



City Council Agenda Item

City Council Meeting Date: April 21, 2026

TO: Honorable Mayor and City Council Members

FROM: Jeff Malawy, City Attorney
jmalawy@awattorneys.com

SUBJECT: Evaluation of City's Energy and Water Conservation Rebate Programs

Recommendation:

Staff recommends the City Council provide direction to staff on whether to conduct a third-party independent review of the City's conservation rebate programs, and what the City Council would like to be evaluated in that review, and any other related direction the City Council wishes to provide.

Background:

At the April 7, 2026, City Council meeting, the City Council requested an agenda item to discuss conducting a review or investigation into the City's energy and water conservation rebate programs.

As presented to the City Council on March 3, 2026, the City's Annual Financial Audit for Fiscal Year Ending June 30, 2025, which was performed by an independent outside auditing firm, LSL CPAs, identified one significant deficiency related to internal controls and compliance in the City's conservation rebate programs.

The auditors' finding is attached to this staff report. The auditors tested 81 rebate payments from February 2024 to October 2025 and found that 11 of the tested samples lacked documentation that the work was performed by contractors with an active license and/or in good standing with the California Contractors State License Board. The auditors stated that any rebate application missing key information – such as the contractor's name, city, or state license number – should not have been processed.

The auditors recommended that the City update its policies and procedures for all its conservation rebate programs to require work to be performed by licensed contractors and to clarify that rebate applications will not be processed unless they contain the contractor's name, city, and state license number.

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City Management agreed with the auditors' recommendations and has updated all City rebate applications to now require a contractor license number. The license number was not previously part of all rebate applications. The City is now verifying that the contractor license is valid and current, and sends that information to Efficiency Services Group, the third-party company that administers the City's rebate programs.

Discussion:

At the April 7, 2026, City Council meeting, the Mayor indicated it appears there may be additional rebate applications that should not have been approved, not only for lack of a contractor license number but possibly instead for other deficiencies with the applications and the application review process.

The City Council requested this agenda item to discuss and direct staff on a review or investigation into the conservation rebate programs. A review or investigation can find any deficiencies that occurred in the rebate program with processing of rebate applications and determine any rebates that should not have been approved, and provide a report to the City Council. Then the City Council may consider implementing a process to allow those rebate applicants to "cure", by correcting the information on their applications, adding any missing information, or withdrawing their applications and returning the funds.

The City Attorney recommends any review or investigation into the rebate program be conducted by an independent third-party consultant.

The City Council can direct staff to proceed with conducting a review or investigation of the conservation rebate programs and what the City Council would like to be evaluated, and any other direction the City Council wishes to give.

At a minimum, staff needs direction on:

- What rebate programs does the City Council wish to investigate?
- What date range?
- What questions about the rebates or the rebate programs does the City Council want answered in the investigation?

Fiscal Impact:

The cost of an investigation of the rebate programs will depend on the scope of work to be performed, particularly the date range of rebate applications to evaluate. The cost will be reviewed and considered by City Council at a future meeting when considering approval of the services agreement for the third-party investigator.

Conclusion:

Staff is available to take direction the City Council provides on this item.

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Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Jeff Malawy", is written above a horizontal line.

Jeff Malawy, City Attorney

Attachment: Finding of Significant Deficiency in City's Annual Financial Audit for Fiscal
Year Ending June 30, 2025