



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

# Audit Report

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



OAS-RA-12-10

May 2012



## Department of Energy

Washington, DC 20585

May 5, 2012

### MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

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: Audit Report on "The Department of Energy's  
American Recovery and Reinvestment Act – Washington State Energy  
Program"

#### BACKGROUND

The Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE) provides grants to states, territories and the District of Columbia (states) to support various energy priorities through the State Energy Program (SEP). These grants are awarded based on population and energy consumption. In total, EERE allocated about \$3.1 billion in American Recovery and Reinvestment Act of 2009 grant funds to the states. These grants were designed to help states create/retain jobs, reduce energy consumption, increase renewable energy generation and reduce greenhouse gas emissions.

The Washington State Department of Commerce (WSDC) was granted \$60.9 million in SEP Recovery Act grant funds to invest in state-level energy efficiency and renewable energy priorities; a 142-fold increase over its Fiscal Year 2009 SEP grant. This one-time award was to be spent over a 3-year period ending April 30, 2012. WSDC used its grant funds to fund 51 projects in 5 major energy efficiency and renewable energy programs designated by the Washington State Legislature. Specifically, it allocated \$38.5 million for energy efficiency and renewable energy loans and grants; \$14.5 million for residential and commercial energy efficiency upgrades; \$5 million for energy efficiency credit enhancements; \$500,000 for farm energy assessments; \$200,000 for a clean energy initiative; and, about \$2.2 million in administrative costs.

As part of the Office of Inspector General's strategy for reviewing the Department's implementation of the Recovery Act, we initiated this review to determine whether WSDC's use of Recovery Act funds was in accordance with Federal requirements and the Department's SEP grant.

#### CONCLUSIONS AND OBSERVATIONS

WSDC had, for the most part, used SEP grant funds in accordance with Federal requirements and the Department's SEP grant. However, we identified several issues that need to be addressed

to ensure that WSDC and its subrecipients fully comply with requirements and that the goals of the Recovery Act are met. Specifically, our review of 10 of the 51 projects found that:

- Sub-grantees for 2 of the 10 projects reviewed did not provide adequate support for invoices totaling \$646,633 in travel expenses, professional services and other expenses; and,
- Sub-grantees inconsistently reported jobs created or retained through the Recovery Act funding.

Finally, we noted that WSDC was unlikely to expend all of its Recovery Act funding for SEP projects by the original April 30, 2012, grant deadline. WSDC requested, and the Department granted, a 17-month extension of the grant terms until September 30, 2013.

#### Inadequate Cost Documentation

Our review of a judgmental sample of paid invoices for 10 projects disclosed that 2 of the projects had \$646,633 in expenditures related to professional services, travel and other expenses that were not adequately supported. Failing to ensure that invoiced costs are fully supported increases the risk that unallowable costs will be reimbursed. Specifically, our tests of 8 reimbursement requests for one project found that \$530,302 (55 percent) of the total expenses claimed for travel, professional services and other items, lacked sufficient supporting documentation. Similarly, our review of 9 reimbursement requests for a second project revealed that \$116,331 (8 percent) of the total expenses claimed for travel and professional services lacked sufficient supporting documentation. A breakdown by type of inadequately supported costs disclosed that:

- Professional services invoices totaling \$485,483 lacked sufficient supporting documentation or detail. For example, professional services invoices only contained statements such as "Professional Services for the period October 1 through October 31, 2010" or "Consulting November 2010," with no other details. However, *Federal Acquisition Regulation* (FAR) 31.205-33 requires details of agreements; detailed billing to include time expended and nature of the actual services provided; and, the consultant's work products and related documents, such as trip reports indicating persons visited and subjects discussed, minutes of meetings, collateral memoranda and reports. Similarly, WSDC requires that, at a minimum, invoices should include the contract number, when the service was provided, a description of services provided or any goods received and approval for payment;
- Travel expense invoices amounting to \$108,406 lacked sufficient supporting documentation to determine the need for, and purpose of, the trips. Both FAR 31.205-46 (a)(7) and WSDC regulations require a purpose for trips and supporting documentation of sufficient detail to determine whether the travel was essential to carrying out the necessary work of the agency. In addition, the majority of the travel expenses for one project were shown on expense reports but no receipts were provided for support. FAR 31.201-2 (d) requires that contractors appropriately account for costs

and maintain records, including supporting documentation adequate to demonstrate that costs claimed have been incurred, are allocable to the contract and comply with applicable cost principles; and,

