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

Examination Report

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

OAS-RA-L-12-07

September 2012

Department of Energy

Washington, DC 20585

September 20, 2012

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

Daniel M. Weeber for

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

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

BACKGROUND

The attached reports present the results of examinations of selected sub-grantee awardees compliance with Federal and State laws, regulations and program guidelines applicable to the State Energy Program (SEP) in the State of Ohio (Ohio). The Office of Inspector General contracted with an independent certified public accounting firm, Otis & Associates, PC (Otis), to perform the examinations and express an opinion on selected Ohio sub-grantees' compliance.

The Department of Energy's SEP provides grants to states, territories and the District of Columbia (states) to support their energy priorities and fund projects that meet their unique energy needs. The American Recovery and Reinvestment Act of 2009 (Recovery Act) significantly expanded the SEP by providing an additional $3.1 billion for state projects. The Ohio Department of Development (ODOD) was allocated $96.1 million in SEP funds under the Recovery Act. ODOD divided the funds into 5 separate programs funding more than 123 projects. Otis selected four sub-grantees to test their compliance with Federal and State laws, regulations and program guidance. The four sub-grantees selected were New Horizons Baking Company (NHBC); Metro Regional Transit Authority (MRTA); Forest City Residential Management, Inc.; and Timken Company.

CONCLUSIONS AND OBSERVATIONS

Otis expressed the opinion that except for the weaknesses described in its reports to NHBC and MRTA, that each of the sub-grantees complied in all material respects with the requirements and guidelines relative to SEP. Regarding the areas of non-compliance, the examination found that:

- NHBC did not comply with the Davis-Bacon Act requirements to pay locally prevailing wage rates; and,

- MRTA did not separate Recovery Act funding from other sources of funding, as required. However, we noted that the charges to the funds were supported with receipts and other documents that indicated the costs charged to the grant were for Recovery Act purposes and were allowable.

The NHBC report recommended that Ohio and NHBC ensure that the prevailing Davis-Bacon Act wage rates were properly paid to contractors and subcontractors. The MRTA report did not include a recommendation because the project was completed and all project funds for the project were spent.

RECOMMENDATIONS

As part of its responsibilities for managing the SEP, we recommend the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Ensure the State of Ohio and its sub-grantees comply with the Davis-Bacon Act and pay the appropriate wage rates; and,

2. Ensure sub-grantees separate Recovery Act funding from other sources of funding.

MANAGEMENT REACTION

The Department concurred with the recommendations and committed to implementing corrective actions. Ohio, in coordination with NHBC and Metro Regional Transit Authority, submitted comments that generally concurred with the findings and recommendations. The Department's response, along with the State's comments, is included in Attachment 5.

EXAMINATION-LEVEL REVIEW

Otis conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of the State's and the sub-grantees' policies and procedures and reviewing applicable SEP requirements. The procedures also included a review of internal controls, as well as tests of appropriateness of cost data, including travel expenditures, contractor and subcontractor charges and compliance with the Davis-Bacon Act. Otis is responsible for the attached reports, dated August 10, 2012, and the conclusions expressed in the reports.

The OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances where Otis did not comply, in all material respects, with the attestation requirements. We coordinated with SEP management as the examination progressed to keep them informed of its progress. SEP management waived the exit conference.

Attachments

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

EXAMINATION REPORT ON THE DEPARTMENT OF ENERGY'S AMERICAN RECOVERY AND REINVESTMENT ACT – OHIO STATE ENERGY PROGRAM

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Report on Examination Level Attestation Engagement

Of

New Horizon Baking Company
American Recovery and Reinvestment Act
State Energy Program

Performed for the U.S. Department of Energy,
Office of Inspector General

Under

Contract Number: DE-IG0000018
Work Order Number: 2011-02

By

Otis and Associates, PC

Date:

August 10, 2012

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Attachment 1

OTIS AND ASSOCIATES, P.C.
Certified Public Accountants & Management Consultants
3311 Toledo Terrace, Suite C-205, Hyattsville, MD 20782

