



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

Examination Report

The Department of Energy's
American Recovery and
Reinvestment Act Energy Efficiency
and Conservation Block Grant
Program – Efficiency Maine Trust



OAS-RA-13-04

November 2012



Department of Energy
Washington, DC 20585

November 8, 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: Examination Report on "The Department of
Energy's American Recovery and Reinvestment Act of 2009 Energy
Efficiency and Conservation Block Grant Program – Efficiency Maine
Trust"

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an examination of the Efficiency Maine Trust's (Trust) implementation of the American Recovery and Reinvestment Act of 2009 Energy Efficiency and Conservation Block Grant (EECBG) Program. The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Otis and Associates, PC, to express an opinion on the compliance with Federal and State laws, regulations and program guidelines applicable to the EECBG Program. The Trust is responsible for operating the State of Maine's energy efficiency and alternative energy programs, and for administering the State of Maine's EECBG funding.

The American Recovery and Reinvestment Act of 2009 (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 about \$3.2 billion to assist in implementing strategies to reduce fossil fuel emissions, decrease total energy use of local governments, improve energy efficiency and create jobs. The Trust received about \$9.6 million that was allocated as block grants to units of local government and competitive grants that support vital energy efficiency projects.

OBSERVATIONS AND CONCLUSIONS

Otis and Associates, PC, expressed the opinion that except for the weakness described in its report, the Trust complied in all material respects with the requirements and guidelines relative to the EECBG Program for the period November 13, 2009 through December 31, 2011. However, the examination found that the Trust lacked adequate records to support grant related expenditures by subgrantees. As a result, Otis and Associates, PC, questioned about \$560,000 in costs associated with the expenditures identified in the review.

The report makes recommendations to the Trust to improve its administration of its EECBG funds. In response to the report, officials stated the Trust plans to work with the Department of Energy (Department) to resolve the amounts questioned during the audit. Officials also indicated they will continue to support the municipalities' efforts to provide the documentation needed to complete the files. Otis and Associates, PC, considered the Trust's response to be adequate.

RECOMMENDATIONS

We recommend that the Program Director, Weatherization and Intergovernmental Programs, Office of Energy Efficiency and Renewable Energy:

1. Ensure that appropriate action is taken by the Trust to improve the administration of Recovery Act EECBG funds.

We also recommend that the Contracting Officer for the Trust's EECBG Grant:

2. Resolve identified questioned costs.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

Department officials concurred with the recommendations outlined in this memorandum. Department officials stated they are working with the Trust to verify that all paperwork from the sub-grantees identified is complete and made additional training and best practices available to the Trust. Further, officials stated they will work with the Trust to ensure the collection of all documentation necessary to verify expenditures questioned during the audit and will verify steps the Trust has taken to institute procedures to audit a sampling of subrecipient files for proper documentation related to both invoices and proof of payment.

The Trust officials stated they plan to work with the Department to resolve the questioned amounts and indicated they will continue to support the municipalities' efforts to provide the documentation needed to complete the files.

The comments provided by the Department and the Trust were responsive to the recommendations.

EXAMINATION-LEVEL ATTESTATION

Otis and Associates, PC, 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 Trust's policies and procedures and reviewing applicable EECBG Program documentation. The procedures also included an analysis of subgrantees' project costs.

The OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances in which Otis and Associates, PC, did not comply, in all material respects, with the attestation requirements. Otis and Associates, PC, is responsible for the attached report and the conclusions expressed in the report.

Attachment

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

Report on Examination Level Attestation Engagement
Of
Efficiency Maine Trust
American Recovery and Reinvestment Act of 2009
Energy Efficiency and Conservation Block Grant Program

Performed for the U.S. Department of Energy,
Office of Inspector General

Under

Contract Number: DE-IG0000018
Work Order Number: 2011-04

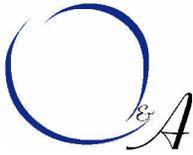
By

Otis and Associates, PC

November 2, 2012

Table of Contents

<u>Section</u>	<u>Page</u>
I. Independent Accountants' Report	1
II. Background	2
III. Classification of Findings	4
IV. Material Weaknesses	5
V. Grantee's Response (Full Text).....	7
VI. Department's Response	9



OTIS AND ASSOCIATES, P.C.

