



U.S. DEPARTMENT OF ENERGY

Office of Inspector General

DOE-OIG-26-10

January 23, 2026

Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Programs



INSPECTION REPORT



Department of Energy
Washington, DC 20585

January 23, 2026

MEMORANDUM FOR THE DIRECTOR, OFFICE OF STATE AND COMMUNITY
ENERGY PROGRAMS

SUBJECT: Inspection Report: *Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Programs*

The attached report discusses our inspection of New Mexico's implementation of the Home Energy Rebates programs under the *Inflation Reduction Act of 2022*. This report contains one recommendation and one suggested action that, if fully implemented, should help ensure that New Mexico's internal controls are adequate to implement the Home Energy Rebates programs. Management fully concurred with our recommendation.

We conducted this inspection from January 2025 through July 2025 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (December 2020). We appreciated the cooperation and assistance received during this inspection.

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

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

cc: Deputy Secretary
Chief of Staff

DOE OIG HIGHLIGHTS

Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Programs

Why We Performed This Inspection

The *Inflation Reduction Act of 2022* allocated \$8.8 billion to the Department of Energy for issuing grants to states, U.S. territories, and Indian Tribes for distribution to the public in the form of home energy rebates. The Department's Office of State and Community Energy Programs is responsible for oversight and guidance of the \$87.6 million of grants awarded to the New Mexico State Energy Office (NMSEO).

We initiated this inspection to assess the NMSEO's internal controls to administer the Home Energy Rebates programs under the *Inflation Reduction Act of 2022*.

What We Found

We found that the NMSEO had not established a comprehensive internal controls system, though it has offered rebates since September 2024. Specifically, the NMSEO did not: (1) identify, assess, and document potential risks that could prevent the programs from achieving stated objectives; (2) document important control activities; and (3) ensure the activities of the implementing company aligned with what the Office of State and Community Energy Programs had approved.

Additionally, we identified areas of potential risk related to the NMSEO's proposed plan to contract a company to implement a multifamily energy rebates program. Under the proposed plan, the multifamily implementing company would oversee its own work for installing energy-saving equipment and approving rebate requests. Additionally, the implementing company did not plan to verify self-reported household income or follow up with property owners to ensure they meet certain occupancy and rent requirements.

A fully established internal controls system helps protect Department funds and meet program objectives. Further, without well-documented policies and procedures, continuity of operations for the programs could be at risk when personnel normally assigned to complete those procedures are unavailable.

What We Recommend

To address the issues identified in this report, we made one recommendation and one suggested action that, if fully executed, should help strengthen the NMSEO's internal controls to implement the Home Energy Rebates programs.

Table of Contents

Background and Objective	1
Results of Review	2
Weaknesses Identified in the NMSEO's Internal Controls	2
Undocumented Risk Assessment	2
Lack of Policies and Procedures.....	2
Other Internal Control Weaknesses	3
Conclusion.....	3
Other Matters	3
Recommendation	4
Suggested Action	5
Management Comments and OIG Response	5
Appendices	
1. Objective, Scope, and Methodology	6
2. Prior Report	7
3. Management Comments.....	8

Background and Objective

The *Inflation Reduction Act of 2022* (IRA) allocated \$8.8 billion to the Department of Energy for issuing grants to states, U.S. territories, and Indian Tribes for distribution to the public in the form of home energy rebates. IRA funding expires on September 30, 2031, and rebates are issued through two distinct Home Energy Rebates programs:

- IRA Section 50121 allocated \$4.3 billion for the Home Owner Managing Energy Savings (HOMES) Program for performance-based, whole-house rebates. Under HOMES, authorized contractors conduct an initial energy evaluation of the property, followed by an energy-efficient installation or upgrade. After a follow-up energy evaluation is conducted of the property, the property owner receives a rebate based on energy savings achieved. The rebate's amount is determined by the property owner's income.
- IRA Section 50122 allocated \$4.5 billion for the High Efficiency Electric Home Rebates (HEEHR) Program, which offers rebates for the purchase and installation of approved appliances and energy upgrades, such as insulation or wiring. The amount of the rebate is determined by the product type and income level of the recipient, similar to the HOMES Program. Rebates are available for both single-family and multifamily properties.

The Department's Office of State and Community Energy Programs (SCEP) awards and oversees the grants to New Mexico, and the New Mexico State Energy Office (NMSEO) administers New Mexico's Home Energy Rebates programs. SCEP allocated \$43.9 million for the NMSEO's HOMES Program and \$43.7 million for its HEEHR Program. In September 2024, the NMSEO launched its HEEHR Program rebates for energy upgrades and appliances purchased at home improvement retailers for single-family properties. The NMSEO awarded a contract to help it implement the single-family HEEHR. The contract includes activities such as working with retailers, advertising, approving rebates, and training prospective installers. As of June 2025, the NMSEO had not launched its HEEHR Program for multifamily properties nor any portion of the HOMES Program.

