



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

Examination Report

California Energy Commission –
Energy Efficiency and Conservation
Block Grant Program Funds
Provided by the American Recovery
and Reinvestment Act of 2009



OAS-RA-13-01

October 2012



Department of Energy
Washington, DC 20585

October 9, 2012

MEMORANDUM FOR THE ASSISTANT SECRETARY, 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 Audit Services
Office of Inspector General

SUBJECT: INFORMATION: Examination Report on "California Energy
Commission – Energy Efficiency and Conservation Block Grant
Program Funds Provided by the American Recovery and Reinvestment
Act of 2009"

BACKGROUND

The attached report presents the results of an examination of the California Energy Commission's (Commission) implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Energy Efficiency and Conservation Block Grant Program (EECBG Program). The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Lopez and Company, LLP, to express an opinion on the Commission's compliance with Federal and State laws, regulations and program guidelines applicable to the EECBG Program. The Commission is a grant recipient of the Department of Energy's Recovery Act EECBG Program funding for the State of California.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the EECBG Program received \$3.2 billion to develop, promote, implement and manage energy efficiency and conservation projects and programs designed to reduce fossil fuel emissions, reduce total energy use of the eligible entities, and improve energy efficiency in the transportation, building and other appropriate sectors. The Commission received a \$49.6 million grant award that was to be expended over a 3-year period, from September 14, 2009 through September 13, 2012.

CONCLUSIONS AND OBSERVATIONS

Lopez and Company, LLP, expressed the opinion that except for the weakness described in the report, the Commission complied in all material respects with the requirements and guidelines relative to the EECBG Program for the period September 14, 2009 through June 30, 2011. However, the examination found that the Commission failed to prevent or detect two duplicate drawdowns of reimbursements from the U.S. Department of the Treasury totaling \$678,000. Commission officials were not aware of the problem until Lopez and Company, LLP, brought the improper drawdowns to their attention.

The report makes recommendations for the Commission to improve the administration of its EECBG Program. The Commission provided comments that expressed agreement with the recommendations and provided planned and ongoing actions to address the issues identified. While these comments and planned corrective actions are responsive to the recommendations, the Department needs to ensure the planned actions are completed.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Ensure appropriate action is taken by the Commission to establish policies and procedures to ensure that all drawdowns are independently reviewed and approved; and,
2. Direct the Commission to review all drawdowns to verify payments received are properly supported.

We also recommend that the Contracting Officer for the Commission's EECBG Program:

3. Resolve questioned costs of about \$678,000.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with the recommendations outlined in this memorandum. The Department stated it would ensure implementation of plans addressing the recommendations. Additionally, the Department stated it had verified that all funds drawn down were expended on permissible projects, and that any interest earned as a result of the duplicate drawdowns would be calculated and returned to the U.S. Department of the Treasury in the next reporting quarter. The Department's comments are included in their entirety in Attachment 2.

The Department's comments are responsive to our recommendations.

EXAMINATION-LEVEL ATTESTATION

Lopez and Company, LLP, conducted this 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 Commission's policies and procedures and reviewing applicable Program documentation. The procedures also included an analysis of activity progress, reimbursement drawdown requests, and compliance with required reporting. Finally, an analysis of associated expenditure data was conducted to test the allowability of payments.

The OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances where Lopez and Company, LLP, did not comply, in all material respects, with the attestation requirements. Lopez and Company, LLP, is responsible for the attached report dated June 15, 2012, and the conclusions expressed in the report.

Attachments

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



EXAMINATION REPORT ON COMPLIANCE

OF

Recovery Act Energy Efficiency and Conservation Block Grant Program

State of California – California Energy Commission

PERFORMED FOR

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Prepared by

Lopez and Company, LLP

Report Date: June 15, 2012

CONTRACT NUMBER: DE-IG0000017

WORK ORDER NUMBER: 2011-04

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INDEPENDENT ACCOUNTANT'S REPORT

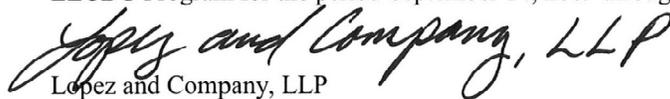
To the Inspector General,
Department of Energy:

We have examined the California Energy Commission's (Commission) compliance with Federal and State laws, regulations, and program guidelines applicable to the American Recovery and Reinvestment Act of 2009 (Recovery Act) Energy Efficiency and Conservation Block Grant (EECBG) Program for the period of September 14, 2009 through June 30, 2011. The Commission is responsible for administering the EECBG Program for the State of California in compliance with these laws, 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 EECBG Program Federal and State laws, regulations, and program guidelines; and performing other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Commission's compliance with specified requirements.

Because of 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 IV of this report, the Commission complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 14, 2009 through June 30, 2011.


