



OFFICE OF INSPECTOR GENERAL  
U.S. Department of Energy

# AUDIT REPORT

DOE-OIG-20-03

October 2019

**OFFICE OF INDIAN ENERGY POLICY  
AND PROGRAMS**



**Department of Energy**  
Washington, DC 20585

October 24, 2019

MEMORANDUM FOR THE DIRECTOR, OFFICE OF INDIAN ENERGY POLICY AND PROGRAMS

A handwritten signature in black ink, appearing to read "Bruce Miller".

FROM: Bruce Miller  
Assistant Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Office of Indian Energy Policy and Programs"

BACKGROUND

The Department of Energy's Office of Indian Energy Policy and Programs (Indian Energy) is authorized, through the *Energy Policy Act of 2005* (Public Law 109-58, Title V), to fund and implement a variety of programmatic activities that assist American Indian Tribes and Alaska Native villages with energy development, capacity building, energy cost reduction, and electrification of Indian lands and homes. Indian Energy's mission is to maximize the development and deployment of energy solutions for the benefit of American Indians and Alaska Natives. To accomplish its mission, Indian Energy's goals are to promote Indian tribal energy development, efficiency, and use; reduce or stabilize Indian tribal energy costs; strengthen Indian tribal energy infrastructure; and provide electricity to Indian land, housing, and businesses.

Indian Energy issues Funding Opportunity Announcements (FOA) through which financial assistance agreements are awarded to qualified recipients. The financial assistance agreements, also referred to as awards, specify the requirements established in the FOA as well as other Federal and departmental provisions to be followed by the recipient. From October 2012 to July 2018, Indian Energy issued a total of 76 awards totaling \$81.8 million, including the Department's cost share of \$38.5 million. To support the Office of Indian Energy project management staff, Indian Energy entered into a Memorandum of Understanding with the Department's Office of Energy Efficiency and Renewable Energy, Office of Business Operations, Golden Service Center. Specifically, the Golden Service Center provided support from the Financial Assistance Office, Office of Chief Counsel, Financial Oversight Office, and Environmental Oversight Office. Support included environmental and financial oversight, legal guidance, project execution, and award administration.

Given its significant role in supporting initiatives for the development and deployment of energy solutions to benefit American Indian Tribes and Alaska Natives, we initiated this audit to determine if Indian Energy was meeting its mission goals and objectives and managing the program in accordance with applicable laws, regulations, policies, and procedures.

## RESULTS OF AUDIT

We found that Indian Energy had generally met its mission goals and objectives. Our review of selected project documentation noted a number of success stories. For example, one Tribe's final report identified the successful construction a 1-Megawatt solar facility that featured 4,000 individual solar panels, generating enough electricity to power 250 homes. Although Indian Energy met its mission in many cases, it had not always appropriately managed the financial aspects of its awards. Our review of documentation from 15 selected awards totaling \$16.6 million, including the Department's cost share of almost \$7.9 million, found that quarterly and final reporting documents provided adequate evidence that the mission goals and objectives defined in the FOAs had been or were on track to be met. For example, one award recipient constructed a renewable energy system that replaced approximately 15 percent of the existing energy sources, such as electricity or natural gas, of tribally-owned or controlled buildings, as required per the FOA goals and objectives. However, we found instances where Indian Energy approved and reimbursed award recipients without adequately reviewing invoices and detailed supporting documentation to ensure all costs claimed for reimbursement were allowable in accordance with 2 CFR 200.400, *Cost Principles*. This occurred because Indian Energy had not always provided effective monitoring and oversight of its award recipients and/or sufficient guidance to ensure proper adherence to financial and accounting policies and procedures. Without adequate oversight and formal policies and procedures, the Department is at an increased risk that the invoice review process may not identify questionable and/or unallowable costs charged to the projects.

