



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

Examination Report

County of Los Angeles – Energy
Efficiency and Conservation Block
Grant Program Funds Provided by
the American Recovery and
Reinvestment Act of 2009



OAS-RA-13-02

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 blue 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 "County of Los Angeles –
Energy Efficiency and Conservation Block Grant Program Funds
Provided by the American Recovery and Reinvestment Act of 2009"

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an examination of the County of Los Angeles' (County) 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 County's compliance with Federal laws, regulations and program guidelines applicable to the EECBG Program. The County is a grant recipient of the Department of Energy's (Department) 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 County received a \$15.4 million formula grant award that was to be expended over a 3-year period from September 28, 2009 through September 27, 2012. The County also received a \$30 million competitive grant award that was to be expended over a 3-year period from June 3, 2010 through June 2, 2013.

OBSERVATIONS AND CONCLUSIONS

Lopez and Company, LLP, expressed the opinion that the County complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 28, 2009 through June 30, 2011. The report includes advisory comments that represent control deficiencies that were not significant enough to adversely affect the County's ability to record, process, summarize and report data reliably, and are offered to County management as an opportunity for improvement.

Specifically, the County:

- Failed to record the grant funding source and corresponding percentage of Federal participation for \$800,000 in computer purchases in its fixed asset records; and,
- Overstated total labor hours for a contractor included in the County's Recovery Act report for June 2011, due to a calculation error and a lack of review.

The report makes recommendations for improving the administration of the County's EECBG Program. The County 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 taken.

RECOMMENDATIONS

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

1. Verify that the County revised its policies and procedures to ensure fixed asset records contain all Department-required data fields, such as Federal grant funding source and level of cost-share for asset purchases; and,
2. Direct the County to establish and implement policies and procedures to ensure accurate compilation and submission of Recovery Act reporting and retention of appropriate supporting documentation.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with our recommendations outlined in this memorandum. The Department stated it would work with the County to ensure plans are implemented to address the recommendations. 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 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 County'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 19, 2012, and the conclusions expressed in the report.

Attachments

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



EXAMINATION REPORT ON COMPLIANCE

OF

Recovery Act Energy Efficiency and Conservation Block Grant Program

County of Los Angeles

—
PERFORMED FOR

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Prepared by

Lopez and Company, LLP

Report Date: June 19, 2012

CONTRACT NUMBER: DE-IG0000017

WORK ORDER NUMBER: 2011-06

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INDEPENDENT ACCOUNTANT'S REPORT

To the Inspector General,
Department of Energy:

We have examined the County of Los Angeles' (County) compliance with Federal 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 28, 2009 through June 30, 2011. The County is responsible for operating the EECBG Program 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 regulations, and 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. Our examination does not provide a legal determination on the County'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, the County complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 28, 2009 through June 30, 2011. Our report includes advisory comments that represent control deficiencies that came to our attention that were not significant enough to adversely affect the County's ability to record, process, summarize, and report data reliably and are offered to County management as an opportunity for improvement.



Lopez and Company, LLP
Chino Hills, California
June 19, 2012

Section I Description of the County of Los Angeles Energy Efficiency and Conservation Block Grant Program

The Office of Sustainability (COS) was created within the County of Los Angeles (County) Internal Services Department (ISD) in October 2009. One of its main functions is to serve as a central hub to coordinate energy efficiency, conservation, and sustainability programs within the County.

Under the Energy Efficiency and Conservation Block Grant (EECBG) Program, the County offers assistance 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 Program funding. Of this amount, \$2.7 billion was awarded through formula grants and \$454 million was allocated through competitive grants.

The County received a \$15.4 million formula grant award, which was to be expended over a 3-year period from September 28, 2009 through September 27, 2012. The County has four activities under the grant, including a Community Scale Retrofit Program, Municipal Green Building Retrofit Program, Green Building Ordinance, and Regional Climate Action Planning.

The County also received a \$30 million competitive grant award, which was to be expended over a 3-year period from June 3, 2010 through June 2, 2013. The Better Buildings Program (Innovative Pilots for Retrofit) is the County's single activity for the competitive grant award.