SECTION I: INDEPENDENT ACCOUNTANTS' REPORT

To: Inspector General
U.S. Department of Energy

We have examined New Horizons Baking Company's compliance with Federal and State laws and regulations, and Program guidelines applicable to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009. New Horizons Baking Company is responsible for implementing its grant from the State of Ohio under the State Energy Program in compliance with these laws and regulations, and Program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant American Recovery and Reinvestment Act of 2009 guidelines for the State Energy Program; Federal and State laws and regulations; Program guidelines; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. Also, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, except for the weakness described in Section V of this report, New Horizons Baking Company complied in all material respects, with the aforementioned requirements and guidelines, relative to the State Energy Program, funded by the American Recovery and Reinvestment Act of 2009 for the period April 23, 2010 through April 25, 2011.

Otis and Associates, P.C.

Otis and Associates, PC
Takoma Park, MD

September 30, 2011

Member of American Institute of Certified Public Accountants
Phone (301) 891-3363 Fax (301) 891-3526 email: ndy@otiscpa.com

SECTION II: BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009. The Recovery Act authorizes funding to various economic sectors and Federal programs. The State Energy Program (SEP), under the U.S. Department of Energy (Department), received $3.1 billion to achieve the purposes set forth in the Recovery Act, including the preservation and creation of jobs, promotion of economic recovery, and reduction of energy consumption.

The State Energy Program is a categorical formula grant program administered by the Department under a regulatory framework laid out in 10 CFR 600.6(b) and 10 CFR Part 420, *State Energy Program*. The Department's SEP objectives are as follows:

- Increase energy efficiency to reduce cost and consumption for consumers, businesses and government;
- Reduce reliance on imported energy;
- Improve the reliability of electricity and fuel supply and the delivery of energy services; and,
- Reduce the impact of energy production and use on the environment.

The Department's Office of Inspector General (OIG) contracted with Otis and Associates, PC to perform an Examination Level Attestation engagement on the Recovery Act's State Energy Program services provided by selected State of Ohio sub-grantees. New Horizons Baking Company (NHBC) is one of the four State of Ohio sub-grantees selected.

Under the Recovery Act, the State of Ohio received an allocation of $96,083,000 from the Department for the SEP. The State of Ohio's Department of Development (ODOD) allocated this funding among five different programs. The "Targeting Industrial Efficiency" Program was allocated $18,200,429 to help manufacturing companies implement projects that improve the energy efficiency of their operations. NHBC was awarded $1,000,000 to improve the energy efficiency of its operations.

NHBC is a minority owned business enterprise registered with the State of Ohio and employs 220 full-time employees during the review period. NHBC has over 40 years experience in the baking industry and supplies quality bakery products to one of the largest quick service restaurants in the world, as well as several other select customers. NHBC has an approximately 120,000 square feet facility that contains an automated high-speed bun line with the capability of producing over 3,960 dozen buns per hour, and English muffins at a rate of 1,650 dozen per hour.

NHBC used the $1,000,000 of awarded SEP funds it was awarded to update its bun production line. The award was for the installation of an automated high speed energy efficient oven and proofer with a production goal of 5,000 dozen buns per hour. Under this award, NHBC is responsible for increasing its production line and retaining and creating jobs while recycling energy.

NHBC and ODOD entered into a cost sharing agreement in which NHBC would invest approximately $2,392,350 of its own funds for a SEP match of $1,000,000. The project was completed in June 2010.

PROJECT COSTS INCURRED BY NHBC AS OF JULY 31, 2011

Expense Category	Amount
Equipment	$ 2,385,076.00
Contract/Subcontracts labor	$ 1,142,984.00
Total	$ 3,528,060.00

PROGRAM FUNDS REIMBURSED TO NHBC BY STATE OF OHIO

Federal Award Number	Amount	Grant Effective Date	Grant Completion Date
DE-EE0000165	$1,000,000.00	April 23, 2010	April 25, 2011

SECTION III: CLASSIFICATION OF FINDING

DEFINITION

There is only one finding in this report, which is categorized as an advisory comment, as defined below, for the purposes of this engagement.