- Other expenses of \$52,744 submitted for one project lacked sufficient supporting documentation. These consisted mainly of expenses shown on expense reports, but contrary to FAR 31.201-2 (d), there was no documentation such as receipts to support them.

### Implementation Controls

The issues observed occurred, in part, because WSDC did not ensure that internal control requirements were fully implemented. We determined that both Federal and WSDC regulations contained sufficient detail and established adequate internal controls. The Washington State Auditor's Office identified similar issues regarding invoice documentation in its June 13, 2011, audit of WSDC's SEP. The State Auditor's review of invoices found that WSDC's State Energy Office staff made payments on several contracts based on limited information. Specifically, the State Auditor found two cases where the descriptions contractors submitted on the invoices were at too high a level (i.e., salaries, benefits and travel) for determining task applicability to the contracts' scope of work. As a result, the State Auditor could not confirm to which contracted tasks these invoiced expenses related.

To address the State Auditor's concerns and ensure greater control over invoice documentation, WSDC committed to: (1) monitor invoices prior to approval for payment to ensure all costs are allowable and the appropriate level of documentation has been provided; (2) review all requests for reimbursement and approval by the program manager, including consistency with the statement of work and project activities, and ongoing status tracking; and, (3) transfer invoice payment processing to WSDC's Contracts Administration Unit, with its experienced staff dedicated to reviewing all requests for payments and the supporting documentation before payments are approved. We believe these enhanced controls, if fully implemented, should help ensure that WSDC does not approve payments for improper expenses. Notably, after we brought the invoice documentation issue to WSDC's attention, it began taking action to obtain the necessary documentation to support the paid invoices.

### Job Reporting

We also found that WSDC sub-grantees were not consistently calculating the full-time equivalent positions created or retained by Recovery Act funding. Although WSDC officials told us that they had informed subrecipients of the correct job reporting requirements in grants and contracts, we found that five sub-grantees included subcontractors that received Recovery Act funds in job creation calculations, while three sub-grantees had not done so. Both Department SEP Notice 10-07A and Office of Management and Budget Memorandum M-09-21 state that a job for which the wages or salaries are either paid for with, or will be reimbursed through, Recovery Act funding should be reported. However, the Department did not ensure that WSDC complied with these requirements; thus, the numbers of jobs created or retained were underreported in some instances.

### Spending Delays

We also determined that WSDC was unlikely to expend all of its SEP Recovery Act funds by the original April 30, 2012, grant deadline. WSDC experienced delays due to various issues associated with implementing Davis-Bacon Act requirements of the Recovery Act and obtaining National Environmental Policy Act approvals for projects. As a result, over 3 years after the Recovery Act was passed and with 1 month remaining in its grant, WSDC had spent only about \$45.5 million (75 percent) of its \$60.9 million in Recovery Act SEP funding. WSDC subsequently requested, and EERE approved, a 17-month extension to the grant period to September 30, 2013. In the extension request, WSDC stated its belief that it will be able to expend all but about \$3.3 million (5 percent) of the Recovery Act funds by the original April 30, 2012, grant deadline.

### RECOMMENDATIONS

To address the issues identified in our report, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Ensure that WSDC obtains adequate supporting documentation from sub-grantees to make a determination of allowability of the unsupported costs identified in the report;
2. Ensure that WSDC fully implements internal control requirements;
3. Ensure that WSDC Recovery Act job reporting is calculated consistently and accurately for sub-grantees; and,
4. Continue to closely monitor the progress of WSDC's projects to ensure that Recovery Act goals are met, funds are properly and timely spent, and/or funds are returned to the U.S. Department of Treasury through the Department.