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 County'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 Comments

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

Advisory comments presented represent matters that came to our attention during the course of the review, and are offered to the County'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

Advisory Comments

Fixed Assets

IV.1 Fixed Asset Ledger Lacks Required Information

Financial Management and Reporting

IV.2 Contractor Hours Not Properly Reported

Section IV Schedule of Findings

FIXED ASSETS

IV.1 Fixed Asset Ledger Lacks Required Information (Advisory Comment)

Condition

During our review of fixed assets purchased, we found that the County's Financial Reporting System did not record the grant funding source for each fixed asset or the corresponding percentage of Federal participation for ISD. The grant agreement and Federal regulations (10 CFR 600.232) require that equipment records be maintained accurately, including information disclosing the percentage of Federal participation in the cost of equipment purchased.

Our examination found that the ISD had spent \$1,013,000 to consolidate computer operations from 119 servers to 10 servers. The County's EECBG formula grant funded \$800,000 or 80% of the cost. The server consolidation effort was part of the County's EECBG Energy Efficiency retrofit activity approved by the Department to reduce energy costs by adding modern, energy efficient computers. The fixed asset ledger records did not contain required information about the grant funding source or percentage of Federal participation.

Cause

Management was not aware of the Federal requirement to document in its records the asset funding source or the percentage of Federal participation in the cost of equipment. Additionally, the ISD's fiscal policy manual does not refer to Federal regulations requiring the inclusion of specific asset information.

Effect

The lack of cost detail in the fixed asset records may result in the failure of the County or the ISD to properly notify and receive approval from the Department for EECBG asset disposals. Fixed assets with a per unit fair market value in excess of \$5,000 at the time of disposal require the grantee to remit to the awarding agency an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

Recommendation

- 1.1 We recommend that the ISD revise its policies and procedures to ensure that fixed asset records contain all Department-required data fields, such as Federal grant funding source and level of cost share for asset purchases.

Section IV Schedule of Findings (continued)

Management Response

Management agreed with the finding and recommendation. In October 2011, ISD corrected its fixed asset records to reflect the required data fields in accordance with its grant agreement and Federal regulations. Currently, ISD is in the process of revising its internal procedures to ensure that all required data fields are included in fixed asset records.

We consider the County's management response to be adequate.

Section IV Schedule of Findings (continued)

FINANCIAL MANAGEMENT AND REPORTING

IV.2 Contractor Hours Not Properly Reported (Advisory Comment)

Condition

We noted during the course of our examination that total labor hours for a contractor included in the County's Recovery Act (1512) report for June 2011 were overstated. Total contract hours reported were 234 hours, while total actual hours per contractors' timesheets were 85 hours. In arriving at the total number hours reported, the grant administrator erroneously calculated the hours worked by the contractor. The administrator's calculation was not reviewed for accuracy and supporting documentation was not maintained.

Cause

The ISD had no formal policies and procedures for receiving, compiling, reviewing and reporting actual hours reported in contractors' timesheets. The ISD did not document its support for the number submitted to the State.

Effect

Incorrect reporting by the County/ISD of jobs created and retained may result in faulty data being utilized by the Department in its compilation of Recovery Act job statistics.

Recommendation

- 2.1 We recommend that the ISD establish and implement policies and procedures to ensure accurate compilation and submission of Recovery Act reporting and that appropriate supporting documentation is maintained.

Management Response

Management agreed with the finding and recommendations. In September 2011, ISD made corrections to reflect total actual hours worked. ISD has implemented written procedures to properly track labor hours charged to the grant.

We consider the County's management response to be adequate.

Section V Complete Management Response



TOM TINDALL
Director

County of Los Angeles
INTERNAL SERVICES DEPARTMENT
1100 North Eastern Avenue
Los Angeles, California 90063

"To enrich lives through effective and caring service"

Telephone: (323) 267-2101
FAX: (323) 264-7135

June 27, 2012

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

Dear Mr. Lopez:

**RESPONSE TO THE EXAMINATION REPORT ON COMPLIANCE OF
RECOVERY ACT ENERGY EFFICIENCY AND CONSERVATION BLOCK
GRANT PROGRAM**

Attached are our responses addressing the recommendations contained in your report.