### **Invoice Review Process**

Our review found that Indian Energy had not always ensured that the financial aspects of its awards had been appropriately managed. Each award's terms and conditions required recipients to submit a request for reimbursement and attach appropriate supporting documentation that included cumulative cost totals for each cost category, such as personnel, fringe benefits, travel, and indirect costs. However, we found that Indian Energy approved and reimbursed award recipients without obtaining and reviewing detailed supporting documentation to substantiate all costs claimed. According to 2 CFR 200.400, *Cost Principles*, entities must provide adequate documentation to support costs charged to a Federal award. To enhance controls, Indian Energy required award recipients to request reimbursement for costs incurred and provide supporting documentation to ensure costs were allowable and reasonable prior to payment. However, award recipients did not always include receipts or invoices as part of the supporting documentation. According to Indian Energy officials, the level of supporting documentation may vary by award recipient depending on the recipient's experience with Federal awards. Additionally, the Project Officer overseeing the recipient awards did not always request additional detail during invoice

review prior to reimbursement. Without reviewing detailed documentation for actual project costs, Indian Energy may be unable to determine the allowability and reasonableness of costs charged prior to reimbursement.

We found approximately \$600,000 in reimbursed costs that did not have appropriate supporting documentation, such as vendor invoices, travel receipts, and other receipts for costs claimed. As a result of our review, Indian Energy requested additional supporting documentation from the award recipients and received support for more than \$260,000 of those costs. However, we found approximately \$340,000 in costs that were still unsupported. For purposes of our review, we have included the award recipient, total value of costs reimbursed without support, the value of the supporting documentation that was provided as a result of our review, and the costs that remain unsupported. In an effort to obtain additional detail, we provided Indian Energy personnel with specific cost categories and values for documentation needed to appropriately support these costs.

| <b>Award Recipient</b>                    | <b>Costs Reimbursed without Support</b> | <b>Received per OIG Request</b> | <b>Remaining Costs without Appropriate Support</b> |
|---|---|---------------------------------|--|
| Association of Village Council Presidents | \$200,000.00                            | \$0                             | \$200,000.00                                       |
| Chippewa Cree Tribe                       | \$11,173.14                             | \$10,078.79                     | \$1,094.35   |
| Gwichyaa Zhee Gwich' in Tribal Government | \$136,509.38                            | \$29,516.00                     | \$106,993.38                                       |
| Santo Domingo Tribe                       | \$195,158.60                            | \$166,171.14                    | \$28,987.46  |
| Southern Ute Indian Tribe                 | \$60,793.13                             | \$60,793.13                     | \$0  |
| Tonto Apache Tribe                        | \$3,267.73                              | \$0                             | \$3,267.73   |
| <b>TOTAL</b>                              | <b>\$606,901.98</b>                     | <b>\$266,559.06</b>             | <b>\$340,342.92</b>                                |

In February 2019, the Association of Village Council Presidents and Chippewa Cree Tribe submitted additional documentation. Indian Energy agreed to review the submitted supporting documentation and make a determination as to whether those costs were allowable, allocable, and reasonable. Additionally, Indian Energy personnel agreed to continue to work with the other award recipients for the remainder of the requested supporting documentation. Subsequent to our review, Indian Energy officials evaluated the unsupported costs identified in the table above. Based on the evaluation, Indian Energy officials determined that the documentation provided by award recipients was considered sufficient to support all but approximately \$150 in claimed costs.

Additionally, during our review, we found that Indian Energy had not always included an evaluation of approved budgeted rates prior to approving requests for reimbursement. As noted above, the terms and conditions of the awards required appropriate supporting documentation for cumulative costs which included personnel, fringe benefits, travel, and indirect costs. Further, the award agreements included rates approved for each of the direct and indirect cost categories. Of the awards reviewed, we identified two award recipients that requested reimbursement for personnel or indirect fringe benefit costs that exceeded the approved budgeted rates. In particular, one award recipient requested and received reimbursement for personnel costs at a

higher rate than what had been proposed and approved in the award agreement. Specifically, Indian Energy approved a budget with a direct labor cost of \$52.17 per hour for a Project Manager; however, the Project Manager was promoted to Chief Executive Officer of the Tribe, and as a result, the award recipient charged a rate of \$56.99 per hour for this manager. Additionally, we found that another award recipient had requested reimbursement for indirect fringe benefit costs that exceeded the approved rate. Specifically, the budget for fringe benefits was approved at a rate of 38 percent; however, the personnel and fringe benefits costs for one individual was billed and reimbursed at a rate of 57.22 percent.

