U.S. DEPARTMENT OF ENERGY

Office of Inspector General

DOE-OIG-26-42

July 20, 2026

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

INSPECTION REPORT

Department of Energy
Washington, DC 20585

July 20, 2026

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

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

The attached report discusses our inspection of California's implementation of the Home Energy Rebates programs under the *Inflation Reduction Act of 2022*. This report contains two recommendations that, if fully implemented, should help ensure that California's internal controls are adequate to implement its Home Energy Rebates programs. Management concurred with our recommendations.

We conducted this inspection from August 2025 through January 2026 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.

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-26-42

DOE OIG HIGHLIGHTS

Additional Actions Would Strengthen California'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 the purpose of 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 $581.5 million of grants awarded to the California State Energy Office (CASEO).

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

What We Found

We found that CASEO had not fully established, documented, and maintained an effective system of internal controls over the Federal award. Specifically, CASEO did not: (1) have a written policy for monitoring and assessing contractor performance; (2) document risk assessments that identified, analyzed, and responded to potential risks that could prevent the rebate programs from achieving their stated objectives; (3) ensure that a subcontractor had fully developed and documented program policies and procedures before approving the reservation of funds for proposed projects; and (4) use the U.S. Department of Treasury's Do Not Pay system to verify that recipients were not ineligible to receive Federal funds.

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 two recommendations that, if fully implemented, should help strengthen CASEO's internal controls to implement the Home Energy Rebates programs.

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Background and Objective

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

- 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 California, and the California State Energy Office (CASEO) administers California's Home Energy Rebates programs. SCEP allocated $291.3 million for CASEO's HOMES Program and $290.2 million for its HEEHR Program. The State of California previously established the TECH Clean California initiative in June 2021, with similar goals to the HOMES and HEEHR Programs. California had contracted with a company to implement its TECH Clean California initiative, so CASEO awarded a contract to that company to be the prime contractor implementing the like-minded HEEHR program as well. The contract includes activities such as website management, advertising, approving and processing rebates, and training prospective installers. The prime contractor then subcontracted several companies to assist with the implementation of CASEO's HEEHR Program, and in October 2024, launched the HEEHR Program to issue rebates for energy-saving appliances at single-family and multifamily properties. At the time of our field work, CASEO had not launched any portion of the HOMES Program.

CASEO's grant agreement states that the award is subject to requirements contained in Title 2 Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Title 2 CFR § 200.303, "Internal controls," states that recipients and subrecipients "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 importance of internal controls in preventing fraud, waste, and abuse, and identify the components of internal control as control environment, risk assessment, control activities, information and communication, and monitoring activities. In November 2025, the Office of Management and Budget issued and updated 2 CFR 200, Appendix XI, *Compliance Supplement*, which emphasizes that all the components of internal control be present and functioning for internal control be effective. 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.

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

Results of Review

WEAKNESSES IDENTIFIED IN CASEO'S INTERNAL CONTROLS

We determined that not all CASEO's internal controls were adequate to administer the Home Energy Rebates programs under the IRA. Specifically, CASEO did not: (1) have a written policy for monitoring and assessing contractor performance; (2) document risk assessments that identified, analyzed, and responded to potential risks that could prevent the rebate programs from achieving their stated objectives; (3) ensure that the multifamily subcontractor had developed and documented program policies and procedures before approving the reservation of funds for proposed projects; and (4) use the U.S. Department of Treasury's (Treasury) Do Not Pay (DNP) system to verify that recipients were not ineligible to receive Federal funds.

Lack of Monitoring Policy

We found that CASEO did not have documented monitoring policies but instead relied on the established system controls and experience and expertise of the individuals performing the work. During our review, we found the following weaknesses in the CASEO's energy rebate program monitoring process:

- CASEO reviewed 10 out of over 1,000 rebate packages (less than 1 percent) processed by the prime contractor each quarter.
- CASEO allowed the prime contractor to select which 10 of the rebate packages processed would undergo quality assurance review.
- CASEO did not have a documented quality assurance process for reviewing approved and paid energy rebate packages.
- prime contractor reviewed 2–3 out of every 25 processed claims for rebate payments. Further, the prime contractor did not track which claims it reviewed.
- CASEO's and the prime contractor's sample sizes were not based on documented risk-based determinations.
- CASEO did not ensure the process for approving claims for rebate payments included a documented quality assurance policy or procedure. Further, the only claims that management reviewed were those that needed additional information to qualify for approval after failing initial processing.
- CASEO did not ensure the process for income verification included a secondary review.