Lopez and Company, LLP
Chino Hills, California
June 15, 2012

Section I Description of the California Energy Commission Energy Efficiency and Conservation Block Grants Program

The California State (State) Legislature established the California Energy Commission (Commission) in 1974 to address the energy challenges facing the State. The Commission is the State's principal energy policy and planning organization. Since 1974, successive administrations, with bipartisan legislative support, have enacted more than 100 separate laws to assist the Commission in implementing State energy policy.

Under the Energy Efficiency and Conservation Block Grant (EECBG) Program, assistance is offered to develop, promote, implement and manage energy efficiency and conservation projects and programs designed to reduce fossil fuel emissions, reduce total energy use of the eligible entities, and improve energy efficiency in the transportation, building and other appropriate sectors. As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the U.S. Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy received \$3.2 billion in EECBG funding. Of this amount, \$2.7 billion was awarded through formula grants and \$454 million was allocated through competitive grants.

The Commission received a \$49.6 million grant award, which was to be expended over a 3-year period from September 14, 2009 through September 13, 2012. The Commission has three activities under the grant, including a Financial Incentive Program, Energy Efficiency Retrofits, and an Energy Efficiency and Conservation Strategy.

Section II Classification of Findings

Material Weakness

For purposes of this engagement, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the subject matter will not be prevented or detected.

Significant Deficiency

For purposes of this engagement, a significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Advisory Comment

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

Advisory comments presented, if any, represent matters that came to our attention during the course of the review, and are offered to the Commission's management as an opportunity for improvement. The advisory comments are provided along with recommendations and discussion of the significance of the comments.

Section III Summary of Findings

Area/Finding

Material Weakness

Cash Drawdowns

IV.1 Improper Drawdown of Funds

Section IV Schedule of Findings

CASH DRAWDOWNS

IV.1 Improper Drawdown of Funds (Material Weakness)

Condition

In our review of about \$3.6 million in EECBG funding drawn down from the U.S. Treasury by the California Energy Commission (Commission), we identified 2 duplicate drawdowns totaling about \$678,000, or about 20 percent of the amount reviewed. The Commission was not aware of the improper drawdowns until we brought them to its attention. The specific items in question were included as part of larger drawdowns.

Recipients are required to have established adequate controls to ensure the accuracy and integrity of financial information. In addition, Federal regulations require grant recipients to ensure adequate documentation for all costs incurred.

Cause

The duplicate reimbursements we identified occurred because the Commission allowed a single individual to draw down funds without oversight. Specifically, the Commission lacked an independent, supervisory review process, along with the policies and procedures necessary to ensure such a review occurred. The fact that one individual has the ability to draw down funds, without a review and approval process, indicates a substantial lack of internal controls within the organization.

Effect

The Commission's lack of sufficient internal controls over drawdowns increases the risk of fraud, waste and abuse within the EECBG Program.

Recommendation

We recommend that Commission officials:

- 1.1 Establish policies and procedures to ensure that all drawdowns are independently reviewed and approved;
- 1.2 Review all drawdowns to verify payments received are properly supported; and,
- 1.3 Resolve questioned costs of about \$678,000.

SECTION IV Schedule of Findings (Cont.)

IV.1 Improper Drawdown of Funds (Material Weakness) (cont.)

Management Comments

The Commission agrees with the finding and recommendations. The Commission has taken the following actions:

1. The Energy Commission Accounting Office has established new procedures to prevent this type of error in the future.
2. The Accounting Administrator now reviews and approves drawdown requests by reviewing the federal drawdown sheet for the grant to ensure funds have not previously been requested.
3. The duplicate drawdowns have been appropriately reported on quarterly reports to the U.S. Department of Energy.

The Commission disagrees with the statement that it lacks sufficient internal controls over drawdowns, stating that the inadvertent error would have been detected by its monthly fund reconciliations within a matter of weeks.

Auditor's Response

We appreciate the actions taken by the Commission. We note, however, that one of the duplicates we identified and brought to its attention went undetected for 7 months, raising questions about the efficacy of the Commission's monthly reconciliations in detecting errors.

Section V Complete Management Response

STATE OF CALIFORNIA – NATURAL RESOURCES AGENCY

EDMUND G. BROWN JR., Governor

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET
SACRAMENTO, CA 95814-5512
www.energy.ca.gov



June 8, 2012

Mr. Richard Lopez
Lopez and Company, LLP
14728 Pipeline Avenue, Suite E
Chino Hills, CA 91709

Dear Mr. Lopez:

Thank you for the review and recommendations on the California Energy Commission's compliance with federal and state laws, regulations, and program guidelines applicable to the American Recovery and Reinvestment Act of 2009 - Energy Efficiency and Conservation Block Grant Program (ARRA-EECBG). The Energy Commission agrees with the recommendations and has taken steps to address them. Specific steps are detailed below:

Recommendation

We recommend that Energy Commission officials:

- 1.1 Establish policies and procedures to ensure that all drawdowns are independently reviewed and approved;
- 1.2 Review all drawdowns to verify payments received are properly supported;
- 1.3 Resolve questioned costs of about \$678,000.