The NMSEO's grant agreement states that the award is subject to requirements contained in Title 2, Code of Federal Regulations, Part 200. According to Section 303, "Internal Controls," the grant recipient "must establish, document, and maintain effective internal control over the Federal award" to ensure all requirements are met. Further, "these internal controls should align with the guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States or the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission." These best practices explain the components of internal control and their importance in preventing fraud, waste, and abuse. Further, management must design, implement, and operate the components of internal control together in an integrated manner for an internal control system to be effective.

The NMSEO's HOMES and HEEHR programs are in the early stages of implementation, with less than 6 years remaining to distribute funds. Therefore, we initiated this inspection to assess the NMSEO's internal controls to administer the Home Energy Rebates programs under the IRA.

Results of Review

WEAKNESSES IDENTIFIED IN THE NMSEO'S INTERNAL CONTROLS

We found that the NMSEO had not established a comprehensive internal controls system, though it has offered rebates since September 2024. Specifically, the NMSEO did not: (1) identify, assess, and document potential risks in its processes that could prevent the programs from achieving stated objectives; (2) document important control activities; and (3) ensure the implementing company's processes aligned with what SCEP had approved.

Undocumented Risk Assessment

The NMSEO did not document its consideration and assessment of programmatic risks prior to starting the single-family properties portion of its HEEHR Program for energy upgrades and appliance rebates. In conversations with NMSEO management, we pointed out potential risks where an unqualified applicant could receive a rebate. We requested documentation of its risk assessment, but NMSEO management stated it had not documented the consideration of risks. Instead, NMSEO management told us it had addressed risk through discussions with the company contracted to implement the HEEHR Program.

According to best practices, assessing risk is one of the five key components of internal controls. One principle of a risk assessment is the process of identifying, analyzing, and responding to risk. Once risks are identified and their potential impacts are assessed, management decides how to address the risk by either accepting, avoiding, or implementing risk mitigation controls. The level of assessed risk guides management in deciding whether it can tolerate and accept the risk or if it needs to design controls, such as policies and procedures, to mitigate it. Documenting the assessment of risk allows management to reevaluate the risks to its programs and respond accordingly when the environment changes. Further, having a documented risk assessment ensures continuity in the event of staffing changes, allows new personnel to understand why program processes were established, and increases the likelihood that program goals will be met.

Lack of Policies and Procedures

The NMSEO did not document important control activities. For example, the NMSEO did not develop, or require the implementing company to develop, written policies and procedures specific to approving rebate applications or providing required information to SCEP. Similarly, the NMSEO did not create policies and procedures for monitoring and assessing the implementing company's performance in accordance with the grant agreement and NMSEO requirements, or for approving invoices submitted by the implementing company. According to best practices, control activities designed to address risks are another key component of internal controls, and one principle of control activities is that management implements them through written policies. Under the grant agreement, such policies and procedures are the NMSEO's responsibility, yet NMSEO management told us that the implementing company was responsible for developing policies and procedures to administer its program.

The only procedure for the rebate approval process that the implementing company gave us was a script used to explain the rebate application process to applicants. However, the script did not

include the rules, guidelines, or instructions related to the review and approval of applications. The implementing company's management later told us that there was an operations manual the application approvers could use, but we found it did not address the concerns identified in this report. To its credit, we found that NMSEO's management was very knowledgeable and generally able to answer all our questions. Nevertheless, written policies and procedures are critical for succession planning and helping to ensure the personnel that carry out processes are doing so consistently and in accordance with the NMSEO's grant agreement.

Other Internal Control Weaknesses

The NMSEO did not ensure that the implementing company's processes aligned with what SCEP had approved. For example, in its SCEP-approved grant agreement, the NMSEO stated it would determine qualifying household income by considering the sum of the incomes of all adult occupants. However, in practice, the implementing company was only considering one person's income to calculate household income. For instance, when an applicant used a tax return on which they identified as "married filing separately" to show annual income, the application approvers were not required to obtain the spouse's tax return. The NMSEO's approved grant agreement also states that when applicants submit a tax return for income verification, or if applicants state they did not file taxes, the implementing company would use the Internal Revenue Service's Income Verification Express Service system to verify tax return data. We found the company contracted to review and approve rebates was not completing this crucial step. The NMSEO's management stated that it conducted planning meetings with the implementing company and gave it SCEP's guidance and the NMSEO's approved grant agreement. These documents describe how the NMSEO would satisfy SCEP's requirements for the rebate approval process. According to NMSEO management, the differences were due to changes in the NMSEO's plans when developing its programs, but the NMSEO had no documentation of such changes and did not submit these material changes to SCEP for approval.