As a recipient of Federal awards, CASEO must establish, document, and maintain effective internal controls over those awards that provide reasonable assurance that the contractor's performance complies with Federal statutes, regulations, and the awards' terms and conditions. Best practices describe internal control as a dynamic process that management must continually adapt to the risks and changes an entity faces, and monitoring of the internal control system is essential for staying aligned with changing objectives, environments, and risks from both internal and external sources. Management evaluates and documents the results of ongoing monitoring and evaluations to identify internal control issues indicated by deviations from previously established baselines. Reviewing the results of a process, such as checking rebate packages for accuracy and completeness, provides management with an indication of whether the process is working as intended. In response to our inspection activities, CASEO told us that it, as well as its prime contractor and its income verification subcontractors, have all developed policies relating to rebate sample reviews and income verifications quality assurance. In addition, CASEO told us that its prime contractor started tracking which claims it reviews.

Undocumented Assessment of Risk

CASEO 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 CASEO management, we discussed potential risks where an unqualified applicant could receive a rebate. We requested documentation of its assessment of such risks, but CASEO management stated it had not documented the consideration of risks. Specifically, CASEO management told us it had addressed risk through constant discussions with the prime contractor and designed its programs based on those discussions but did not document the risks or the corresponding designed controls.

According to best practices, assessing risk is a key component of internal controls, and one principle of 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 risks 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 decreases the likelihood that program goals will not be met.

Lack of Multifamily Rebates Program Policies

CASEO did not ensure that the company subcontracted to implement energy rebates for multifamily complexes had documented important control activities. For example, even though the subcontractor had authorized energy upgrades on three multifamily complexes and reserved a total of $4,451,250 in funding for energy rebates,[1] the subcontractor did not have written policies and procedures specific to approving rebate funding and payment applications. Further, as of October 2025, one of the multifamily projects was close to receiving its first partial rebate payment, while the subcontractor still did not have documented policies on reviewing and approving claims for energy rebate payments. At that time, the subcontractor told us that it had a draft framework that was not ready to be released; however, CASEO told us it would make sure the subcontractor had a policy in place before sending the rebate payments.

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. 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 CASEO's grant agreement. In response to our inspection activities, CASEO told us the multifamily subcontractor developed rebate claims processing policies, and its framework was in place as of December 2025.

Use of the Do Not Pay System

We found that CASEO was not using the DNP system to verify that the recipients receiving energy rebate funds were eligible to receive Federal funds. The Treasury's DNP system consolidated information from multiple databases into one location and simplified the process of verifying that potential recipients were not ineligible to receive Federal funds. The *Payment Integrity Information Act of 2019* requires that each state and any contractor, subcontractor, or state program responsible for reducing improper payments of a federally funded state-administered program, shall have access to, and use of, the DNP system for the purpose of verifying payment or award eligibility for payments.

Title 2 CFR § 200.303, "Internal controls," states that recipients and subrecipients must comply with Federal statutes, regulations, and terms and conditions of Federal awards. A SCEP official told us it was SCEP's intention to have the states utilize the Treasury's DNP system, but SCEP inadvertently issued conflicting guidance to the states. Specifically, SCEP's *Program Requirements & Application Instructions* explain that the states are "expected" to use the DNP system while its *Consumer Protection Plan Required Elements* say that states "may" utilize the DNP system.

SCEP management asserted that the states' lack of access to the DNP system was partially due to longstanding *Privacy Act of 1974* requirements that restricted the Treasury from providing DNP system access to states. According to SCEP, the Treasury's restriction was lifted by an August 2025 Office of Management and Budget Memorandum 25-32, *Preventing Improper Payments and Protecting Privacy Through Do Not Pay*. To its credit, SCEP stated it contacted the Treasury, and by September 2025, recipient states were able to gain access to the DNP system.

[1] The process for approving and issuing HEEHR energy rebates has two phases: (1) The installation contractor submits an application to the state to initiate the energy upgrades. Once approved, a "reservation" is issued. (2) Upon completion of the energy upgrades, the contractor submits completed upgrades documentation and a claim for rebate payment. Once approved, the prime contractor releases the energy rebate funds.

SCEP later issued additional guidance, effective in May 2026, requiring states to obtain access to the DNP system and use it to vet potential contractors when processing rebate applications.