We thank your audit staff for their professionalism and objectivity during the review. If you need any additional information, please contact me or your staff may contact Dave Yamashita at (323) 267-2136 or via email at dyamashita@isd.lacounty.gov.

Very truly yours,

A handwritten signature in cursive script that reads "Tom Tindall".

Tom Tindall
Director

TT:DY:rc
Enclosure

c: Howard Choy, General Manager

Section V Complete Management Response

INTERNAL SERVICES DEPARTMENT

RESPONSE TO THE EXAMINATION REPORT ON COMPLIANCE RECOVERY ACT ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM

Recommendation 1: Internal Services Department revise its policies and procedures to ensure that fixed asset records contain all Department-required data fields, such as Federal grant funding source and level of cost share for asset purchases.

ISD Response:

We concur.

In October 2011, the fixed asset records was corrected in the County's Financial Reporting System (eCAPS) to include the grant funding source and the corresponding percentage of Federal participation for each fixed asset purchased with EECBG grant funds.

ISD will revise its internal procedures to ensure that fixed asset records include the grant funding source and percentage of Federal participation. For future purchases of fixed assets, the Grant Program Manager will be responsible for ensuring compliance with this requirement and maintaining fixed asset records with the invoices and reimbursement packages.

Target Date: September 1, 2012

Recommendation 2: Internal Services Department establish and implement policies and procedures to ensure accurate compilation and submission of Recovery Act reporting and that appropriate supporting documentation is maintained.

ISD Response:

We concur.

Per instructions from the Department of Energy (DOE), the correction to the total actual hours worked was reflected in the DOE 1512 quarterly report ending September 2011, which resulted in a reduction of .28 in jobs created.

To ensure that the DOE 1512 is accurate prior to the submission to the DOE, ISD has implemented written procedures, which include a tracking system of the labor hours chargeable to the grant and a thorough review and approval by the Grant Program Manager.

Target Date: October 30, 2011

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 *KBH*
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to Office of Inspector General's (OIG) July 2012 Draft
Examination Report on "County of Los Angeles – 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 comments 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 made two recommendations for the County of Los Angeles to improve the administration of its EECBG Program. OIG did not find any material weaknesses or significant deficiencies in the County's administration of the EECBG program, but did provide advisory comments to support the County in implementing best practices. We concur with OIG's recommendations and are working with the County to ensure they implement plans that address these recommendations, as follows:

OIG Recommendation 1: Verify that the County revised its policies and procedures to ensure fixed asset records contain all Department-required data fields, such as Federal grant funding source and level of cost-share for asset purchases.

EERE Response: We agree with the Auditor's findings that the Los Angeles County should establish policies and procedures to appropriately address fixed asset records. The County is revising its policies and procedures accordingly. Through EERE's ongoing monitoring and communication efforts, EERE will ensure that the County of Los Angeles will take action to include documentation of cost share and Federal funding source with their fixed assets records. This recommendation is scheduled to be reevaluated during the next scheduled review on October 15, 2012. EERE will continue to provide oversight and will serve as a resource for the ongoing needs of the County.



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OIG Recommendation 2: Direct the County to establish and implement policies and procedures to ensure accurate compilation and submission of Recovery Act reporting, and that appropriate supporting documentation is maintained.

EERE Response: We agree with the Auditor's findings that the County should establish policies and procedures to ensure accurate compilation and submission of Recovery Act reporting, and that appropriate supporting documentation is maintained. Through EERE's ongoing monitoring and communication efforts, EERE will ensure the County properly implements a process to record and calculate contractor hours, and future calculations are consistent with guidance. This recommendation is scheduled to be reevaluated during the next scheduled review on October 15, 2012. EERE will continue to provide oversight and will serve as a resource for the ongoing needs of the County.

DOE thanks the OIG for its recommendations.

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