CONCLUSION

The internal control weaknesses we identified occurred because NMSEO management prioritized expeditiously launching its programs over documenting risks and related controls. Without a fully established internal controls system, a grant recipient cannot ensure that program objectives are achieved. For example, there is an increased risk that grant funds could be awarded to ineligible persons, in incorrect amounts, for unallowed upgrades, or on unqualified properties. Further, without well-documented policies and procedures, continuity of operations for the programs could be at risk when personnel normally assigned to complete those procedures are unavailable.

OTHER MATTERS

At the time of our fieldwork, SCEP had not given approval to the NMSEO to begin implementing the multifamily component of the HEEHR Program. However, we noted the following concerns with the NMSEO's planned multifamily rebates in the HEEHR Program:

- The company the NMSEO contracted to implement the multifamily component of the HEEHR Program also intended to install energy upgrades. Under this arrangement, the

implementing company would approve the application and also oversee its own work to qualify for and receive both the rebates and the contractor incentives available to the installer. These incentives are bonuses paid to the installer based on the number of units upgraded and the appliances installed. This arrangement creates a conflict of interest. Best practices state that segregation of duties is an internal control activity where key duties and responsibilities are divided among different people to reduce the risk of error, misuse, or fraud.

- The multifamily HEEHR Program’s implementing company intended to allow multifamily property owners to self-attest, without verification, that their property includes the correct ratio of low-income residents. In a prior report,¹ we found that self-certification was identified as a top fraud vulnerability for benefits programs and provided an opportunity for individuals to exploit the system and fraudulently obtain benefits.
- The company implementing the multifamily component of the HEEHR Program did not intend to follow up to ensure that the property owners maintain stable rents and adhere to the occupancy requirements after installations occur, as required by SCEP guidance.

SCEP management stated that it continues to work with the NMSEO to develop a revised plan that resolves the risks previously identified. SCEP management also stated that it will not grant approval for the NMSEO to launch its multifamily rebates in the HEEHR Program until its concerns have been appropriately mitigated or otherwise addressed.

Recommendation

The Department follows Order 224.3A, *Audit Coordination, Resolution, and Follow-up*, to address recommendations made by the Office of Inspector General covering recipients of financial assistance agreements. We discussed this report’s findings with management, and it stated it would apply the processes found in Order 224.3A to address our recommendation that the Director, SCEP, direct the NMSEO to:

1. Develop a corrective action plan documenting how the NMSEO will design and implement a system of internal controls aligned with 2 Code of Federal Regulations, Part 200, to include documenting risks to its programs with corresponding control activities.

¹ Using “Lessons Learned” From the Pandemic Relief Programs, Which Suffered Substantial Fraud Losses to Protect the \$4.257 Billion Made Available Under the Inflation Reduction Act’s Home Electrification and Appliance Rebates Program (DOE-OIG-24-31, September 25, 2024).

Suggested Action

We suggest that the Director, SCEP:

1. Continue to evaluate and mitigate, as appropriate, the concerns noted in this report regarding the NMSEO's proposed multifamily HEEHR Program before granting approval.

Management Comments and OIG Response

Management fully concurred with our recommendation and suggestion. Management stated it will ensure that the NMSEO develops a corrective action plan to establish, document, and maintain effective internal controls aligned with 2 Code of Federal Regulations, Part 200; address issues identified during the inspection; and make a management decision regarding the adequacy of the corrective action plan. Further, management will continue to work with the NMSEO on the multifamily component of the program before approving it.

The NMSEO generally concurred with our recommendation and suggestion; however, it disagreed with some elements of our report. For example, the NMSEO stated that it did require the implementing company to develop written policies and procedures. However, as stated in the report, we found the NMSEO did not ensure the implementing company developed written policies and procedures related to rebate application approval or the provision of required documentation to SCEP. The NMSEO also stated that it provided the Office of Inspector General with the requirements for approving invoices submitted by the implementing company in the *State of New Mexico Manual of Model Accounting Practices*. However, we found that the manual covers high-level statewide accounts payable and was not specific to approving energy rebate invoices and how to ensure the items claimed on the invoices complied with the HEEHR requirements.

To its credit, the NMSEO stated it started developing a comprehensive Standard Operating Procedure framework and began transitioning to a different implementing company for the multifamily HEEHR Program.