CONCLUSION

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 recipients could award rebate funds to unqualified applicants in incorrect amounts, for unallowed upgrades, or on unqualified properties. Without monitoring the results of the internal control system, management cannot know whether the system is operating as intended. 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.

Recommendations

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 the Department, and it stated it would apply the processes found in Order 224.3A to address our recommendations that the Director, SCEP:

1. Ensure that CASEO develops and implements a corrective action plan documenting how it will design, document, and implement a system of internal controls aligned with 2 CFR 200 to include documenting risks to its programs, corresponding control activities, and monitoring policy; and

2. Continue updating guidance relating to the Treasury's DNP system and assisting states with gaining access to the database.

Management Comments and OIG Response

Management concurred with our recommendations. For the first recommendation, management stated it will: (1) ensure that CASEO develops a corrective action plan to establish, document, and maintain effective internal controls aligned with 2 Code of Federal Regulations, Part 200; (2) address issues identified during the inspection; and (3) make a management decision regarding the adequacy of the corrective action plan. For the second recommendation, management stated it has already updated guidance relating to the Treasury's DNP system, obtained Treasury concurrence, and distributed the guidance along with a Treasury DNP overview in January 2026.

CASEO generally concurred with our findings, recognized how the report would strengthen its documented oversight, and stated the actions it has taken. However, CASEO disagreed with some elements of our report. For example, CASEO stated that its rebate sampling percentage was reflective of other energy efficiency programs and the Consumer Protection Plan. As we stated in the report, the rebate sampling process was not aligned with documented risk-based determinations. Also, CASEO stated Footnote 1 was incorrect because it did not include all the steps in the rebate process. However, the purpose of the footnote was to summarize the steps in the process. Lastly, CASEO clarified a statement we previously had in the report about the subcontractor who planned to issue multifamily rebates before completing a policy to govern that process. We removed the statement about the timing of the completed policy after receiving updated information from CASEO.

Management's and CASEO's comments and corrective actions are responsive to our recommendations. Their comments are included in Appendix 3.

Objective, Scope, and Methodology

Objective

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

Scope

The inspection was performed from August 2025 through January 2026 with the Office of State and Community Energy Programs in Washington, DC, and CASEO in Sacramento, California. The inspection scope was limited to the actions taken by CASEO to implement its Home Energy Rebates programs under the *Inflation Reduction Act of 2022*. The inspection was conducted under Office of Inspector General project number S25OA019.

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 CASEO and the companies implementing the programs;

- 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, CASEO, and the companies implementing the programs.

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 from the Department and CASEO on June 17, 2026.

Appendix 2

Prior Reports

Office of Inspector General

- Inspection Report: *Additional Actions Would Strengthen New Mexico's Internal Controls for Implementing the Home Energy Rebates Programs* (DOE-OIG-26-10 January 2026). We initiated this inspection to assess New Mexico's internal controls to administer the Home Energy Rebates (HER) programs under the *Inflation Reduction Act of 2022* (IRA). We found that New Mexico had not established a comprehensive internal controls system, though it has offered rebates since September 2024. Specifically, New Mexico 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 (SCEP) had approved. Additionally, we identified areas of potential risk related to New Mexico'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 of Energy 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. The Department concurred with our recommendation that, if fully executed, should help ensure that New Mexico's internal controls are adequate to implement the HER programs.

- Inspection Report: *Additional Actions Would Strengthen Indiana's Internal Controls for Implementing the Home Energy Rebates Programs* (DOE-OIG-26-08, January 2026). We initiated this inspection to assess Indiana's internal controls to administer the HER programs under the IRA. We determined that Indiana did not establish an adequate internal controls system to administer the HER programs under the IRA, though it began accepting rebate applications in May 2025. Specifically, Indiana did not: (1) document risk assessments that identified, analyzed, and responded to potential risks that could prevent the HER programs from achieving their stated objectives; and (2) develop a program-specific policy for monitoring and assessing the implementing company's performance. A fully established internal controls system helps protect Department funds and meet program objectives. The Department concurred with our recommendation that, if fully executed, should help ensure that Indiana's internal controls are adequate to implement the HER programs.

- Inspection Report: *Additional Actions Would Strengthen Georgia's Internal Controls for Implementing the Home Energy Rebates Programs* (DOE-OIG-26-07, January 2026). We initiated this inspection to assess Georgia's internal controls to administer the HER programs under the IRA. We determined that not all controls were adequate. Specifically, Georgia did not have a written policy for monitoring and assessing contractor performance for its oversight of two HER programs. A formal monitoring policy will help Georgia identify, assess, and respond to program risks and remediate deficiencies to ensure proper stewardship of taxpayer dollars. It is crucial that Georgia have a monitoring policy that includes clear objectives, methodologies, and responsibilities for assessing contractor performance. To its credit, and in response to our inquiry, Georgia developed a monitoring policy to address our finding. The Department concurred with our recommendation that, if fully executed, should help ensure that Georgia's internal controls are adequate to implement the HER programs.