Certified Public Accountants & Management Consultants

3311 Toledo Terrace, Suite C-205, Hyattsville, MD 20782

INDEPENDENT ACCOUNTANTS' REPORT

To: Inspector General
U.S. Department of Energy

We have examined Efficiency Maine Trust's compliance with Federal and State laws and regulations, and Program guidelines applicable to the Energy Efficiency and Conservation Block Grant Program funded by the American Recovery and Reinvestment Act of 2009. Efficiency Maine Trust is responsible for operating the State of Maine's Energy Efficiency and Conservation Block Grant Program in compliance with these laws and 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 American Recovery and Reinvestment Act of 2009 requirements for the Energy Efficiency and Conservation Block Grant Program; Federal and State laws and regulations; 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.

Because of the 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, Efficiency Maine Trust complied, in all material respects, with the aforementioned requirements and guidelines relative to the Energy Efficiency and Conservation Block Grant Program funded by the American Recovery and Reinvestment Act of 2009 for the period November 13, 2009 through December 31, 2011.

Otis and Associates, PC
Takoma Park, MD

February 24, 2012

SECTION II: BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009, and authorized funding to various economic sectors and U.S. Federal Departments. The Energy Efficiency and Conservation Block Grant Program (Program) received about \$3.2 billion in Recovery Act funding, under the U.S. Department of Energy (Department), to assist in implementing strategies to:

- Reduce fossil fuel emissions in an environmentally sustainable manner that maximizes benefits to local and regional communities;
- Reduce total energy use of local governments;
- Improve energy efficiency in the transportation, building and other sectors; and,
- Create and retain jobs.

The Department's Office of Inspector General (OIG), contracted with Otis and Associates, PC, to perform an Examination Level Attestation engagement on the State of Maine's award through the Program.

The State of Maine established the Efficiency Maine Trust (Trust), in July 2010, by state statute, to take over responsibility for all non-transportation related energy efficiency programs. The Trust is an independent agency of the State that is responsible for guiding and administering energy efficiency and alternative energy programs, and for administering the State's Energy Efficiency and Conservation Block Grant funding.

The Trust received approximately \$9.6 million in Recovery Act funds from the Department. Over \$250,000 was set aside for administrative costs and the remaining funding was allocated among two different programs:

- ***Block Grants to Units of Local Government:*** This program was allocated approximately \$6.3 million to fund municipalities and counties in the State by providing financial support towards energy efficiency measures on public property.
- ***Large Project Impact Fund Competitive Grants:*** This program was allocated \$3 million to provide financial support for vital energy efficiency projects that will have a certain and immediate impact on jobs and energy savings in the State.

The two program areas have approximately 128 sub-grantees. The following table shows the number of projects, award amounts and expenditure amounts by program area as of December 31, 2011.

PROGRAM GRANT AWARD AND EXPENDITURES AS OF DECEMBER 31, 2011

Program Area	Number of Sub-grantees	Total Award	Total Expended as of December 31, 2011	% of Award Expended as of December 31, 2011
Block Grants to Units of Local Government	126	\$6,330,627	\$3,996,862	63%
Large Project Impact Fund Competitive Grants	2	\$3,000,000	\$1,800,000	60%
Administrative Costs		\$ 262,873	\$ 168,972	64%
Total Program Awards	128	\$9,593,500	\$5,965,834	62%

SUMMARY OF THE DEPARTMENT'S AWARD TO EFFICIENCY MAINE TRUST

Total Program Awards	\$ 9,330,627
Administrative Costs	\$ 262,873
Total	\$ 9,593,500

SECTION III: CLASSIFICATION OF FINDINGS

DEFINITIONS

The finding in this report is categorized as a Material Weakness, for the purposes of this examination:

Material Weakness

A material weakness is a significant deficiency, or a 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.

SECTION IV: MATERIAL WEAKNESSES

Finding 1: Lack of adequate records to support grant related expenditures by Sub-grantees – Material Weakness

Condition

During our review of grant related expenditures, we noted that expenditures claimed by 9 of the 56 sub-grantees in our sample were not supported with adequate documentation. Specifically, during our site visit with the Trust, we sampled expenditures totaling approximately \$3.3 million and found the recipient files lacked supporting documentation such as invoices, receipts, check stubs, or copies of checks issued to vendors for sub-grantees' expenses totaling about \$560,000. Although the Trust provided most of the expenditure information requested, the documentation, as of the close of our examination, was not adequate to support costs claimed for items such as equipment and contracted services totaling about \$560,000.