Advisory Comments

For purposes of this engagement, an advisory comment represents a control deficiency that is not significant enough to adversely affect New Horizons Baking Company's ability to record, process, summarize, and report data reliably.

SECTION IV: SUMMARY OF FINDING

Finding 1: Sub-grantee did not comply with the Davis-Bacon Minimum Wage Act – Advisory Comment

SECTION V: ADVISORY COMMENT

Finding 1: **Sub-Grantee did not comply with the Davis-Bacon Act Minimum Wage Act – Advisory Comment**

During the entrance conference we were notified by ODOD that NHBC was not in compliance with the Davis-Bacon Act of 1931 (Davis-Bacon). Specifically, NHBC did not pay contractors and subcontractors according to the Davis-Bacon locally prevailing wage rates. ODOD identified this discrepancy during a review of payroll information provided by the contractors and subcontractors, and notified us of their on-going effort to resolve the matter with NHBC. We noted that NHBC was using the State of Ohio's minimum wage requirements instead of the Davis-Bacon locally prevailing wage rates to pay contractors and subcontractors.

According to the Davis-Bacon, federal government construction contracts, and most contracts for federally assisted construction over $2,000, must include provisions for paying workers on-site no less than the locally prevailing Davis-Bacon wages and benefits paid on similar projects.

As a result of the condition noted above, some contractors and subcontractors did not receive the Davis-Bacon locally prevailing wages and benefits for the work performed for NHBC. These contractors and subcontractors received the State of Ohio minimum wage rates.

It was an oversight by NHBC's management that resulted in the use of the State of Ohio's minimum wage requirements for the project instead of the Davis-Bacon wage requirements. NHBC's management is currently working with ODOD to correct any underpayment to all employees of the contractors and subcontractors that worked on the project.

So far in its review of the certified payroll reports of the contractors and subcontractors, NHBC's management has identified a few cases in which employees were paid 10 cents per hour less than the correct Davis-Bacon wage rate.

According to ODOD and NHBC, the wage issues have been resolved.

Recommendation
We recommend that the State of Ohio and NHBC ensure that the prevailing Davis-Bacon wages are properly paid to contractors' and subcontractors' employees that worked on the project.

Management Comments and Auditors' Analysis:

The State of Ohio concurred with the finding and recommendation. The State's comments are included in Attachment 5.

Report on Examination Level Attestation Engagement

Of

METRO Regional Transit Authority
American Recovery and Reinvestment Act
State Energy Program

Performed for the U.S. Department of Energy,
Office of Inspector General

Under

Contract Number: DE-IG0000018
Work Order Number: 2011-02

By

Otis and Associates, PC

Date:

August 10, 2012

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OTIS AND ASSOCIATES, P.C.
Certified Public Accountants & Management Consultants
3311 Toledo Terrace, Suite C-205, Hyattsville, MD 20782

SECTION I: INDEPENDENT ACCOUNTANTS' REPORT

To: Inspector General
U.S. Department of Energy

We have examined Metro Regional Transit Authority's compliance with Federal and State laws and regulations, and Program guidelines applicable to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Metro Regional Transit Authority is responsible for implementing its grant from the State of Ohio under the State Energy Program in compliance with these laws and regulations, and Program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Recovery Act requirements for the State Energy Program; Federal and State laws and regulations; Program guidelines; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. Also, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, except for the weakness described in Section V of this report, Metro Regional Transit Authority complied, in all material respects, with the aforementioned requirements and guidelines relative to the State Energy Program funded by the Recovery Act for the period March 15, 2010 through March 15, 2011.

Otis and Associates, P.C.

Otis and Associates, PC
Takoma Park, MD

October 21, 2011

Member of American Institute of Certified Public Accountants
Phone (301) 891-3363 Fax (301) 891-3526 email: ndy@otiscpa.com

SECTION II: BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009. The Recovery Act authorizes funding to various economic sectors and Federal programs. The State Energy Program (SEP), under the U.S. Department of Energy (Department), received $3.1 billion to achieve the purposes set forth in the Recovery Act, including the preservation and creation of jobs, promotion of economic recovery and reduction of energy consumption.

