



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

INSPECTION REPORT

DOE-OIG-25-26

July 2025

**OPPORTUNITIES TO IMPROVE
INTERNAL CONTROL GAPS FOR
THE OFFICE OF CLEAN ENERGY
DEMONSTRATIONS' IMPLEMENTATION
OF THE ADVANCED INDUSTRIAL
FACILITIES DEPLOYMENT PROGRAM**



Department of Energy
Washington, DC 20585

July 24, 2025

MEMORANDUM FOR THE DIRECTOR, OFFICE OF CLEAN ENERGY
DEMONSTRATIONS

SUBJECT: Inspection Report: *Opportunities to Improve Internal Control Gaps for the Office of Clean Energy Demonstrations' Implementation of the Advanced Industrial Facilities Deployment Program*

The attached report discusses our inspection of the implementation of the Advanced Industrial Facilities Deployment Program. We found that the Office of Clean Energy Demonstrations did not have adequate internal controls in place to implement the Advanced Industrial Facilities Deployment Program. We identified five areas where additional internal controls are needed to properly oversee the \$5.8 billion in funding.

This report contains two recommendations that, if fully implemented, should help ensure that the Office of Clean Energy Demonstrations' internal controls are adequate for the Advanced Industrial Facilities Deployment Program. Management fully concurred with our recommendations.

We conducted this inspection from March 2024 through April 2025 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Inspection and Evaluation* (December 2020).

We appreciated the cooperation and assistance received during this inspection.

A handwritten signature in black ink that reads "Sarah Nelson".

Sarah Nelson
Assistant Inspector General
for Management
Performing the Duties of the Inspector General
Office of Inspector General

cc: Chief of Staff



Department of Energy Office of Inspector General

Opportunities to Improve Internal Control Gaps for the Office of Clean Energy Demonstrations' Implementation of the Advanced Industrial Facilities Deployment Program (DOE-OIG-25-26)

WHY THE OIG PERFORMED THIS INSPECTION

The Office of Clean Energy Demonstrations (OCED) is responsible for administering \$5.8 billion Inflation Reduction Act funds through the Advanced Industrial Facilities Deployment Program (IDP). The IDP provides 50 percent cost share through cooperative agreements to eligible private sector companies.

We initiated this inspection to determine whether the OCED had adequate internal controls in place for the IDP.

What Did the OIG Find?

We found that the OCED did not have adequate internal controls to implement the IDP. Specifically, the OCED did not develop, document, and implement required internal controls, including a lack of: (1) documented internal controls policies, procedures, and plans; (2) risk assessments and processes; (3) a plan to mitigate conflict-of-interest risks; (4) a program performance plan; and (5) a plan to track programmatic community benefits requirements. The issues we identified occurred, in part, because the OCED did not: (1) prioritize the full development and documentation of its internal controls system; and (2) differentiate between program-level and project-specific responsibilities and risks.

What Is the Impact?

Without a robust internal controls system, the OCED risks negative impacts to the IDP outcomes, including unachieved goals and objectives, improperly reimbursed costs, fraud, waste, and undisclosed conflicts-of-interest. Additionally, the OCED may have difficulty identifying performance issues, including those at the program and project levels. Further, these risks are compounded by the magnitude of the projects and funding.

What Is the Path Forward?

We have made two recommendations that, if fully implemented, should help ensure that the issues identified in this report are corrected.

BACKGROUND

The Department of Energy established the Office of Clean Energy Demonstrations (OCED) in 2021 with the mission to deliver clean energy technology demonstration projects at scale in partnership with the private sector to accelerate deployment, market adoption, and the equitable transition to a decarbonized energy system. The OCED is a Departmental element that oversees a portfolio of nine programs and received more than \$26 billion in funding from the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and annual appropriations.

The OCED's Advanced Industrial Facilities Deployment Program (IDP) received over \$5.8 billion in funding to award cooperative agreements,¹ with a 50 percent cost share to eligible private sector companies. The IDP's priorities are: (1) achieving 50 to 75 percent carbon emissions reduction per project; (2) accelerating decarbonization into this decade; (3) spurring follow-on private investments in lower-embodied carbon goods; and (4) selecting projects with the greatest community benefit for the greatest number of people. In March 2024, the IDP selected 33 recipient projects and awarded 29 cooperative agreements, which could collectively receive up to \$5.709 billion as of April 2025.