Indian Energy officials acknowledged the higher rates; however, they believed that since the Tribes had not exceeded the approved budget for the indirect fringe cost categories, the increase was not a factor and therefore did not require approval. In these instances, the increases in labor and indirect fringe rates were billed and reimbursed without approval by the Contracting Officer and were not reviewed or questioned during the invoice review process. Even though Indian Energy officials indicated that they were aware of the change and associated increased labor rate, by allowing award recipients to charge higher rates than those approved in the budget and without obtaining additional documentation to support the higher rates, Indian Energy is at risk of the award recipients including costs that are not applicable or allowable to the project. Although we only identified these couple of instances, Indian Energy officials agreed to include a review of fringe and indirect rates in their invoice review process to address our concerns.

### **Monitoring and Oversight**

These issues occurred because Indian Energy did not always provide effective monitoring and oversight of its award recipients. Specifically, actions were not always taken to mitigate risks identified, and there were no formal policies and procedures defining the level of invoice review or supporting documentation needed prior to reimbursement. Although Indian Energy conducted a checklist type of risk assessment for the awards reviewed, no detail or additional controls were added to new awards based on issues identified from prior external audit findings. The Department's Guide to Financial Assistance states that Contracting Officers can add additional requirements or special terms and conditions for recipients to address risk concerns identified from prior audit findings. This could include special reporting requirements or payment structures, such as payment by reimbursement. Indian Energy officials indicated that they relied solely on the cost reimbursement method to control costs and address any identified risks. Of the 15 awards reviewed, 9 award recipients had prior audit findings related to financial weaknesses, such as lack of supporting documentation for costs claimed. However, no additional controls had been put in place to address these weaknesses on new awards for the same award recipients. Had additional controls been established, Indian Energy could have mitigated the risks identified and enhanced its reliance that costs claimed were allowable and allocable.

In addition, we noted that although Indian Energy reviewed award recipient's reimbursement requests, there were no formal policies or procedures that defined the appropriate level of supporting documentation necessary to substantiate project costs and that ensured that only approved labor and indirect rates were reimbursed. At the time of our review, Indian Energy had not developed criteria or defined a standard level of documentation needed to ensure an efficient and consistent review of project costs. According to officials, the extent of supporting

documentation required is determined by Project Officers and contract specialists based on a risk assessment. The risk assessment includes reviewing inherent risk for areas such as performance, scope, and budget. However, regardless of the risks identified, the terms and conditions do not change the level of supporting documentation required for the recipients with identified inherent risks. For example, each of the award's terms and conditions, in our review, state that the recipient must submit a request for reimbursement, attach a file containing appropriate supporting documentation, and maintain records for all project costs, including, but not limited to, the costs paid by Federal funds, costs claimed by its subrecipients, and project costs that the recipient claims as cost sharing, including in-kind contributions. Although the supporting documentation requirement is standard in each of the awards reviewed, we found varying levels of supporting documentation from recipients that were approved for reimbursement by Indian Energy officials. Further, Indian Energy did not have a process in place for officials to consistently review labor and indirect rates claimed versus those approved at the time of the award. Instead, rates were reviewed by each of the Project Officers on an informal basis. However, according to 2 CFR 200.400, *Cost Principles*, in reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, which includes indirect costs and fringe rates, Federal agencies should ensure that indirect costs are charged on a consistent basis and as negotiated through indirect cost proposals.

As a result of our review, Indian Energy officials indicated that they were in the process of or had already completed (1) adding a fringe and indirect rate calculation to their existing Invoice Tracker, which was created to more consistently track costs by categories; (2) elevating the priority of the invoice review policy; and (3) instituting a tiered approach to their risk assessment to address the level of supporting documentation required for award recipients with significant deficiencies or material weaknesses identified in prior financial audits.

### **Assurance of Proper Monitoring**

One of the Department's key priorities is to monitor its financial award recipients. Without addressing identified risk and implementing formal policies and procedures to enhance financial monitoring, Indian Energy is at an increased risk that questionable and/or unallowable costs are being charged to the projects.