The State Energy Program is a categorical formula grant program administered by the Department, under a regulatory framework laid out in 10 CFR 600.6(b) and 10 CFR Part 420, *State Energy Program*. The Department's SEP objectives are as follows:

- Increase energy efficiency to reduce cost and consumption for consumers, businesses and government;
- Reduce reliance on imported energy;
- Improve the reliability of electricity and fuel supply and the delivery of energy services; and,
- Reduce the impact of energy production and use on the environment.

The Department's Office of Inspector General (OIG), contracted with Otis and Associates, PC to perform an Examination Level Attestation Engagement on the Recovery Act's SEP services provided by selected State of Ohio sub-grantees. Metro Regional Transit Authority (MRTA) is one of the four State of Ohio sub-grantees selected.

Under the Recovery Act, the State of Ohio received an allocation of $96,083,000 from the Department for the SEP. The State of Ohio's Department of Development (ODOD) allocated this funding among five different programs. The "Deploying Renewable Energy" Program was allocated $24,853,434 for wind and solar projects, transforming waste to value projects, and advancing bio-fuels. MRTA was awarded $1,000,000 from this Program to install a 488 Kilowatt rooftop solar system located on its central bus barn roof. The installation of these 2,080 Sharp modules, combined with the existing 133 Kilowatt solar array, makes the system one of the largest single-array solar systems in the State of Ohio.

MRTA provides public transportation for Summit County, Ohio. MRTA's buses transport more than six million passengers annually. MRTA also offers local service daily from its transit center in downtown Akron, as well as regional transit to surrounding counties and the Akron-Canton Airport. MRTA was created under Chapter 306 of the State of Ohio Revised Code, by resolution of the City of Akron, OH, which was originally adopted in 1972 and amended on January 28, 1991, to transform the three-city transit system to a countywide transit system. MRTA's service area covers approximately 420 square miles in Summit County. Express service to downtown Cleveland, OH is also provided.

Under the Recovery Act SEP, MRTA signed a contract with ODOD to be reimbursed for $1,000,000 of eligible expenses related to the deployment of the solar array located at its central bus barn. MRTA entered into a cost-share agreement, which requires it to invest approximately $2,590,640 on the project for reimbursement of $1 million from the State of Ohio in Recovery Act funds. The project was completed in August 2010.

PROJECT BUDGET PER GRANT AGREEMENT

Federal Award Number: DE-EE0000165

Expense Category	Amount
Contractual/Sub award or Sub recipient	$ 2,590,640.00
Total	**$ 2,590,640.00**

PROJECT COSTS INCURRED AS OF MARCH 31, 2011

Expense Category	Amount
Contractual/Sub award or Sub recipient	$ 2,535,654.00
Total	**$ 2,535,654.00**

PROGRAM FUNDS REIMBURSED TO METRO BY STATE OF OHIO

Federal Award Number	Amount	Grant Effective Date	Grant Completion Date
DE-EE0000165	$1,000,000.00	March 15, 2010	March 15, 2011

SECTION III: CLASSIFICATION OF FINDING

DEFINITIONS

There is only one finding in this report, which is categorized as an advisory comment, as defined below, for the purposes of this engagement.

Advisory Comment

For purposes of this engagement, an advisory comment represents a control deficiency that is not significant enough to adversely affect MRTA's ability to record, process, summarize, and report data reliably.

SECTION IV: SUMMARY OF FINDING

Finding 1: MRTA did not designate an account code to track Recovery Act funding from other sources of funding – Advisory Comment

SECTION V: ADVISORY COMMENT

Finding 1: MRTA did not designate an account code to track Recovery Act funding from other sources of funding – Advisory Comment

MRTA did not separate Recovery Act funding from other sources of funding. Specifically, MRTA's general ledger and chart of accounts did not designate a separate account code to track the receipt and use of its Recovery Act funds, as required by the Recovery Act. However, we noted that the charges to the funds were supported with receipts and other documents that indicated the costs charged to the grant were for Recovery Act purposes and were allowable.

