



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

# Special Report

Allegations of Potential Fraud and  
Mismanagement of a Smart Grid  
Investment Grant Program Award



OAS-RA-14-03

February 2014



**Department of Energy**  
Washington, DC 20585

February 19, 2014

MEMORANDUM FOR THE DEPUTY ASSISTANT SECRETARY FOR ADVANCED GRID  
INTEGRATION, OFFICE OF ELECTRICITY DELIVERY AND  
ENERGY RELIABILITY

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

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

SUBJECT: INFORMATION: Special Report on "Allegations of Potential Fraud  
and Mismanagement of a Smart Grid Investment Grant Program  
Award"

BACKGROUND

As part of the *American Recovery and Reinvestment Act of 2009*, the Office of Electricity Delivery and Energy Reliability (OE) received about \$4.5 billion to modernize the electric grid, with about \$3.5 billion allocated to the Smart Grid Investment Grant (SGIG) Program. The SGIG Program was intended to enable measurable improvements from accelerated achievement of a modernized electric transmission and distribution system. To accomplish the objectives of the SGIG Program, OE awarded 99 recipients financial assistance grants.

Under the SGIG Program, Progress Energy Service Company (Progress Energy) received a \$200 million grant to accelerate deployment of technologies to increase efficiency and demand response across its enterprise. As part of the award, Progress Energy partnered with International Business Machines (IBM) to manage the project and its associated tasks. Progress Energy provided \$320 million in funding, bringing the total project cost to \$520 million over a 6-year period. As of December 2013, Progress Energy had been reimbursed about \$191 million.

The Office of Inspector General received an allegation that Progress Energy had mismanaged the SGIG award and submitted potential false claims to the Department of Energy. Although other assertions were made regarding the award, we elected to address two areas of the allegation: (1) that Progress Energy had fraudulently submitted reimbursement requests for costs incurred prior to the award, and (2) that contracted services with IBM contained no associated deliverables. We initiated this review to examine the circumstances surrounding those allegations.

RESULTS OF INQUIRY

The allegations we evaluated were not substantiated. While we confirmed that Progress Energy had submitted reimbursement requests for costs incurred prior to the date of the award, we determined that this practice had been specifically allowed by the Department. Additionally, we

reviewed the task orders supporting the work to be performed by IBM. We found that the task orders contained a number of deliverables. Nothing came to our attention to suggest that the specific deliverables contained in the task orders to IBM were inadequate or were not appropriately documented.

To satisfy our objective, we reviewed the terms and conditions of the award and the project objectives. We also reviewed specific reimbursement submissions relating to the IBM services provided under the award, the contracts between Progress Energy and IBM, and related statements of work and task orders.

#### Pre-award Costs

The allegation that Progress Energy had fraudulently charged the Government for labor costs and other expenses that had been incurred prior to the grant award period was not substantiated. While Progress Energy was awarded the SGIG funds in December 2009, we found that the award terms and conditions allowed Progress Energy to recoup costs incurred on or after August 6, 2009, that were otherwise allowable. Further, OE Program officials asserted that it routinely incorporated language into all SGIG awards permitting awardees to claim award related costs incurred prior to the actual award date.

As part of our review, we selected reimbursement submissions for costs claimed by Progress Energy for personnel costs totaling about \$5.5 million for the period of September 2009 through April 2010. Based on supporting documentation provided to the Department, the labor costs that were charged to the award were within the authorized period. We also sampled reimbursement submissions made by Progress Energy for IBM services from August 2009 through January 2010. We found that the invoices submitted encompassed work that originated on August 17, 2009. Further, time charges were clearly annotated with each individual's approved hourly rates, hours worked on the project, and dates the work was performed. Although the invoices showed that technically these charges were incurred prior to the award date of December 24, 2009, as previously noted, the Department authorized Progress Energy to recoup costs incurred as of August 6, 2009. Therefore, we found these charges to be within the allowable timeframes of the award. Further, we reviewed the contracts between Progress Energy and IBM. We found that the statement of work referencing the SGIG tasks had been signed by both parties on August 14, 2009, after the date that the Department authorized charges to be incurred.