Response

- 1.1 The Energy Commission Accounting Office has established new procedures to prevent this type of error in the future. See attached Policy.
- 1.2 The Accounting Administrator now reviews and approves drawdown requests by reviewing the federal drawdown sheet for the grant to ensure funds have not previously been requested.
- 1.3 The duplicate drawdowns have been appropriately reported on quarterly reports to US Department of Energy (U.S. DOE).

While we agree with your finding and recommendation, we respectfully disagree with the statement the Energy Commission lacks sufficient internal controls over drawdowns which increase the risk of fraud, waste and abuse within the EECBG Program. The Energy Commission has over 30 years of successful partnership with the U.S. DOE on a variety of energy projects with absolutely no history of fraud, waste or abuse.

Section V Complete Management Response

Mr. Richard Lopez
June 8, 2012
Page 2 of 2

The duplicate draws were remitted to the Federal Trust Fund, and were subsequently offset against future expenditures. This inadvertent error would have been detected by our monthly fund reconciliations. At the time of the audit, the Accounting Office had not yet performed the July State Controller Office (SCO) federal funds reconciliation due to our attempts to comply with year-end deadlines imposed by the SCO. The duplicate draws were not in jeopardy of being inappropriately expended and would have been detected within a matter of weeks.

If you have any questions regarding the above, please contact Mark Jones, Accounting Administrator at mark.jones@energy.state.gov or (916) 654-4284.

Sincerely,



Robert P. Oglesby
Executive Director

Enclosure:

Procedures for Requesting Federal Funds

DEPARTMENT COMMENTS



Department of Energy

Washington, DC 20585

AUG 31 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 Office of Inspector General's (OIG) Draft Examination Report on "California Energy Commission – Energy Efficiency and Conservation Block Grant (EECBG) Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

This is in response to the Office of the Inspector General's request for comment on the above draft. Energy Efficiency and Renewable Energy (EERE) provides guidance and support to all grantees pursuant to Code of Federal Regulations (CFR), 10 CFR 600 and 2 CFR 225 (A-87). Also, when applicable, EERE will provide grantees with guidance pursuant to 2 CFR 220 (A-21), 2 CFR 230 (A-122), and 10 CFR 400. EERE assures compliance with guidance through continued monitoring and communications with grantees.

The OIG makes three recommendations for the California Energy Commission to improve the administration of its EECBG Program. We concur with OIG's recommendations and are working with the Commission to ensure they implement plans that address these recommendations, as follows:

OIG Recommendation 1: Ensure appropriate action is taken by the Commission to establish policies and procedures to ensure that all drawdowns are independently reviewed and approved.

EERE Response: We agree with the Auditor's findings that the Commission should establish policies and procedures to ensure that all drawdowns are independently reviewed and approved. Through EERE's ongoing monitoring and communication efforts, EERE will ensure that the Commission takes appropriate action to establish policies and procedures to implement independent review of drawdowns. This recommendation is scheduled to be reevaluated during the next scheduled review on October 15, 2012. Through EERE's ongoing monitoring and communication efforts, EERE will continue to provide policy and procedural oversight and will serve as a resource for the ongoing needs of the Commission.

OIG Recommendation 2: Direct the Commission to review all drawdowns to verify payments received are properly supported.

EERE Response: We agree with the Auditor's findings that the Commission should establish policies and procedures to ensure that all drawdowns are thoroughly reviewed and payments received are properly supported. EERE affirms that the Commission has taken appropriate action on this recommendation. The Commission's Accounting Administrator now reviews and approves drawdown requests by reviewing the Federal drawdown sheet from ASAP (Automated



requested. This recommendation is scheduled to be reevaluated during the next scheduled review on October 15, 2012. Through EERE's ongoing monitoring and communication efforts, EERE will continue to provide oversight and will serve as a resource for the ongoing needs of the Commission.

OIG Recommendation 3: The Contracting Officer for the Commission's EECBG Program resolve questioned costs of about \$678,000.

EERE Response: The questioned cost was as a result of duplicate drawdowns as verified in the IG report. The duplicate drawdowns have been appropriately reported on quarterly reports in PAGE (Performance and Accountability of Grants in Energy) to the U.S. Department of Energy. EERE staff has verified that all funds drawn down were expended on permissible projects, and that any interest earned as a result of the drawdown will be calculated and returned to the U.S. Department of Treasury in the next reporting quarter. This recommendation is scheduled to be reevaluated during the next scheduled review on October 15, 2012.

EERE thanks the OIG for its recommendations.

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5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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