In accordance with the Recovery Act's requirements for segregation of funds and costs, a grantee must segregate the obligations and expenditures related to funding under the Recovery Act by maintaining a financial and accounting system that segregates, tracks, and maintains the Recovery Act funds separate and apart from other revenue streams. The Recovery Act also requires that no part of the funds from the Recovery Act shall be co-mingled with any other funds or used for a purpose other than that of making payments for costs allowable for Recovery Act projects. The Recovery Act also allows for Recovery Act funds to be used in conjunction with other funding sources as necessary to complete projects, but tracking and reporting must be separate to meet the reporting requirements of the Recovery Act and Office of Management and Budget Guidance.

MRTA's management stated that they were not aware of the requirement stipulating that Recovery Act funds should be tracked and recorded separately from other funding sources. They also stated that the project was completed before reimbursement was requested from the State of Ohio.

As a result of the condition noted above, MRTA did not comply with the Recovery Act requirement that it segregate, track or record separately Recovery Act expenditures and funding from those of other sources.

Suggestion

We are not making a recommendation because the project was completed, and allowable costs incurred exceeded the Recovery Act funds claimed for the project.

Management Comments and Auditors' Analysis:

The State of Ohio and MRTA concurred with the finding. The State's and MRTA's comments are included in Attachment 5.

Report on Examination Level Attestation Engagement

Of

Forest City Residential Management, Inc.
American Recovery and Reinvestment Act
State Energy Program

Performed for the U.S. Department of Energy,
Office of Inspector General

Under

Contract Number: DE-IG0000018
Work Order Number: 2011-02

By

Otis and Associates, PC

Date:

August 10, 2012

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Attachment 3

OTIS AND ASSOCIATES, P.C.
Certified Public Accountants & Management Consultants
3311 Toledo Terrace, Suite C-205, Hyattsville, MD 20782

SECTION I: INDEPENDENT ACCOUNTANTS' REPORT

To: Inspector General
U.S. Department of Energy

We have examined Forest City Residential Management, Inc.'s compliance with Federal and State laws and regulations, and Program guidelines applicable to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009. Forest City Residential Management, Inc. is responsible for implementing its grant from the State of Ohio under the State Energy Program in compliance with these laws and regulations and Program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant American Recovery and Reinvestment Act of 2009 guidelines for the State Energy Program; Federal and State laws and regulations; Program guidelines; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. Also, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, Forest City Management, Inc. complied, in all material respects, with the aforementioned requirements and guidelines relative to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009, for the period of March 15, 2010 through March 15, 2011.

Otis and Associates, P.C.

Otis and Associates, PC
Takoma Park, MD

November 11, 2011

Member of American Institute of Certified Public Accountants
Phone (301) 891-3363 Fax (301) 891-3526 email: ndy@otiscpa.com

SECTION II: BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009. The Recovery Act authorizes funding to various economic sectors and U.S. Federal departments. The State Energy Program (SEP), under the U.S. Department of Energy (Department), received $3.1 billion of funding to achieve the purposes set forth in the Recovery Act, including the preservation and creation of jobs, and promotion of economic recovery and reduction of energy consumption.

The State Energy Program is a categorical formula grant program administered by the Department, under a regulatory framework laid out in 10 CFR 600.6(b) and 10 CFR Part 420, *State Energy Program*. The Department's SEP objectives are as follows:

- Increase energy efficiency to reduce cost and consumption for consumers, businesses and government;
- Reduce reliance on imported energy;
- Improve the reliability of electricity and fuel supply and the delivery of energy services; and,
- Reduce the impact of energy production and use on the environment.

