Department of Water and Power (LADWP) to enter into loan agreements with LADWP customers for solar energy projects, utility infrastructure projects, water conservation, and energy efficiency projects.

LAAC Section 23.141 requires that audits be conducted to validate the number of the loan agreements entered into, to analyze and summarize delinquency and default rates by customers and administrative costs and expenses, and to verify whether the conditions described in LAAC Section 23.141 have been met. The General Manager and Chief Financial Officer shall report the audit findings to the Board of Water and Power Commissioners and to the City Council on at least an annual basis.

The prior audit of the loan program was published in March 2008.

The Energy Efficiency Section of the Financial Services Organization administers energy efficiency loans to various Los Angeles City Departments.

The Economic Development Division administers energy efficiency loans, water conservation loans and utility infrastructure and solar power loans to various City Departments and other qualified LADWP customers.

PURPOSE

Our objectives were to validate the number of loans awarded, to analyze and summarize delinquency and default rates by customers and administrative costs and expenses, and to verify whether the requirements described in the LAAC Section 23.141 (b) through (h), relating to the qualification of borrowers, interest rates charged, loan amount limits, credit checking, and other requirements, have been met.

SCOPE

The audit covered 29 outstanding loan contracts with a total outstanding balance of \$11,240,190 as of December 31, 2008. We reviewed the requirements under LAAC Section 23.141, analyzed the population of outstanding loans for compliance with general requirements, selected a sample of five (5) loans and tested them for compliance with specific requirements. The five loans were composed of three energy efficiency loans issued to the City of Los Angeles, and two utility infrastructure loans to other qualified LADWP customers.

Of the 29 outstanding loan contracts, eight of them were reviewed in the prior audit. The five loans sampled for the current audit were not included in the prior audit.

CONCLUSION

There were 58 loans totaling \$23.2 million awarded from 2002 to 2008, of which 29 loans totaling \$11.2 million were outstanding as of December 31, 2008. Sixteen (16) of the outstanding loans totaling \$10.4 million were made to the City of Los Angeles. The remaining thirteen (13) loans totaling \$0.83 million were made to other qualified LADWP customers.

The outstanding loans made to the LADWP customers other than the City of Los Angeles did not exceed the \$15 million limit set under LAAC Section 23.141 (g).

All loans were awarded with a recovery period of not exceeding the 10-year limit set by LAAC Section 23.141 (e).

Credit checks were performed on all loans except the loans made to other City Departments, as required under LAAC Section 23.141 (h).

The prior audit noted two loans with a total outstanding balance amount of \$190,725 in default. Those loans went into litigation, and a settlement was reached on July 16, 2008. The borrower agreed to pay \$160,000 plus interest at the annual rate of 5.4 percent in three install payments.

LADWP has received \$53,333 as of February 28, 2009. However, the borrower failed to make the March payment. The City Attorney Office has notified the borrower that he is in default and if the funds are not provided by May 11th, the City will seek a judgment from the Court.

The current audit did not note any additional defaults.


Administrative costs for the Loan Program involve costs for loan application, loan processing and loan servicing. The total Department's administrative costs for the last three fiscal years are as follows:

	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>Average</u>
Loan Application & Processing Costs:	\$50,539	\$46,051	\$44,270	\$46,953
Loan Service Costs:	\$10,789	\$11,277	\$12,209	\$11,425
Total Administrative Cost:	<u>\$61,328</u>	<u>\$57,328</u>	<u>\$56,479</u>	<u>\$58,378</u>

For a detail administrative cost analysis, please see Attachment 1.

To conclude, the Loan Program was in compliance with the requirements stipulated in LAAC Section 23.141.


SHARON SUN, CPA
Internal Auditor


for CARLO CORDERO, CPA
Senior Internal Auditor

Administrative Cost Analysis

Administrative costs for the Loan Program involve costs for loan application, loan processing and loan servicing. The total administrative costs for the last three fiscal years are as follows:

	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>Average</u>
Loan Application & Processing Costs:	\$ 50,539	\$ 46,051	\$ 44,270	\$46,953
Loan Service Costs:	\$ 10,789	\$ 11,277	\$ 12,209	\$11,425
Total Administrative Cost:	<u>\$ 61,328</u>	<u>\$ 57,328</u>	<u>\$ 56,479</u>	<u>\$58,378</u>

Loan application and processing costs involve labor costs spent on review of technical specifications, credit evaluation, financial analysis, and the preparation, review and approval of the loan package. The application and processing costs per loan application for the last three fiscal years are as follows:

	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>Average</u>
Loan Application & Processing Costs:	\$50,539	\$46,051	\$44,270	\$46,953
Loan Processed:	8	4	4	5
Processing Cost per loan:	<u>\$6,317</u>	<u>\$11,513</u>	<u>\$11,067</u>	<u>\$8,804</u>

Loan servicing costs involve the preparation and approval of invoices sent to loan recipients, and other administrative tasks. The service costs per outstanding loan for the last three fiscal years are as follows:

	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>Average</u>
Loan Service Costs:	\$10,789	\$11,277	\$12,209	\$11,425
Loans Outstanding:	34	33	29	32
Annual Invoicing Cost per loan:	<u>\$317</u>	<u>\$342</u>	<u>\$421</u>	<u>\$357</u>