- 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 2024). This special report highlights opportunities that the Department should take to reduce fraud in the Home Electrification and Appliance Rebates Program authorized by the IRA. The Office of Inspector General identified two areas of concern. First, SCEP 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, SCEP 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, SCEP allows states to rely on applicant "self-certification" in some circumstances to meet income qualifications. The Department concurred with our recommendations and planned actions that we believe will be responsive to our recommendations once we confirm that those actions have been completed.

Management Comments

Department of Energy
Washington, DC 20585

MEMORANDUM FOR SARAH NELSON
ASSISTANT INSPECTOR GENERAL FOR MANAGEMENT

FROM: AUDREY ROBERTSON
ASSISTANT SECRETARY OF ENERGY (EERE)
CRITICAL MINERALS AND ENERGY INNOVATION

AUDREY ROBERTSON Digitally signed by AUDREY ROBERTSON Date: 2026.05.20 13:34:11 -04'00'

THROUGH: CAROLYN SNYDER
DEPUTY ASSISTANT SECRETARY
INNOVATION, AFFORDABILITY, AND CONSUMER CHOICE

CAROLYN SNYDER Digitally signed by CAROLYN SNYDER Date: 2026.04.24 23:06:19 -04'00'

THROUGH: MICHAEL LI
DIRECTOR
STATE AND COMMUNITY ENERGY PROGRAMS

MICHAEL LI Digitally signed by MICHAEL LI Date: 2026.04.27 10:29:46 -04'00'

SUBJECT: *Additional Actions Would Strengthen California's Internal Controls for Implementing the Home Energy Rebates Programs* (S250A019)

Thank you for the opportunity to review and comment on the subject draft report. The DOE Office of Critical Minerals and Energy Innovation (CMEI) appreciates the auditors' audit work and provides the following comments below:

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

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

Enclosure

Enclosure

Management Response
OIG Draft Report: ***Additional Actions Would Strengthen California's Internal Controls for Implementing the Home Energy Rebates Programs (S25OA019)***

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 findings with the Department, and it stated it would apply the processes found in Order 224.3A to address our recommendations that the Director, SCEP:

1. Ensure that the California State Energy Office (CASEO) develops and implements a corrective action plan documenting how it will design, document, and implement a system of internal controls aligned with 2 CFR 200 to include documenting risks to its programs, corresponding control activities, and monitoring policy.

DOE Response: ***Concur***

Consistent with the requirements of DOE Order 224.3A, CMEI will ensure that CASEO develops a corrective action plan to design, document, and implement 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. CMEI will continue to conduct programmatic oversight and work with CASEO to ensure they maintain effective internal controls for the statutory duration of the award.

Estimated Completion Date: January 31, 2027

Recommendation #2: 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 the Department, and it stated it would apply the processes found in Order 224.3A to address our recommendations that the Director, SCEP:

2. Continue updating guidance relating to the Treasury's Do Not Pay (DNP) system and assisting states with gaining access to the database.

DOE Response: ***Concur and Partially Completed***

Consistent with the requirements of DOE Order 224.3A, CMEI already completed the guidance update relating to the Treasury's DNP system, obtained Treasury concurrence, and distributed the guidance along with a Treasury DNP overview in January 2026. Please note that, as an external to DOE barrier to completion, Treasury indicated in September 2025 that they have a significant backlog of DNP system access requests. CMEI will continue to assist our recipient states in gaining DNP access through the statutory duration of the awards.

Enclosure

Management Response
OIG Draft Report: *Additional Actions Would Strengthen California's Internal Controls for Implementing the Home Energy Rebates Programs (S25OA019)*

Estimated Completion Date: September 30, 2031

STATE OF CALIFORNIA – NATURAL RESOURCES AGENCY Gavin Newsom, *Governor*

CALIFORNIA ENERGY COMMISSION
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May 14, 2026 *transmitted via email*

Department of Energy
Office of Inspector General
IG-20 (S25OA019)
Washington, DC 20585

Draft Audit Response – DOE OIG Draft Inspection Report of California's Implementation of the Home Energy Rebates Programs

The California Energy Commission (CEC), serving as California's State Energy Office, appreciates working with the Department of Energy (DOE) and Office of Inspector General's (OIG) in its inspection of the Home Energy Rebates Programs under the Inflation Reduction Act of 2022 (IRA). The CEC shares the goal of deploying these essential investments to bring energy savings to Americans in California in alignment with the Home Energy Rebate Program's goals while preventing fraud, waste and abuse.