The Department's Office of Inspector General (OIG) contracted with Otis and Associates, PC to perform an Examination Level Attestation Engagement on the Recovery Act's SEP services provided by selected State of Ohio sub-grantees. Forest City Residential Management, Inc. (Forest City) is one of the four State of Ohio sub-grantees selected.

Under the Recovery Act, the State of Ohio received an allocation of $96,083,000 from the Department for the SEP. The State of Ohio's Department of Development allocated this funding among five different programs. The "Deploying Renewable Energy" Program was allocated $24,853,434 to utilize a variety of renewable energy sources, including solar, wind, biomass waste and related technologies. The initiatives of this Program are divided into three categories: (1) renewing manufacturing through deployment, (2) transforming waste to energy, and (3) advancing bio-fuels beyond the basics. Forest City received $1,143,985 from this Program to install a photovoltaic solar system on the roof-top of its Midtown Towers Apartment Complex. Forest City entered into a cost sharing agreement in which it would invest a minimum cash match of $867,819 of the total projects costs.

Founded in 1920 and based in Cleveland, OH, Forest City is a New York Stock Exchange-(NYSE) listed national real estate company with $10.7 billion in total assets. It is principally engaged in the ownership, development, management and acquisition of commercial and residential real estate and land throughout the United States.

PROGRAM BUDGET PER GRANT AGREEMENT

Cost Category Description	Amount
Contractors/Sub-award or Sub-recipient	$1,143,985.00
Cash Match	$ 867,819.14
Total	**$2,011,804.14**

PROGRAM EXPENDITURES AS OF MARCH 31, 2011

Cost Category Description	Amount
Contractors/Sub-award or Sub-recipient	$1,143,985.00
Cash Match	$1,175,371.35
Total	**$2,319,356.35**

PROGRAM REIMBURSEMENT AS OF MARCH 31, 2011

Federal Award Number	Amount	Grant Effective Date	Grant Completion Date
DE-EE0000165	$1,143,985.00	March 15,2010	March 15, 2011

SECTION III: SUMMARY OF FINDINGS

There are no findings resulting from our examination.

Report on Examination Level Attestation Engagement

Of

The Timken Company
American Recovery and Reinvestment Act
State Energy Program

Performed for the U.S. Department of Energy,
Office of Inspector General

Under

Contract Number: DE-IG0000018
Work Order Number: 2011-02

By

Otis and Associates, PC

Date:

August 10, 2012

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OTIS AND ASSOCIATES, P.C.
Certified Public Accountants & Management Consultants
3311 Toledo Terrace, Suite C-205, Hyattsville, MD 20782

SECTION I: INDEPENDENT ACCOUNTANTS' REPORT

To: Inspector General
U.S. Department of Energy

We have examined Timken Company's compliance with Federal and State laws and regulations, and Program guidelines applicable to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009. Timken Company is responsible for implementing its grant from the State of Ohio under the State Energy Program in compliance with these laws and regulations and Program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant American Recovery and Reinvestment Act of 2009 requirements for the State Energy Program; Federal and State laws and regulations; Program guidelines; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. Also, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, Timken Company complied, in all material respects, with the aforementioned requirements and guidelines relative to the State Energy Program funded by the American Recovery and Reinvestment Act of 2009, for the period of May 10, 2010 through May 10, 2011.

Otis and Associates, P.C.

Otis and Associates, PC
Takoma Park, MD

October 28, 2011

Member of American Institute of Certified Public Accountants
Phone (301) 891-3363 Fax (301) 891-3526 email: ndy@otiscpa.com

SECTION II: BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009. The Recovery Act authorizes funding to various economic sectors and U.S. Federal departments. The State Energy Program (SEP), under the U.S. Department of Energy (Department), received $3.1 billion to achieve the purposes set forth in the Recovery Act, including the preservation and creation of jobs, promotion of economic recovery and reduction of energy consumption.