### **RECOMMENDATIONS**

We recommend that the Director, Office of Indian Energy Policy and Programs ensure that:

1. Additional controls are added to address risks identified during the award process, which includes prior weaknesses from external audits;
2. Financial monitoring activities are enhanced to include developing a formal policy or procedure for reviewing invoices; and
3. Adequate supporting documentation is included with reimbursement requests to support costs incurred.

## MANAGEMENT RESPONSE

Management concurred with our report's recommendations and indicated that corrective actions had been completed to address the issues identified in the report. Management comments are included in Attachment 3.

## AUDITOR COMMENTS

We consider Management's comments and corrective actions to be responsive to our recommendations. We commend management for being proactive and taking action before the issuance of our final report.

## Attachments

cc: Deputy Secretary  
Chief of Staff

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### OBJECTIVE

We conducted this audit to determine if the Office of Indian Energy Policy and Programs (Indian Energy) was meeting its mission goals and objectives and managing the program in accordance with applicable laws, regulations, policies, and procedures.

### SCOPE

The audit was performed between July 2018 and June 2019 at Indian Energy in Golden, Colorado. The audit was conducted under Office of Inspector General project number A18PT038.

### METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable policies, procedures, laws, and regulations pertaining to Indian Energy and management of financial assistance awards.
- Reviewed reports issued by the Office of Inspector General, Government Accountability Office, and other entities, such as external audit firms.
- Interviewed Department and contractor officials to obtain an understanding of roles and responsibilities related to the administration and management of Indian Energy projects.
- Reviewed Indian Energy Funding Opportunity Announcements issued by Indian Energy.
- Identified a universe of 76 financial assistance awards from October 2012 to July 2018 totaling approximately \$39 million in Federal funds and total project costs of approximately \$82 million. We judgmentally selected 15 of the 76 awards totaling approximately \$8 million in Federal funds for detailed reviews. The sample selection was based on factors such as dollar value, project progress, prior audit history, and coverage of all Funding Opportunity Announcements issued within our audit scope. We did not conduct a statistical sample; therefore, we cannot project our audit results to Indian Energy's entire funding population.
- Conducted project file reviews on the 15 judgmentally selected projects, which included reviewing contract documents, invoices, deliverables, and cost share contributions.
- Conducted a review of contract documents and compared the requirements of the Funding Opportunity Announcements to the requirements of the financial assistance agreements to determine if the contracts were written to support the goals and objectives of the Funding Opportunity Announcements. The review covered requirements related to cost share, period of performance, payment procedures, and deliverables.



- Conducted a review of Requests for Advance or Reimbursements and supporting documentation to determine if the costs claimed were allocable, allowable, and reasonable. This review included a review of indirect and fringe benefit rates for each award and whether those rates were applied on the award at or below the approved rates.
- Conducted a review of the quarterly and/or final reporting files to determine if the goals and objectives of the Funding Opportunity Announcements and project award were met or on track to be met.
- Conducted a review of the project costs to determine if the award recipient's cost share contributions have been or are currently being met based on the period in which they are required to provide the cost share.
- Reviewed project documentation for fraud indicators, including duplicate billing and invoicing, ghost vendors, inconsistent rates applied by the same subcontractor to multiple award recipients, and overstatement of energy generation savings.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed compliance with the *GPR Modernization Act of 2010* and determined that Indian Energy had established performance measures related to its goals and objectives. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We partially relied on computer-based data to satisfy our objective. We conducted a limited reliability assessment of computer-processed data relevant to our audit objective and deemed the data sufficiently reliable.

An exit conference was held with Indian Energy officials on September 11, 2019.

**RELATED REPORT****Department of the Interior**

Audit Report on the *Audit of Agreement No. A13AP00009 Between the Bureau of Indian Affairs and The Chippewa Cree Tribe* (DOI-OIG-2016-FIN-075, August 2017). The review found \$1,503,191 in questioned costs, which included unsupported payments to subcontractors and vendors, unsupported internal transactions in the Tribe's accounting system, unallowable out-of-period costs, and unallowable payments to vendors. In addition, the audit found that the Bureau of Indian Affairs did not adequately oversee the contracts in accordance with Federal laws and regulations and Bureau of Indian Affairs guidelines, resulting in the Tribe claiming costs that were unsupported and unallowable.

