U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

The Department of Energy's American Recovery and Reinvestment Act – Missouri State Energy Program

OAS-RA-L-12-06

July 2012

Department of Energy
Washington, DC 20585

July 20, 2012

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

Daniel M. Weeber

FROM: Daniel M. Weeber, Director
Eastern Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's American Recovery and Reinvestment Act – Missouri State Energy Program"

BACKGROUND

The Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE) provides grants to states, territories and the District of Columbia (states) to support their energy priorities through the State Energy Program (SEP). Funding is based on a grant formula that considers population and energy consumption, and in Fiscal Year (FY) 2009 totaled $25 million. The American Recovery and Reinvestment Act of 2009 expanded the SEP by authorizing an additional $3.1 billion in funding. After reviewing planned activities for each state, EERE made grant awards designed to achieve SEP Recovery Act objectives using existing formulas. These objectives included preserving and creating jobs, saving energy, increasing renewable energy sources and reducing greenhouse gas emissions. In April 2009, EERE granted a $57.4 million award to the State of Missouri for its Recovery Act SEP. Under the terms of the award, the funds were to be expended by March 31, 2012.

The State of Missouri's Department of Natural Resources (Missouri) administers the Recovery Act SEP funds. Because of the significant increase in Recovery Act funding, Missouri developed a new, multi-faceted approach to reach as much of the State's populace as possible. Missouri established reimbursement and loan agreements to fund residential, agricultural and industrial energy efficient projects across the State. As part of the Office of Inspector General's strategy for reviewing the Department's implementation of the Recovery Act, we initiated this review to determine whether Missouri effectively administered its Recovery Act SEP grant.

CONCLUSIONS AND OBSERVATIONS

We found that Missouri had developed a comprehensive SEP program and internal control structure designed to meet Recovery Act objectives. Consistent with a number of other jurisdictions, however, Missouri encountered a number of challenges that initially delayed progress of its SEP projects. In particular, the State encountered delays in establishing contracts, hiring needed staff and in establishing its agriculture loan program. These initial delays impacted the timely infusion of funds into the economy and affected overall grant performance.

Because of the delays in administering its grant, the Department ultimately gave Missouri an additional 9 months to spend its funds. Given Missouri's progress at the time of our review, it appeared that the State was on-track to meet the Department's new, extended deadline.

Missouri SEP

Upon receipt of Recovery Act funds, Missouri expanded its SEP to include 21 programs and 129 individual projects. This revised SEP was designed to encourage Missouri homeowners, farmers, industries and State and local government entities to implement energy efficiency measures throughout the State. Although it obtained the Recovery Act SEP award in April 2009, Missouri was unable to initially disburse funds for its projects until December 9, 2010, past the halfway point of when Missouri's Recovery Act funds were to have been expended, March 31, 2012. According to Missouri officials, expenditures were initially delayed, in part, due to the time period needed to solicit contractors to design its new, larger program, administer activities of the new program and to hire employees to oversee the SEP.

Agriculture Loan Program Terms and Conditions

Missouri's progress in expending SEP Recovery Act funds also may have been delayed by the inability of sub-recipients to meet terms and conditions established by Missouri for its agriculture loan program. Specifically, Missouri set aside $4.5 million in Recovery Act SEP funds for its agriculture loan program, and planned to provide loans between $30,000 and $500,000 to farmers and agricultural entities for the acquisition and installation of energy efficient equipment. Terms and conditions of the loans required prospective applicants to fund a minimum of 20 percent of the project themselves. According to Missouri officials, they established the minimum applicant participation to reduce the risk associated with completing the projects. Missouri officials explained that the commitment level for a project is normally higher if the participant has money of its own at stake.

However, prior to implementation of the agriculture loan program, Missouri's design and implementation contractor that administered the program informed State officials that the majority of farmers may not apply because they would be unable to pay the up-front costs. Missouri decided to adhere to the 20 percent requirement and received only six applications, of which only one was deemed potentially eligible. Rather than making that loan, Missouri decided to terminate the agriculture loan program and reallocated the $4.5 million to its school and local government loan program. Missouri officials deemed this reallocation a success, as the State subsequently awarded multiple loans for energy-efficiency projects.

Missouri SEP Progress

Missouri requested that the Department extend the time period for expending funds specified in the grant agreement because it was unable to spend all SEP funds within the original timeframe. In response, the Department granted a 9 month extension until December 31, 2012, to complete the execution of its Recovery Act SEP. According to Missouri officials, as of May 31, 2012, the State had spent $52.6 million, or 92 percent, of its $57.4 million award. Given the extension granted to Missouri's Recovery Act SEP, Missouri officials told us that they expect to fully expend the remaining SEP Recovery Act funds.

Because of actions taken by the Department and Missouri to address the issues we discovered, we are making no formal recommendations. As such, a response to this report is not required. We appreciate the cooperation of your staff and the various Departmental elements that provided assistance during our audit.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary of Energy
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine whether the State of Missouri (Missouri) effectively administered the American Recovery and Reinvestment Act of 2009 (Recovery Act) State Energy Program (SEP) grant.

SCOPE

The audit was performed from June 2011 through June 2012, and we conducted work at the Department of Natural Resources in Jefferson City, MO and obtained information from Shaw Environmental and Infrastructure, Inc. in Chicago, IL.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed laws and regulations, SEP Formula Grants Recovery Act Funding Opportunity, and Office of Management and Budget policies and procedures relevant to the management of the Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy Recovery Act funding;

- Reviewed grant award files, revolving loans terms and conditions and correspondence documents;

- Held discussions with Missouri officials at the Department of Natural Resources;

- Interviewed key personnel at the Department of Natural Resources and Shaw Environmental and Infrastructure, Inc.;

- Evaluated the Missouri SEP Recovery Act State plan, award proposals and contracts; and,

- Performed transaction testing for a sample of SEP Recovery Act transactions.

We conducted this performance 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In particular, we assessed the implementation of the *GPRA Modernization Act of 2010* as it relates to the audit objective and found that the Department had established performance measures related to the SEP. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer-processed data to accomplish our audit objective.

Management waived an exit conference on June 27, 2012.

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