The State Energy Program is a categorical formula grant program administered by the Department, under a regulatory framework laid out in 10 CFR 600.6(b) and 10 CFR Part 420; *State Energy Program*. The Department's SEP objectives are as follows:

- Increase energy efficiency to reduce cost and consumption for consumers, businesses and government;
- Reduce reliance on imported energy;
- Improve the reliability of electricity and fuel supply and the delivery of energy services; and,
- Reduce the impact of energy production and use on the environment.

The Department's Office of Inspector General (OIG), contracted with Otis and Associates, PC to perform an Examination Level Attestation Engagement on the Recovery Act's SEP services provided by selected State of Ohio sub-grantees. Timken Company, (Timken) is one of the four State of Ohio sub-grantees selected.

Under the Recovery Act, the State of Ohio received an allocation of $96,083,000 from the Department for the SEP. State of Ohio's Department of Development (ODOD) allocated this funding among five different programs. The "Targeting Industrial Efficiency" Program was allocated $20,610,063 to help manufacturing companies implement projects that improve energy efficiency of their operations. Timken received $1,175,000 from this Program.

Timken was awarded the grant by ODOD to update a rotary furnace with regenerative burners and a waste heat recovery boiler to recapture and reuse generated steam in reducing the load of existing natural gas fired boilers. Timken entered into a cost sharing agreement in which it would invest a minimum cash match of 50 percent of the total projects costs.

Timken is one of the world's leading producers of highly engineered antifriction bearings and alloy steel, along with their related products, services, and components. The company helps create, transfer and control power; by putting its friction management and power transmission technologies to work across a broad industry spectrum. Timken uses its friction management and power transmission technologies and solutions for many major market segments including aerospace, automotive, construction, consumer, defense, energy, industrial equipment, health, heavy industry, machine tool, positioning control, power generation and rail.

PROJECTS BUDGET PER GRANT AGREEMENT

Expense Category	Project One	Project Two	Approved Budget
Equipment	$389,250.00	$215,172.50	$604,422.50
Contractors/Sub-contractors	$385,750.00	$184,827.50	$570,577.50
Total	**$775,000.00**	**$400,000.00**	**$1,175,000.00**

PROJECTS EXPENDITURES AS OF MARCH 31, 2011

Expense Category	Project One	Project Two	Approved Budget
Equipment	$389,250.00	$215,172.50	$604,422.50
Contractors/Sub-contractors	$385,750.00	$184,827.50	$570,577.50
Cash Match	$775,000.00	$400,000.00	$1,175,000.00
Total	**$1,550,000.00**	**$800,000.00**	**$2,350,000.00**

PROGRAM REIUMBURSEMENT AS OF MARCH 31, 2011

Federal Award Number	Amount	Grant Effective Date	Grant Completion Date
DE-EE0000165	$1,175,000.00	May 10,2010	May 10, 2011

SECTION III: SUMMARY OF FINDINGS

There are no findings resulting from our examination.

MANAGEMENT COMMENTS

Department of Energy
Washington, DC 20585

JUL 17 2012

MEMORANDUM FOR: GEORGE W. COLLARD
ASSISTANT INSPECTOR GENERAL
FOR AUDITS
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: The Department of Energy's State Energy Program (SEP) Funded Under the American Recovery and Reinvestment Act (ARRA) for the State of Ohio

The Office of the Inspector General (OIG) makes two recommendations relating to two areas of minor non-compliance on the part of two sub-grantees funded with SEP ARRA funds through the State of Ohio. We concur with the OIG's recommendations and will work with the State of Ohio to ensure they implement plans that address these recommendations.

OIG Recommendation 1: **Ensure the State of Ohio and its sub-grantees comply with the Davis-Bacon Act and pay the appropriate wage rates.**

DOE Response: DOE agrees with the recommendation of the OIG. This recommendation relates to the finding that New Horizon Baking Company did not pay Davis Bacon Act (DBA) wages when using SEP ARRA funds. DOE will work with Ohio to ensure their DBA monitoring of sub-grantees is sufficient and conforms to all DBA requirements. DOE will request a copy of Ohio's DBA monitoring practices to ensure it is capable of monitoring DBA of sub-grantees. To date Ohio's regular monitoring of SEP ARRA sub-grantees of DBA has been robust and they have required several sub-grantees to pay DBA back wages, per Ohio's Semi-Annual Davis Bacon Report.