## MANAGEMENT COMMENTS



Department of Energy  
Washington, DC 20585

August 16, 2019

Ms. Michelle Anderson  
Deputy Inspector General  
For Audits and Inspections  
Office of Inspector General

SUBJECT: Draft Audit Report on "Office of Indian Energy Policy and Programs"

Thank you for providing a draft copy of the Office of Inspector General (IG) report, "Office of Indian Energy Policy and Programs".

The Office of Indian Energy Policy and Programs (Office of Indian Energy or IE) has already addressed the IG's recommendations by implementing additional controls during the award process, formalizing procedures for reviewing invoices, and establishing an approach for determining the level of supporting documentation. The Office of Indian Energy notes, however, a difference of opinion between IE and the IG with respect to the amount and type of supporting documentation necessary to meet applicable regulatory and award requirements.

Thank you for providing the opportunity to submit this management response to the IG draft report. If you have any questions, please contact me at (202) 287-6566.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin R. Frost".

Kevin R. Frost, Director  
Office of Indian Energy Policy and Programs

Enclosure

**Response to Report Recommendations**

**Recommendation 1:** We recommend that the Director, Office of Indian Energy Policy and Programs ensure that additional controls are added to address risks identified during the award process, which includes prior weaknesses from external audits.

***Management Response: Concur***

The Office of Indian Energy's existing policy already limits recipient payments to electronic reimbursement through the Automated Clearing House (ACH). In addition to that control, the Office of Indian Energy has now instituted a process whereby the risk assessment is more formally documented during the award process, and that assessment is used to determine the level of supporting documentation required for reimbursement. The newly instituted pre-award risk assessment includes not only the results of any prior financial audit findings, but also conditions or limitations which may be placed on the use of funds, adequacy of the applicant's financial system, creditworthiness through a Dun and Bradstreet report, and history of performance.

Estimated completion date: Completed July 24, 2019 in response to the IG's draft summary of potential issues dated March 5, 2019.

**Recommendation 2:** We recommend that the Director, Office of Indian Energy Policy and Programs ensure that financial monitoring activities are enhanced to include developing a formal policy or procedure for reviewing invoices.

***Management Response: Concur***

From 2012 through 2015, all awards, including nine (9) of the 15 awards in the audit sample, were made and managed through the Tribal Energy Program under the DOE's Office of Energy Efficiency and Renewable Energy and adhered to its formal documented policies and procedures.

In addition to following EERE policies and procedures, and prior to the IG audit, the Office of Indian Energy: (a) implemented requirements that all awards would only be paid by reimbursement through ACH; (b) developed an internal control procedure and underwent an internal controls assessment for grant administration processes; (c) instituted a standardized invoice review process and documentation, and (d) developed a standardized invoice tracking log.

In response to the IG's recommendations, however, in addition to those steps, the Office of Indian Energy has now documented its invoice review procedures in a formal internal operations guide.

Estimated completion date: Completed July 19, 2019 in response to the IG's draft summary of potential issues dated March 5, 2019.

**Recommendation 3:** We recommend that the Director, Office of Indian Energy Policy and Programs ensure that adequate supporting documentation is included with reimbursement requests to support costs incurred.

***Management Response: Concur***

The Office of Indian Energy continues to believe adequate supporting documentation was included with recipient reimbursement requests; this is especially true since these costs are subject to external annual audits and because the Office of Indian Energy determined that 99.9991% of the sampled costs (all but approximately \$150 of the \$16.6 million in the audit sample) were allowable, allocable, and reasonable. Further, the Office of Indian Energy determined that the projects met the programmatic objectives as authorized by Congress and that the supported costs are in alignment with the approved scope and the approved budget.

In response to the IG's recommendations, however, the Office of Indian Energy has instituted a pre-award risk assessment, the results of which determine the level of supporting documentation required for reimbursement of costs, which may vary based on the results of the risk assessment.

Estimated completion date: Completed July 19, 2019 in response to the IG's draft summary of potential issues dated March 5, 2019.

## **FEEDBACK**

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Department of Energy  
Washington, DC 20585

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