Management's and the NMSEO's comments and corrective actions are responsive to our recommendation and suggestion. Their comments are included in Appendix 3.

Objective, Scope, and Methodology

Objective

We initiated this inspection to assess the New Mexico State Energy Office's (NMSEO) internal controls to administer the Home Energy Rebates programs under the *Inflation Reduction Act of 2022*.

Scope

The inspection was performed from January 2025 through July 2025 with the Office of State and Community Energy Programs in Washington, DC; and the NMSEO in Santa Fe, New Mexico. The inspection scope was limited to the actions taken by the NMSEO to implement the Home Energy Rebates programs under the *Inflation Reduction Act of 2022*. The inspection was conducted under Office of Inspector General project number S25OR005.

Methodology

To accomplish our inspection objective, we:

- Reviewed applicable policies, procedures, laws, and regulations pertaining to the Office of State and Community Energy Programs and the Department of Energy;
- Reviewed documents provided by the NMSEO and the implementing companies;
- Reviewed reports issued by the Department, Office of Inspector General, Government Accountability Office, and other entities; and
- Interviewed key personnel from the Department's Office of State and Community Energy Programs, the NMSEO, and the implementing companies.

We conducted this performance 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.

We held an exit conference with management officials on December 23, 2025.

Prior Report

Office of Inspector General

- Special Report: *Using “Lessons Learned” From the Pandemic Relief Programs, Which Suffered Substantial Fraud Losses to Protect the \$4.257 Billion Made Available Under the Inflation Reduction Act’s Home Electrification and Appliance Rebates Program* (DOE-OIG-24-31, September 25, 2024). This special report highlights opportunities identified by the Office of Inspector General that the Department of Energy should take to reduce fraud in the Home Electrification and Appliance Rebates Program authorized by *the Inflation Reduction Act of 2022*. The Office of Inspector General identified two areas of concern. First, the Office of State and Community Energy Programs was not using Pandemic Response Accountability Committee best practices to implement an effective fraud prevention program, including collecting basic data, such as social security numbers. Along the same lines, the Office of State and Community Energy Programs was not requiring States to do so. These best practices were recently learned the hard way by Federal agencies that experienced massive fraud during pandemic relief programs. Additionally, the Office of State and Community Energy Programs allows States to rely on Applicant “self-certification” in some circumstances to meet income qualifications.

Management Comments



Department of Energy

Washington, DC 20585

December 04, 2025

MEMORANDUM FOR SARAH NELSON
ASSISTANT INSPECTOR GENERAL FOR MANAGEMENT
OFFICE OF INSPECTOR GENERAL

FROM: MICHAEL LI
PRINCIPAL DEPUTY DIRECTOR
DOE OFFICE OF STATE AND COMMUNITY ENERGY
PROGRAMS

SUBJECT: ADDITIONAL ACTIONS WOULD STRENGTHEN NEW
MEXICO'S INTERNAL CONTROLS FOR IMPLEMENTING
THE HOME ENERGY REBATES PROGRAM (S25OR005)

MICHAEL LI
Digitally signed by
MICHAEL LI
Date: 2025.12.10
09:36:46 -05'00'

Thank you for the opportunity to review and comment on the subject draft report. The DOE's Office of State and Community Energy Programs (SCEP) appreciates the auditors' audit work and provides the following comments below:

The attachment to this memorandum details actions planned to be taken by SCEP.

If you have any questions regarding this response, please contact myself or Mary Hubbard, Program Manager – Home Energy Rebates Program, SCEP, 202-262-3522.

Enclosure

Enclosure

Management Response
OIG Draft Report: Additional Actions Would Strengthen New Mexico's Internal Controls for
Implementing the Home Energy Rebates Program (S25OR005)

Recommendation #1: The Department follows Order 224.3A, Audit Coordination, Resolution, and Follow-up, to address recommendations made by the Office of Inspector General covering recipients of financial assistance agreements. We discussed this report's finding with the Department, and it stated it would apply the processes found in Order 224.3A to address our recommendation that the Director, SCEP: direct the NMSEO to:

1. Develop a corrective action plan documenting how the NMSEO will design and implement a system of internal controls aligned with 2 Code of Federal Regulations, Part 200, to include documenting risks to its programs with corresponding control activities.

DOE Response: *Concur*

Consistent with the requirements of DOE Order 224.3A, SCEP will ensure that NMSEO develops a corrective action plan to establish, document, and maintain effective internal controls aligned with 2 Code of Federal Regulations, Part 200, and address issues identified during the OIG audit, and will make a management decision regarding the adequacy of the corrective action plan. SCEP will continue to conduct programmatic oversight and work with NMSEO to ensure they maintain effective internal controls for the duration of the award.