### MANAGEMENT COMMENTS

Management concurred with the recommendations and stated that it is working with WSDC to ensure that plans are implemented to address the report's recommendations. In particular, management indicated that it will ensure that WSDC is committed to implementing and executing the appropriate internal controls in the accounts payable process and that WSDC recovers payments for any unallowable costs. Management also stated that SEP has monitored WSDC through semi-annual and annual on-site monitoring trips and through weekly status calls to ensure that WSDC is on-track to spend the Recovery Act funds in a timely manner. Management commented that WSDC had spent 87.3 percent of its funds and, with a few exceptions, is on track to have all projects completed by the end of the grant period. According to management, WSDC requested and was granted an extension to spend the rest of its funds. Management added that it will continue to monitor these areas in their regular oversight reviews. Management's comments are included in Attachment 3.

In separate comments, the Director, Washington State Energy Office, partially concurred with our finding and indicated that WSDC has already taken steps to address the report's recommendations. On the issue of unsupported costs, WSDC informed us that it had received additional documentation and, upon review, confirmed that the costs questioned were allowable under the terms of the agreement. Also, WSDC asserted that it had contacted recipients to confirm their understanding of job reporting requirements and corrected the jobs reports for one of the recipients identified in this report. Finally, WSDC stated that it was on track to expend its grant funds within the grant period, with the exception of 5 percent of the award that may be spent within the recently granted time extension. WSDC's comments are included in Attachment 3.

### AUDITOR RESPONSE

Management comments were responsive to our recommendations. We believe that the corrective actions management proposes, if fully implemented, will correct the problems identified in the report. With regard to spending delays, management stated that WSDC had spent 87.3 percent of its funds and, with a few exceptions, is on track to have all projects completed by the deadline. However, we noted that management considers funds spent when the funds are obligated to the states, not when the states expend those funds. In fact, as of March 31, 2012, with a month left in the original grant period, WSDC reported it had expended \$45.5 million or 75 percent of its funds. As previously noted, WSDC requested, and EERE approved, a 17-month extension to WSDC's grant to September 30, 2013.

Washington State's comments, for the most part, were also responsive to the recommendations. We recognize that WSDC had taken action to strengthen controls. However, we were unable to confirm that the costs identified in this report were adequately supported. The documentation provided to us by WSDC consisted of SEP forms filled out by the sub-grantee after-the-fact and lacked any corroboration other than the sub-grantee's signature on the form. Also, we did not receive any additional documentation on the professional services expenses that we questioned that comprise over 75 percent of the questioned expenses.

It is also noteworthy that WSDC took action to re-inform recipients of job reporting requirements. However, we noted that while Washington State obtained corrected job reporting information from one recipient who underreported jobs created, it did not obtain similar information from the other two recipients whose job reporting figures we questioned, even though all three recipients acknowledged they had been incorrectly reporting jobs created.

### Attachments

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

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine whether the Washington State Department of Commerce's (WSDC) use of funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act) was in accordance with Federal requirements and the Department of Energy's (Department) State Energy Program (SEP) grant.

### **SCOPE**

The audit was performed from April 2011 to April 2012. We conducted work at WSDC and Washington State University Extension Energy Program, located in Olympia, Washington. We also conducted work at various sub-grantees throughout the State of Washington that included Port Townsend Paper Company in Port Townsend; AltAir Fuels in Seattle; Demand Energy Networks in Liberty Lake; Farm Power Lynden in Mount Vernon; Green Energy Today in Richland; Gen-X Energy in Pasco; Avista in Spokane; SustainableWorks in Tukwila; and, Opportunity Council in Bellingham. The audit scope was limited to WSDC's Recovery Act SEP.