We initiated this inspection to determine whether the OCED had adequate internal controls in place for the IDP.

OPPORTUNITIES TO IMPROVE INTERNAL CONTROLS

We determined that the OCED did not have adequate internal controls in place to implement the IDP. Specifically, the OCED did not develop, document, and implement required internal controls, including a lack of: (1) documented internal controls policies, procedures, and plans; (2) risk assessments and processes; (3) a plan to mitigate conflict-of-interest (COI) risks; (4) a program performance plan; and (5) a plan to track programmatic community benefits requirements.

Lack of Documented Internal Controls Policies, Procedures, and Plans

The OCED did not have documented internal control policies, procedures, and plans at the Department element and IDP program-levels, even though the OCED established a financial oversight and performance office responsible for the OCED and its programs' internal controls. The Department's *Enterprise Risk Management Guide* (ERM Guide) requires that the OCED's documentation demonstrate the design, implementation, testing, and operating effectiveness of its internal controls system. *The Government Accountability Office's Standards for Internal Control in the Federal Government* states that a documented internal control is a critical form of

¹ Cooperative agreements are a type of financial assistance agreement that can be used by the Federal Government to partner with non-Federal entities to carry out public purposes and allow the Federal Government to have substantial involvement.

management communication to help personnel implement the control activities for their assigned responsibilities. Management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the OCED's objectives or addressing related risks. Ultimately, without documented policies, procedures, and plans, the OCED could not demonstrate that its internal controls were adequate.

Lack of Risk Assessments and Processes

The OCED did not assess or plan to assess IDP program- or project-level risks. Program-level risks, such as Congressional funding reductions and stakeholder changes, impact multiple projects within a program. Project-level risks, such as market pricing and major technological failures, affect the objectives of a single project. To its credit, the OCED completed a high-level general risk assessment at its level, and after discussing our concerns, created guidance in January 2025, *Portfolio Risk Tracking and Commercial Risk Assessments*, to consider project-level risks. However, the OCED did not perform this activity at the IDP program level.

The Government Accountability Office's Standards for Internal Control in the Federal Government and the ERM Guide require Department organizations to conduct risk assessments to identify those risks that may impact an organization's ability to achieve its objectives. For example, the ERM Guide requires Department organizations to conduct an evaluation of fraud risks using a risk-based approach to design and implement control activities to mitigate identified fraud risks. However, the OCED did not complete a program-level risk assessment for the IDP, despite having already selected recipients and issuing funding. OCED officials explained that they will consider risks when establishing fringe and indirect cost/rate agreements and post payment reviews at the project-level but not the program-level for the IDP. However, those risks focus on the financial side of the IDP and are not program-level risks. Identifying program-level risks helps the IDP to resolve weaknesses that can affect multiple projects and stakeholders, impacting the IDP's achievement of its goals and objectives.

Lack of a Plan to Mitigate Conflict-of-Interest Risks

The OCED did not have a plan to mitigate COI risks for Federal and non-Federal staff. The OCED identified internal COI for Federal staff as a very high impact risk in its Fiscal Year 2024 Risk Profile Assessment. Specifically, the OCED stated that the COI risk exists because it needs to hire individuals with private industry and finance experience to meet its mission while also complying with COI requirements. We determined that the OCED did not create plans to mitigate this elevated risk of internal COI. OCED officials stated that they will address the risk by working with their General Counsel to ensure that the OCED staff does not have any COI in their work assignments and that, under certain circumstances, selected candidates will undergo a Department General Counsel Ethics COI review. However, the OCED's General Counsel stated that it did not have an active or vetting role in reviewing COI issues for the OCED; rather, the OCED's General Counsel acts as a consultant to provide legal advice when OCED officials approach with COI issues or questions. To its credit, the OCED complied with standard Department COI requirements by incorporating them in its *Cooperative Agreement Standard Terms and Conditions* and requiring Federal employees involved in the award selection process to complete a COI acknowledgement form.