OIG Recommendation 2: **Ensure sub-grantees separate Recovery Act funding from other sources of funding.**

DOE Response: DOE agrees with the recommendation of the OIG. This recommendation relates to the finding that Metro Regional Transit Authority did not designate a separate account code to track ARRA funds. DOE will work with Ohio to ensure that the State's monitoring of sub-grantees includes the review of the separation of ARRA funds and accounts from all other funds and accounts. DOE will request a copy of Ohio's sub-grantee monitoring practices to ensure it is capable of monitoring sub-grantees.

DOE thanks the OIG for its recommendations and will continue to implement all corrective actions.

Ohio | Department of Development

John R. Kasich, Governor   Christiane Schmenk, Director

July 10, 2012

Jason Kirkman
Idaho Falls Audit Group
Office of Inspector General
US Department of Energy

Re: Ohio Office of Energy's comments to the OIG Audit Report

To Whom It May Concern:

Please see below to review the Ohio Department of Development, Office of Energy, comments to the Department of Energy's American Recovery and Reinvestment Act - Ohio State Energy Program Audit.

Ohio Department of Development Comments to the Ohio State Energy Program Federal OIG report:

New Horizon Baking Company
ODOD has demonstrated it has the necessary internal controls in place to ensure the sub-recipients of funding through the American Recovery and Reinvestment Act's State Energy Program are in compliance with the Davis-Bacon Act. The issue associated with payment of the proper prevailing wages to contractors' and subcontractors' employees who worked on the project implemented by New Horizon Baking Company was discovered through routine monitoring by ODOD and resolved prior to the onsite inspection of the sub-recipient, as conducted by Otis on September 26, 2011. As acknowledged by the report, the issue was disclosed by ODOD to Otis through the entrance meeting with the State of Ohio and identified due to established internal controls within ODOD. These controls include monitoring and verification of payroll records for all sub-recipients by ODOD staff to ensure compliance with the Davis-Bacon Act before any funds are disbursed.

Metro Regional Transit Authority
ODOD requires all sub-recipients of funding through the American Recovery and Reinvestment Act's State Energy Program to separate accounts for ARRA funds. This requirement is included within the grant agreements, which is signed and executed with each sub-recipient that receives ARRA funds. According to Appendix A, Section 1 b "Separate Accounts for ARRA Funds" of the grant agreement executed with MRTA and with all sub-recipients, the "grantee shall deposit and maintain funds provided under the authority of ARRA in separate accounts. No part of the ARRA funds shall be commingled with any other funds or used for a purpose other than that of making payments for costs allowable for ARRA projects." In addition, ODOD requires all sub-recipients to be paid for allowable project expenses on a reimbursement basis after the project is completed and inspected by ODOD staff. As a result, ODOD verifies allowable

77 South High Street
P.O. Box 1001
Columbus, Ohio 43216-1001 U.S.A.
614 | 466 2480
800 | 848 1300
www.development.ohio.gov

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expenses paid with ARRA funds through routine monitoring of supporting documentation to the request for payment submitted by the sub-recipient.

Ohio ARRA SEP Sub-grantee Comments to the Ohio State Energy Program Federal OIG report:

Metro Regional Transit Authority

METRO as stated in the report was unaware of the specific requirement to track the ARRA funding in a separate GL account. METRO did track the project separately via a subsidiary ledger for fixed assets. Also as pointed out all expenses for the project were paid with local funds and no ARRA funds were received by METRO until after the project was complete and the expenses were reviewed by ODOD. At no point was the ARRA funds comingled with any other funds.

Other sub-grantees had no additional comments

Sincerely,

Chadwick Smith
Deputy Chief
Office of Energy

77 South High Street
P.O. Box 1001
Columbus, Ohio 43216-1001 U.S.A.
614 | 466 2480
800 | 848 1300
www.development.ohio.gov

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