### **METHODOLOGY**

To accomplish the audit objective, we:

- Reviewed Federal laws and regulations, Department guidance, and Office of Management and Budget guidance and circulars related to SEP and Recovery Act;
- Reviewed SEP grants awarded to WSDC and sub-grants awarded to recipients of Recovery Act funds;
- Reviewed WSDC internal controls and sub-grantee internal controls;
- Reviewed prior Federal, State and grant audits related to Recovery Act SEP;
- Held discussions with officials at WSDC and the Washington State Auditor's Office;
- Interviewed officials at the Office of Energy Efficiency and Renewable Energy and National Energy Technology Laboratory;
- Reviewed the magnitude, method of operation, monitoring, project categories and individual projects of the WSDC SEP; and,
- Performed detailed testing, transaction testing and interviews for a sample of sub-grantees based on a risk assessment.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRA Modernization Act of 2010* and determined that it had established performance measures for the management of the SEP and the Recovery Act. 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. Finally, we did not rely on computer-processed data to accomplish our audit objective.

An exit conference was held on April 17, 2012 with the Office of Energy Efficiency and Renewable Energy and on April 19, 2012 with WSDC.



## **PRIOR REPORTS**

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Office of Inspector General has initiated a series of audits designed to evaluate the Department of Energy's State Energy Program's internal control structures at the Federal, state and local levels. During our audits, we have noted similar findings such as impediments that adversely impacted the State Energy Program spending rates, inadequate flow down of Recovery Act provisions to subrecipients and inadequate monitoring of subrecipients. However, it must be noted that these issues do not exist in all the states we have audited. Our series of audit reports include the following:


- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – Arizona State Energy Program\*](#) (OAS-RA-L-12-03, January 2012).
- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – California State Energy Program\*](#) (OAS-RA-11-10, July 2011).
- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – New Jersey State Energy Program\*](#) (OAS-RA-L-11-07, April 2011).
- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – Massachusetts State Energy Program\*](#) (OAS-RA-11-06, March 2011).
- Audit Report on [\*Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Michigan State Energy Program\*](#) (OAS-RA-10-18, September 2010).
- Audit Report on [\*Status Report: The Department of Energy's State Energy Program Formula Grants Awarded under the American Recovery and Reinvestment Act\*](#) (OAS-RA-10-17, September 2010).
- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – Georgia State Energy Program\*](#) (OAS-RA-L-10-06, September 2010).
- Audit Report on [\*The Department of Energy's American Recovery and Reinvestment Act – Florida State Energy Program\*](#) (OAS-RA-10-12, June 2010).
- Audit Report on [\*Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Louisiana State Energy Program\*](#) (OAS-RA-10-09, May 2010).

**MANAGEMENT COMMENTS**

**Department of Energy**  
Washington, DC 20585

MAR 16 2012

MEMORANDUM FOR: RICKEY R. HASS  
DEPUTY INSPECTOR GENERAL  
FOR AUDITS AND INSPECTIONS  
OFFICE OF INSPECTOR GENERAL

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

SUBJECT: Response to the Office of Inspector General Draft Audit Report on "The Department of Energy's State Energy Program Funded under the American Recovery and Reinvestment Act for the State of Washington."

The Office of the Inspector General (OIG) makes four recommendations for DOE's oversight of the Washington State Department of Commerce (WSDC) State Energy Office. The OIG's recommendations address administrative compliance issues found in sub-recipient grants and loans. We concur with the OIG's recommendations and have been working with WSDC to ensure they implement plans that address these recommendations.

**OIG Recommendation 1: Direct WSDC to obtain supporting documentation from sub-grantees to make a determination of allowability of the unsupported costs identified in the report.**

- a. Ensure that professional services invoices have sufficient supporting documentation; and
- b. Ensure that travel expense invoices have sufficient supporting documentation.

**DOE Response:** We agree with the recommendations of the OIG. As a result of this recommendation, WSDC has transferred their invoicing approval process to the Contracts Administration Unit to help assure that costs are allowable and properly documented.