The CEC launched the High Efficiency Electric Home Rebates (HEEHR or HEEHRA) Program in October 2024. While HEEHRA has been operating under effective policies and procedures, CEC recognizes that the suggested best practices outlined in OIG's draft report would strengthen its documented oversight. We offer the following responses to the draft report's findings and recommendations, providing context and noting corrective actions taken or plans to address the recommended best practices.

1. Centralized Written Monitoring Policy

The CEC and its implementing partners have established effective monitoring policies and procedures, both documented (program applications, DOE-approved blueprints, contracts, participation agreements, contractor/installer training, regular standing meetings, and established processes and procedures) and built into the program's information technology systems. In response to OIG's findings, we have developed additional monitoring policies and procedures and will work toward creating a centralized written monitoring policy library to further strengthen consistency and accessibility. Attachment A provides additional details for consideration.

2. Centralized Written Risk Assessment

The CEC and the prime contractor assessed risks and developed mitigation strategies during the program design and development phase. Throughout implementation we continue to identify and address risks by holding weekly standing meetings to review program performance, issues, gaps, and necessary process improvements. The prime contractor has also provided its fraud monitoring procedures and conducts a quarterly Risk Assessment Survey to evaluate program risks, which is shared with CEC. The CEC acknowledges OIG's recommendation that DOE and CEC adopt the best practice of maintaining a centralized written risk assessment and will work towards implementing this approach by the end of the calendar year.

3. Multifamily Policies and Procedures

To rapidly deploy energy rebates to California's low-income multifamily building sector – which often faces lengthy retrofit timelines, multiple funding layers, and considerations related to tenant impacts – the CEC implemented the Multifamily HEEHRA program using a stepped approach, as detailed in Attachment A. Each step can take several weeks to months to complete. The program launched with established processes and procedures for the initial phases, while work continued concurrently on later-stage procedures that had not yet been reached by applicants. No HEEHRA funds were reserved or disbursed for multifamily retrofits until the appropriate corresponding procedures were in place.

CEC staff believe that portions of OIG's draft report reflect misunderstandings from verbal interviews and may conflate certain steps and procedures within California's HEEHRA multifamily process. Attachment A provides additional detail for OIG's consideration.

4. U.S. Treasury's Do Not Pay system

DOE issued conflicting guidance on the use of the U.S. Treasury's (Treasury) Do Not Pay System in 2024.[1] Launched in November 2024, California's HEEHRA Program validates contractor and installer licenses against the California State Licensing Board's public database at enrollment and on a weekly basis to ensure continued compliance.

It should be noted that the Treasury did not allow states to access the Do Not Pay system for DOE's Home Energy Rebates programs until September 2025. In January 2026, DOE clarified to the CEC that states are required to apply directly to the Treasury for access. Since receiving that clarification, CEC has been working with the Treasury to submit the required application, reconcile federal and state privacy requirements, and obtain system access. At this time, it is unclear what impact incorporating the Do Not

[1] In its Consumer Protection Plan Required Elements (April 2024 p.7), DOE stated that states will perform due diligence on contractor entities which "may include… matching the business credentials against state business entity lists or other available public records to ensure the business addresses are legitimate and in the Program Requirements and Application Instructions v2.0 (December 2024 p.42), the DOE stated that states are "expected to use" the Do Not Pay system.

2

Pay system will have on administrative costs or the implementation timeline of the HEEHRA program.

Thank you for this opportunity to respond to this draft report. Please contact CEC's Audit Director, Mindy Patterson, at mindy.patterson@energy.ca.gov or (916) 980-7937 if you have any questions.

Respectfully,

Drew Bohan
Executive Director

cc: David Hochschild, Chair, California Energy Commission
Andrew McAllister, Commissioner, California Energy Commission
Jennifer Martin-Gallardo, Deputy Executive Director, California Energy Commission
Deana Carrillo, Director, California Energy Commission
Christina Evola, Attorney, Assistant Chief Counsel, California Energy Commission
Sarah Keck, Deputy Assistant Secretary, Bonds and Grants, California Natural Resources Agency
Mindy Patterson, Audit Director, California Energy Commission

Attachment A

1. Centralized Written Monitoring Policy

OIG identified the following weaknesses in the CASEO's energy rebate program monitoring processes.[2] CEC's responses are noted below.