Additionally, the OCED was relying on recipients and subrecipients to self-certify their compliance with the *Department of Energy Interim Conflict of Interest Policy* for non-Federal entities, dated December 20, 2021. According to the policy, non-Federal entities must require that any person responsible for the purpose, design, conduct, or reporting of a Department-funded project disclose significant COI annually. This reliance has its risks. Specifically, the Government Accountability Office and the Pandemic Response Accountability Committee have found self-certification alone to be insufficient for oversight. For example, the Government Accountability Office found that the Small Business Administration's efforts to expedite processing of Economic Injury Disaster Loans—such as the reliance on self-certification—may have contributed to increased fraud risk in that program. Ultimately, although the OCED identified internal COI as a very high impact risk, we found no evidence of mitigating controls beyond self-certification.

Lack of a Program Performance Plan

The OCED did not develop a program performance plan with specific milestones or performance measures to monitor the IDP's progress in achieving the desired outcomes. Two Code of Federal Regulations (CFR) § 200.202, *Program planning and design*, requires the OCED to design a plan with clear goals and objectives that facilitate the delivery of meaningful results consistent with the Federal authorizing legislation of the program. Additionally, 2 CFR § 200.301, *Performance measurement*, requires the OCED to measure and demonstrate the achievement of the IDP goals and objectives, share lessons learned, improve program outcomes, and foster adoption of promising practices. However, the OCED did not plan to develop program-level performance measures until after all the awards had been issued. This is contrary to Federal guidance that requires the OCED to establish program-level goals and objectives during the IDP's program planning and design and then communicate to the recipient the expected outcomes in the Federal award. By not developing the IDP's performance plan first, the IDP's recipients' outcomes may not align with the authorizing legislation in the Inflation Reduction Act.

No Plan to Track Programmatic Community Benefits Requirement

The OCED did not develop a plan to track and evaluate the success of the IDP's community benefits plan.² Such a plan would include how recipients intend to assess the recipient's performance alignment with the IDP's goals and objectives. As of November 2024, the OCED required recipients to self-report community benefits plan data. Because this was a programmatic requirement, it should have been incorporated into the OCED's program-level goals and objectives. Without tracking the programmatic requirement of the community benefits plan, the OCED may not achieve the Congressional mandate.

CONTRIBUTING FACTORS

These issues occurred because the OCED did not: (1) prioritize the full development and documentation of a robust internal controls system; and (2) differentiate between program- and project-level responsibilities and risks.

² The community benefits plan encompasses community and labor engagement, and investing in job quality creation.

The OCED did not prioritize the full development and documentation of a robust internal controls system to include an implementation plan, risk assessments and processes, and a plan to mitigate conflict-of-interest risks. *The Government Accountability Office's Standards for Internal Control in the Federal Government* states that internal control is comprised of more than financial controls and includes the plans, methods, policies, and procedures used to fulfill an entity's missions, strategic plans, goals, and objectives. Although the OCED established an oversight body responsible for its Department element and its nine programs' internal controls, it was primarily focused on post-award financial controls rather than programmatic performance controls.

Additionally, the OCED did not have a program performance plan and a plan to track programmatic community benefits requirements for the IDP because it did not differentiate between element-, program-, and project-level responsibilities and risks. Two CFR § 200.301, *Performance measurement*, requires the OCED to measure performance to show achievement of the IDP program goals and objectives. Further, the OCED is required to have clear program goals and objectives that facilitate the delivery of meaningful results that align with the Departmental strategic goals and objectives per 2 CFR § 200.202, *Program Planning and Design*. However, the OCED used project-level objectives and performance measures as the IDP's programmatic objectives and performance measures. As such, the OCED should develop a program performance plan for the IDP that includes program-level goals and objectives that can align with its projects.

SIGNIFICANT GAPS POSE RISKS TO THE IDP GOALS AND TAXPAYER FUNDS

Without a robust internal controls system, the OCED risks negative impacts to the IDP outcomes. These impacts could include unachieved goals and objectives, improperly reimbursed costs, fraud, waste, and undisclosed COI. Additionally, the OCED may have difficulty identifying performance issues, including those at the program and project levels. Further, the risks previously identified are compounded by the magnitude of the projects and funding.