#### Contractual Relationship between Progress Energy and IBM

The allegation that Progress Energy had paid IBM for services under the award with no apparent deliverables was also not substantiated. We obtained and reviewed the contract between Progress Energy and IBM for work related to the project. Progress Energy provided the master agreement in addition to the associated statements of work and task orders for the project. We found that the agreements included detailed descriptions of the work to be undertaken by IBM, to include the project scope relating to Progress Energy's award as well as a section on the acceptance procedures for deliverables. We also found that the associated task orders, while varying in details and complexity, generally contained completion criteria, an estimated schedule, and a summary of charges to be incurred.

We reviewed associated task orders between Progress Energy and IBM, concentrating on work completed in 2009 and 2010. The task orders reviewed generally contained detailed information regarding deliverables. For example, one task order was written on a fixed-fee basis for two deliverables. The supporting documentation stated that the fee would be paid based on each deliverable and was supported with guidelines on the purpose, content, and delivery of the specified items. Another task order contained three separate activities to be conducted and listed assumptions, key activities, and deliverables for each activity.

In addition, while we also found that some of the task orders had not contained specific deliverables, the agreements had noted general tasks and fulfillment requirements. Specifically, some agreements contained information about support services to be provided, such as information technology support and project management services. We concluded, based on our experience with similar agreements, that these types of task orders would not necessarily have had firm deliverables. Rather, the specific task orders had been written in a way that described the services to be provided under the agreement, to include general support services to be performed, the individuals working on the project, and invoicing procedures.

#### Additional Assertions

The complaint received by the Office of Inspector General also contained other assertions regarding Progress Energy's SGIG project. Each of those specific allegations and our actions and/or conclusions regarding the allegations are explained in detail:

- The SGIG project lacked support and direction from Progress Energy management. Based on the documentation provided by Progress Energy regarding direction of the project, correspondence between Department officials and Progress Energy, and the interviews we conducted with Department management, we found nothing that would have led us to suspect that the project lacked the necessary support and direction from Progress Energy. As such, we did not inquire further into this specific aspect of the allegations.
- IBM had not added value to the project and had taken 6 or 7 months to complete a task that should have only taken 1 week. As previously noted, we concluded that IBM performed work on the project under contracts or task orders that included either specific deliverables or general support tasks. Because these deliverables appeared to be reasonable and the fact that the Department had not detected issues with completion of the SGIG work by Progress Energy, we did not specifically inquire into this allegation. Our decision in this regard was also influenced by the passage of time and the difficulty of establishing/determining whether any given action completed by IBM would have added value to the overall project.
- Progress Energy used a standalone schedule instead of the required integrated schedule. This alleged violation of grant terms was not pursued because even if substantiated, it did not appear that it would have impacted the overall project. Further, based on the documentation submitted by Progress Energy and the Department's monitoring reports, no material issues had been identified regarding Progress Energy's ability to complete the project.

- A senior official at Progress Energy owned a staffing company that was utilized as part of the project. The complainant noted that the staffing company was used regularly for work at Progress Energy. We performed preliminary inquiries into this area; however, we were unable to identify information indicating that a potential conflict of interest existed.

In summary, nothing came to our attention to indicate that the alleged problems existed or would have adversely and materially impacted the overall performance of Progress Energy in satisfying the terms of its SGIG grant with the Department.

## CONCLUSION

We found that the Department had developed and implemented monitoring controls designed to help ensure that the Progress Energy SGIG project progressed appropriately and that payments were reasonable. Specifically, the Department placed Progress Energy on a reimbursement payment system that required the entity to submit supporting documentation prior to being reimbursed for costs incurred. We also found that the Department had completed annual site visits for 2011, 2012, and 2013 to review Progress Energy's scope, cost, and schedule of its SGIG project. Finally, we noted that Progress Energy had a strong incentive to control project cost, schedule and performance in that it was responsible for funding over 60 percent of the total cost of the SGIG project.

Based on these considerations and our review of information supplied by Progress Energy and the Department, we did not substantiate the allegations made to the Office of Inspector General. We appreciate the cooperation of your staff during this review.

cc: Deputy Secretary  
Chief of Staff

## CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit or inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report that would have been helpful?
5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name \_\_\_\_\_ Date \_\_\_\_\_

Telephone \_\_\_\_\_ Organization \_\_\_\_\_

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)  
Department of Energy  
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact our office at (202) 253-2162.

This page intentionally left blank.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page

<http://energy.gov/ig>

Your comments would be appreciated and can be provided on the Customer Response Form.