- *The CASEO reviewed 10 out of over 1,000 rebate packages (less than 1 percent) processed by the prime contractor each quarter.*

  Concur. Intend to adjust by December 31, 2026. CEC performs a review of a minimum of ten rebates each quarter as directed by DOE as part of the DOE's Quarterly Reporting Process. CEC will work with DOE to adjust the number of packages reviewed and implement as DOE requires.

- *The CASEO allowed the prime contractor to select which 10 of the rebate packages processed would undergo quality assurance review.*

  Concur. Intend to clarify by July 31, 2026. DOE did not provide specific guidance whether CEC or the prime contractor should select the rebate packages for review. To date, CEC has worked collaboratively with prime contractor to select a representative sample. CEC will document and implement a procedure to select the rebate packages for QA/QC review.

- *The CASEO did not have a documented quality assurance process for reviewing approved and paid energy rebate packages.*

  Concur. Updated as of October 2025. CEC documented working quality assurance/quality control (QA/QC) processes which were based on DOE guidance and staff's extensive knowledge of program rules.

- *The prime contractor reviewed 2–3 out of every 25 processed claims for rebate payments. Further, the prime contractor did not track which claims it reviewed.*

  Concur. Updated as of September 2025. The prime contractor updated rebate processing procedures to track which claims were reviewed in QA/QC, the findings of the review, the corrective actions taken, and verified compliance with program rules.

- *The CASEO's and the prime contractor's sample sizes were not based on documented risk-based determinations.*

[2] *Additional Actions Would Strengthen California's Internal Controls for Implementing the Home Energy Rebates Programs (S25OA019)* p.2

Do not concur. The sampling percentage of 10 percent is based on inspection rates used for other energy efficiency programs implemented by the prime contractor. The actual sampling percentage is also higher than the 5 percent sample identified in CEC's DOE-approved Consumer Protection Plan.

- *The CASEO did not ensure the process for approving claims for rebate payments included a documented quality assurance policy or procedure. Further, the only claims that management reviewed were those that needed additional information to qualify for approval after failing initial processing.*

  Concur. Intend to update by July 31, 2026. The prime contractor had established policies and procedures for approving claims for rebate payment prior to approving any claims. The prime contractor updates policies and procedures as new risks are identified. CEC will work with the prime contractor to document QA/QC.

- *The CASEO did not ensure the process for income verification included a secondary review.*

  Concur. Updated as of November 2025. Prior to the inspection, CEC was not aware that the income verification subcontractors did not have a documented procedure for secondary review of income verifications. The subcontractors have since established written procedures for secondary review.

2. Centralized Written Risk Assessment

No additional comment.

3. Multifamily Policies and Procedures

Do not concur. Page 4, footnote 1 is inaccurate.[3] The multifamily rebate process includes the following steps:

1. Pre-application: Property owner submits to indicate interest in the program.
2. Screening: Multifamily subcontractor screens pre-application for eligibility.
3. Rebate reservation: Screened property owner submits reservation form with project details and income verification requirements. Program reviews and issues or denies a reservation.
4. Installation: After reservation, property owner installs upgrades and provides any required prevailing wage documentation.
5. Home assessment: Property owner fills out assessment with pre- and post-install project information and proof of installation.

[3] *Ibid.* p.4

6. Rebate claim: Property owner submits a rebate claim and supporting documents. Claims may be submitted in "batches" for completed portions of the project, or upon full project completion.
7. Rebate payment: Prime contractor issues payment once claim is approved.

As previously noted, the program launched with established processes and procedures for the initial phases, while work continued concurrently on later-stage procedures that had not yet been reached by applicants.

OIG inaccurately asserts that the multifamily subcontractor stated it would finish the draft framework for reviewing and approving claims after completing the first multifamily project. To correct this statement, the CEC notes that multifamily subcontractor stated the process and procedures would be finalized prior to reviewing any claims and would be refined based on lessons learned from the first project. The procedures were finalized on December 5, 2025, and the first rebate was paid on December 18, 2025. No payment was made to any project prior to establishing claim review and payment processes.

4. U.S Treasury's Do Not Pay Update

No additional comment.

FEEDBACK

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