**OIG Recommendation 2: Ensure that WSDC fully implements internal control requirements.**

**DOE Response:** We agree with the recommendations of the OIG. SEP will ensure that WSDC is committed to implement/execute the appropriate internal controls to the accounts payable process. SEP will also ensure that WSDC recovers payments for any unallowable costs. DOE will continue to monitor this activity through the monitoring process.

**OIG Recommendation 3: Ensure that WSDC Recovery Act job reporting is calculated consistently and accurately for sub-grantees.**



Printed with soy ink on recycled paper

**DOE Response:** WSDC was provided with guidance through SEP Program Notice 10-007 on the proper calculation of Recovery Act jobs. DOE will continue to monitor this activity through the monitoring process.

**OIG Recommendation 4:** Continue to closely monitor WSDC's project progress to ensure Recovery Act goals are met and funds are properly and timely spent, or, if funds cannot be spent effectively, the funds are returned to the Department or the U.S. Department of Treasury.

**DOE Response:** SEP has monitored WSDC through semi-annual and annual on-site monitoring trips and through weekly status calls to ensure that the WSDC is on-track to spend the Recovery Act funds in a timely manner. WSDC has currently spent 87.3 percent of their funds and with a few exceptions, is on track to have all projects completed by the end of their grant period. In addition, WSDC requested and has been granted a period of performance modification, allowing the completion and close-out of remaining projects as well as one year of evaluation, monitoring and verification.



STATE OF WASHINGTON  
DEPARTMENT OF COMMERCE  
1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • (360) 725-4000  
[www.commerce.wa.gov](http://www.commerce.wa.gov)

March 8, 2012

Rickey R. Haas  
Deputy Inspector General for Audits and Inspections  
Office of Inspector General  
Department of Energy  
1000 Independence Avenue  
Washington, DC 20585

Subject: Draft Audit report on "The Department of Energy's American Recovery and Reinvestment Act – Washington State Energy Program"

Dear Mr. Haas,

Thank you for the opportunity to comment on the Draft Audit Report on Washington's State Energy Program for the American Recovery and Reinvestment Act. There are three issues.

1. Inadequate cost documentation totaling \$646,633 for travel, professional services, and other items.  
**Response:** We have received additional justification and documentation for these reimbursed expenses. This documentation has been provided to the auditor. Upon review, the documentation and further justification confirmed the costs as allowable under the terms of the agreement. The controls discussed are fully implemented. All requests for reimbursement are reviewed and approved by the program manager for consistencies with the statement of work and project activities, and for ongoing status tracking. Invoices are also monitored by the invoice payer in the Contracts Administration Unit prior to approval for payment to ensure all costs are allowable and the appropriate level of documentation has been provided for verification.
2. Inconsistent reporting of jobs funded by the Recovery Act.  
**Response:** We have contacted our recipients to confirm their understanding of the reporting requirements. One recipient was not including all jobs that were being paid by the Recovery Act. They have corrected their reports which we have submitted.

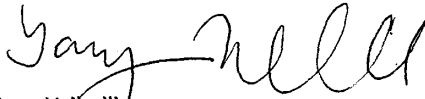
3. The Commerce Department is at risk of not being able to expend its Recovery Act funds by April 30, 2012.

**Response:** At the time of this audit, Commerce was on track to spend all of our Recovery Act funds by the April 30, 2012. We have achieved all spending milestones set by US DOE throughout this award. We have requested and received a modification of the performance period so some of our projects will be more successful and provide us with better data. Also, this modification will allow us to continue our monitoring and evaluation work and support our projects in meeting the goals of the State Energy Program. The approved extension is for approximately 5 percent of our total award.

We have made the necessary corrections to the issues discovered during the audit. We will continue to closely monitor our progress. These corrections will help the State Energy Program continue to meet the goals of the program under the Recovery Act.

Please let me know if you have any additional questions or concerns.

Sincerely,



Tony Usibelli  
Director, Washington State Energy Office

## 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 they are 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 which 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 attached to the report.