Estimated Completion Date: July 31, 2026

Suggestion #1: We suggest that the Director, SCEP:

1. Continue to evaluate and mitigate, as appropriate, the concerns noted in this report regarding the NMSEO's proposed multifamily HEEHR Program before granting approval

DOE Response: *Concur*

DOE concurs with this OIG suggestion and plans to take action accordingly. As stated in our June 27 feedback and June 30 discussions with the OIG, and as documented in the draft report, SCEP continues to work with NMSEO on the multifamily component of the program and will not grant approval for New Mexico to launch its multifamily rebates program until these concerns have been appropriately mitigated or otherwise addressed in accordance with all applicable statutory, regulatory and programmatic requirements.

Estimated Completion Date: March 31, 2026

State of New Mexico
Energy, Minerals and Natural Resources Department

Michelle Lujan Grisham
Governor

Erin Taylor
Acting Cabinet Secretary

Ben Shelton
Deputy Cabinet Secretary

Rebecca Stair, Director
Energy Conservation and Management Division



December 10, 2025

Sarah Nelson
Assistant Inspector General for Management
Office of Inspector General
Office of State and Community Energy Programs (SCEP)
U.S. Department of Energy (DOE)
Via Email: OIG.Reports@hq.doe.gov

Re: State of New Mexico's Response to the U.S. Department of Energy - Office of Inspector General Draft Report: "Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Programs"

Dear Ms. Nelson,

The New Mexico Energy, Minerals and Natural Resources Department's (EMNRD) Energy Conservation and Management Division's (ECMD), also known as the New Mexico State Energy Office (NMSEO), have the following comments regarding the U.S. Department of Energy's (DOE) Office of Inspector General's (OIG) draft report titled "Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Program." This draft report was received via e-mail on December 5, 2025. NMSEO's comments are intended to clarify the record and provide additional context.

A) Document Content Clarifications:

- **Page 1 (pdf page 5), Paragraph 6:** New Mexico has 3 years remaining to distribute funds due to internal accounting controls.
- **Page 2, Paragraph 4, Sentence 1 and Sentence 2:** NMSEO did require implementing companies to develop written policies and procedures specific to approving rebates applications or providing required documentation to State and Community Energy Programs (SCEP).

Sentence 3: NMSEO did provide requirements for approving invoices submitted by the implementing company. These requirements are standard across all state programs and are outlined in [State of New Mexico Manual of Accounting Practices](#) document in the Section of Accounts Payable, page 99.

1220 South St. Francis Drive • Santa Fe, New Mexico 87505
Phone (505) 476-3315 • Fax (505) 476-3322

- **Page 3, Paragraph 2, Sentence 1:** "...NMSEO management prioritized expeditiously launching its programs over documenting risks and related controls." NMSEO considers the additional clarifying words "first phase of [programs]" to clarify that only a small portion of the programs were launched at first.

B) Other Matters

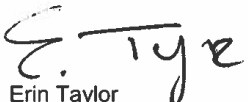
- NMSEO thoroughly considered the OIG's findings in regard to the multifamily implementer. To ensure optimal project alignment and mitigate potential risks, we concluded all project-related activities with that implementer in March 2025 and formally terminated that contract in September 2025. NMSEO concluded that a transition to a different contractor is necessary for the successful implementation of the multifamily part of the program, and in the final stages of executing a contract with that different contractor.

C) NMSEO's Approach to Recommendations:

- As a result of the observations noted during the inspection and from the first OIG's first draft submitted on June 2025, NMSEO initiated the development of a comprehensive Standard Operating Procedure (SOP) framework. These documents are being developed to incorporate risks assessments and the established best practices outlined in the OIG's report to ensure consistency and compliance in conjunction with the single-family implementer's existing Operations Manual.

NMSEO looks forward to continuing to advance the Home Energy Rebates Programs. Please do not hesitate to contact Yenya Maestas via e-mail yeny.maestas@emnrd.nm.gov or by telephone (505) 795-2381.

Sincerely,


Erin Taylor
Acting Cabinet Secretary
EMNRD

CC: Rebecca Stair, Director, ECMD

1220 South St. Francis Drive • Santa Fe, New Mexico 87505
Phone (505) 476-3315 • Fax (505) 476-3322

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

If you have comments, suggestions, and feedback on this report, please reach out at OIG.Reports@hq.doe.gov. Include your name, contact information, and the report number.

For all media-related questions, please send inquiries to OIGpublicaffairs@hq.doe.gov and include your name, contact information, and the report number.