RECOMMENDATIONS

We recommend that the Director, the OCED:

1. Develop, document, and implement an effective internal controls system that includes policies, procedures, and plans; risk assessments and processes; a plan to mitigate COI risks; and a plan to track and evaluate the success of the IDP's community benefits plan.
2. Differentiate between the Departmental element, program, and project levels by developing appropriate performance plans at each level, including program-level goals, objectives, and performance measures for the IDP.

MANAGEMENT RESPONSE

Management fully concurred with our recommendations and provided details on corrective actions taken, which are expected to be completed by December 15, 2026. According to its Director, the OCED, in coordination with other Departmental Elements, will develop, document, and implement an internal controls framework for the IDP. Also, in coordination with other Departmental Elements, the OCED will develop appropriate plans.

INSPECTOR COMMENTS

Management's comments and corrective actions are responsive to our recommendations.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We initiated this inspection to determine whether Office of Clean Energy Demonstrations (OCED) had adequate internal controls in place for the Advanced Industrial Facilities Deployment Program.

SCOPE

The inspection was performed from March 2024 through April 2025 with the OCED located in Washington, DC. The scope was limited to the OCED's implementation of the Advanced Industrial Facilities Deployment Program. The inspection was conducted under Office of Inspector General project number S24LL012.

METHODOLOGY

To accomplish our inspection objective, we:

- Held discussions with OCED personnel who had knowledge and experience in the inspection area;
- Reviewed Federal and Department regulations, policies, procedures, and guidance;
- Reviewed the current status and documents of the Advanced Industrial Facilities Deployment Program; and
- Coordinated with other Government agencies.

We conducted our inspection in accordance with the Quality Standards for Inspection and Evaluation (December 2020) as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusions.

Management officials waived an exit conference on July 7, 2025.

Appendix 2: Prior Reports

Special Report: [*Prospective Considerations for Projects Awarded Through Financial Assistance Awards*](#) (DOE-OIG-22-40, August 2022). The Office of Inspector General identified six major risk areas based on prior audits, inspections, and investigations that warrant immediate attention and consideration from Department leadership to prevent similar problems from recurring. Specifically, this included: (1) recipient fraud; (2) insufficient Federal staffing; (3) inadequate oversight of projects; (4) circumvention of project controls; (5) inadequate internal controls; and (6) lack of recipient-level controls.

Appendix 3: Management Comments



Department of Energy

Washington, DC 20585

June 24, 2025

MEMORANDUM FOR SARAH NELSON
ASSISTANT INSPECTOR GENERAL FOR MANAGEMENT

FROM: CATHY TRIPODI CATHLEEN TRIPODI
DIRECTOR

SUBJECT: Response Letter to OIG Report Draft report entitled: *Opportunities to Improve Internal Control Gaps for the Office of Clean Energy Demonstrations' Implementation of the Advanced Industrial Facilities Deployment Program (S24LL012)*

Digitally signed by
CATHLEEN TRIPODI
Date: 2025.06.24
14:57:09 -04'00'

Thank you for the opportunity to review and comment on the subject draft report. The Office of Clean Energy Demonstrations (OCED) appreciates the auditors' audit work and provides the following comments below:

We concur with the auditors' findings. The attachment to this memorandum details actions planned to be taken by OCED.

If you have any questions regarding this response, please contact Howard Dickenson, Acting Deputy Director, Office of Clean Energy Demonstrations.

Enclosure

Appendix 3: Management Comments

Enclosure

Management Response
OIG Draft Report: “enter report title and number”

Recommendation #1:

Develop, document, and implement an effective internal controls system that includes policies, procedures, and plans; risk assessments and processes; a plan to mitigate COI risks; and a plan to track and evaluate the success of the IDP’s community benefits plan.

DOE Response: Concur

OCED, in coordination with other DOE Departmental Elements, will develop, document, and implement an internal controls framework for the Industrial Demonstrations Program (IDP).

Estimated Completion Date: December 15, 2025

Recommendation #2:

Differentiate between the Departmental element, program, and project levels by developing appropriate performance plans at each level, including program-level goals, objectives, and performance measures for the IDP.

DOE Response: Concur

OCED, in coordination with other Departmental Elements, will develop appropriate plans.

Estimated Completion Date: December 15, 2025

FEEDBACK

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