According to 10 CFR 600.220, grantees and sub-grantees must maintain records which adequately identify the source and application of funds. Specifically, these records must contain information pertaining to grant or sub-grant awards, authorizations and expenditures. Further, the regulation states that records must be supported with source documentation such as cancelled checks, paid bills and award documents.

Cause

The lack of adequate support occurred because the Trust had not enforced the provisions in the award agreement that required its sub-grantees to retain and provide documentation supporting expenditures. Specifically, the Trust's agreement stated that sub-grantees shall maintain records and provide copies of backup documentation at the request of the Trust or the Department.

Effect

As a result of the condition noted above, there is an increased risk that the expenditures may not comply with the terms and conditions of the grant and may be unallowable. Because the Trust could not provide documentation supporting about \$560,000 in expenditures, we consider these amounts unsupported and therefore, we question their allowability.

Recommendations

We recommend that the Trust:

- Enforce the requirements that sub-grantees must retain and provide documentation supporting their expenditures; and,
- Work with the Department to resolve the amounts questioned during our review totaling \$560,000 for unsupported claimed costs.

Management Comments and Auditors' Analysis:

Trust officials plan to work with the Department to resolve the amounts questioned during the audit. Officials also indicated they will continue to support the municipalities in their efforts to provide the documentation needed to complete the files.

We consider the Trust's response to be adequate.

SECTION V: GRANTEE'S RESPONSE (FULL TEXT)



August 17, 2012

Mr. Ndy Otis
Otis and Associates, P.C.
6875 New Hampshire Ave., Suite 200
Takoma Park, MD 20912

Re: Draft of the June 29, 2012, Independent Accountant's Report on Maine's Energy Efficiency and Conservation Block Grant (EECBG) Program

Dear Mr. Otis:

The Efficiency Maine Trust (Efficiency Maine) appreciates the opportunity to provide these Management Comments in response to the draft Report on Examination Level Attestation Engagement (the Draft Report), provided to Efficiency Maine on June 29, 2012, regarding Maine's Energy Efficiency and Conservation Block Grant Program.

In the Draft Report, the Independent Accountant's Report (dated February 24, 2012) finds that, with one exception, "Efficiency Maine Trust complied, in all material respects, with the ... requirements and guidelines relative to the Energy Efficiency and Conservation Block Grant Program funded by the American Recovery and Reinvestment Act of 2009 for the period November 13, 2009 through December 31, 2011." In these comments, Efficiency Maine identifies the main findings and recommendations of the report and provides a brief response.

Issue: The Draft Report identifies as the one compliance exception a finding that nine (9) municipalities in Maine, to whom Efficiency Maine granted EECBG Program funds, had not provided to Efficiency Maine "adequate records to support grant related expenditures." The Draft Report puts the sum of questioned costs from these nine towns at approximately \$560,000. During the audit and after presenting the Draft Report, the Independent Accountants also provided to Efficiency Maine a "Document Request Form" (on February 24, 2012) listing the type of documentation found to be lacking from each municipality, and a "Summary of Findings" (on August 17, 2012) listing outstanding insufficiencies that led to the specific questioned costs identified in the Draft Report. The records requested fall into two categories: (1) invoices from vendors who provided energy upgrades for the municipalities under the sub-grants, and (2) indicia of payment of the invoices, such as check stubs, copies of cancelled checks, bank statements, A/P warrants, general ledger reports, vendor detail reports, from the towns.

Response: *The Trust will work with the Department to review the Summary of Findings, identify any documentation that remains missing, and work with the nine municipalities to retrieve the necessary documentation. The Trust has continued working with these municipalities since the auditor's February field visit and, in several cases, has received additional documentation and/or written assurance that any required documents will be provided.*

Issue: The Draft Report further finds that Efficiency Maine’s sub-grant agreements with each of the towns contained appropriate provisions requiring that “subgrantees shall maintain records and provide copies of backup documentation at the request of the Trust or the Department” but observes that Efficiency Maine had not sufficiently enforced these contract provisions. The Draft Report recommends that Efficiency Maine “should enforce the requirements that subgrantees must retain and provide documentation supporting their expenditures” for those towns found to have insufficient documentation.

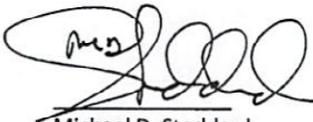
Response: *Efficiency Maine has no disagreement with the auditor’s recommendation and will continue to support the municipalities in their efforts to provide whatever further invoices or indicia of payment are needed to complete the files.*

Issue: The Draft Report recommends that Efficiency Maine should “work with the Department to resolve the amounts questioned during [the audit].”

Response: *Efficiency Maine Trust looks forward to resolving any and all outstanding issues related to Maine’s highly successful EECBG program by working closely with Department staff and to starting that process immediately. In the intervening period since the initial auditor field visit and the review of the Draft Report, Efficiency Maine has made significant progress in working with the sub-grantees to collect documentation of invoices and payments. For any further work needing to be done to link invoices with payments or to enhance the sufficiency of documentation, Efficiency Maine stands ready to work with the Department to secure the necessary documentation in the files.*

Efficiency Maine appreciates the objective analysis that the Independent Accountants have provided. Efficiency Maine recognizes that the process has helped reduce the risk of unallowed costs being made by sub-grantees both under this grant and under future grants, and looks forward to bringing the completion of the files to a speedy resolution.

Respectfully submitted,



Michael D. Stoddard
Executive Director

Enclosures

Cc: Sonya Cerne, US DOE



Department of Energy
Washington, DC 20585

November 1, 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 Draft Examination Report on
"The Department of Energy's American Recovery and Reinvestment
Act of 2009 Energy Efficiency and Conservation Block Grant Program
(EECBG) – Efficiency Maine Trust"

The Office of the Inspector General (OIG) makes two recommendations for how the State of Maine's Efficiency Maine Trust (Trust) could improve its management of its Recovery Act Block Grant, and how the Office of the Weatherization and Intergovernmental Program and EECBG Program should ensure these improvements are made. The Office of Energy Efficiency and Renewable Energy (EERE) provides guidance and support to all grantees pursuant to the 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 seeks to ensure compliance with Federal regulations through ongoing monitoring and communications with grantees.

The OIG's recommendations address compliance issues. We concur with the OIG's recommendations and have been working with the Trust to ensure they implement plans that address these recommendations.

OIG Recommendation 1: Program Director, Weatherization and Intergovernmental Programs, Office of Energy Efficiency and Renewable Energy ensure that appropriate action is taken by the Trust to improve the administration of Recovery Act EECBG funds.

EERE Response: The independent audit firm recommended that the Trust enforce the requirements that sub-grantees must retain and provide documentation supporting their expenditures. The Department is working with the Trust to verify that all paperwork from the nine subgrants identified is now complete. In addition, the Department has made additional training, best practices, and the possibility of facilitating peer exchange with other State level organizations available to the Trust, which is still setting up and standardizing practices and procedures. If it is determined to be necessary, and funds are available, a site visit will be made to review documentation at the time of grant close-out on May 12, 2013.



Printed with soy ink on recycled paper

OIG Recommendation 2: The Contracting Officer for the Trust's EECBG Grant resolve identified questioned costs.

EERE Response: The independent audit firm recommended that Efficiency Maine Trust work with the Department to resolve the \$560,000 for unsupported claimed costs identified during the review. EERE will work with the Trust to ensure the collection of all documentation necessary to verify expenditures questioned during the audit. EERE will further verify steps the Trust has taken to institute procedures to audit a sampling of sub-recipients files for proper documentation related to both invoices and proof of payment. Finally, EERE will work with the trust to ensure they comply with federal rules and guidance on documentation. The EERE Contracting Officer will review documentation, and will disallow any costs not sufficiently documented. EERE will verify all the implementation of any financial controls during its monitoring visits to Efficiency Maine Trust.

The Program will plan a monitoring visit during March 2013.

EERE thanks the OIG for its recommendations and will continue to implement all corrective actions.

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.