



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

Audit Report

The Department of Energy's Energy Efficiency and Conservation Block Grant Program Funded under the American Recovery and Reinvestment Act for the State of Pennsylvania



OAS-RA-L-11-11

September 2011



Department of Energy
Washington, DC 20585

September 23, 2011

MEMORANDUM FOR PROGRAM MANAGER, OFFICE OF WEATHERIZATION AND
INTERGOVERNMENTAL PROGRAM
MANAGER, GOLDEN FIELD OFFICE

FROM:

Joanne Hill
Joanne Hill, Director
Energy Audits Division
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "The Department of Energy's
Energy Efficiency and Conservation Block Grant Program Funded
under the American Recovery and Reinvestment Act for the State of
Pennsylvania"
Audit Report Number: OAS-RA-L-11-11

BACKGROUND

The Department of Energy's (Department) Energy Efficiency and Conservation Block Grant Program (Program), funded for the first time by the American Recovery and Reinvestment Act of 2009 (Recovery Act), was intended to help U.S. cities, counties and states develop, promote, implement and manage energy efficiency and conservation projects. The Program received \$3.2 billion in funding under the Recovery Act for competitive and formula grants. Subsequently, the Department awarded a \$23.6 million formula grant to the State of Pennsylvania's (State) Department of Environmental Protection (DEP). Of the \$23.6 million awarded, the State retained about \$1.2 million in funding for administrative costs and awarded \$22.4 million to 69 local governments and 33 non-profit entities selected through a merit review process. In total, Pennsylvania plans to complete 102 energy conservation projects.

The Office of Energy and Technology Deployment (OETD), a division of the State's DEP, administers the grant through its Central Office and provides Program oversight to six Regional Offices around the State. A supervisor in each Regional Office oversees multiple project advisors – individuals assigned to provide day-to-day management of local projects. As of July 2011, OETD officials reported that 85 projects had been completed.

Because of the risks inherent in establishing a large new program of national significance, we initiated this audit to determine whether OETD had managed its Block Grant award efficiently and effectively, and the goals of the Recovery Act will be achieved.

CONCLUSIONS AND OBSERVATIONS

Pennsylvania had developed and implemented a monitoring system designed to provide reasonable assurance that Block Grant projects would improve energy efficiency and be completed timely,

and funding would be accounted for and spent properly. For the specific projects we tested, the controls appeared to be generally effective. We did not identify any material issues with project monitoring and execution.

Specifically, the State had required its sub-recipients to complete projects within 18 months, allowing time for reallocation and project revision, if appropriate; developed a management strategy that included use of a specialized project tracking database, weekly status meetings and periodic project inspections; and, implemented a staged disbursements system to facilitate project progress and ensure Recovery Act funds were used only for approved expenditures.

In addition, we found the State had awarded grants for projects consistent with Program objectives in improving energy efficiency and reducing energy use. For the 26 projects we reviewed, many sub-recipient projects included window replacement, insulation installation, heating system improvements and/or lighting upgrades – all activities known to improve energy efficiency. Further, our review showed that projects periodically reported energy consumption data, as required, which was reviewed by OETD management.

Project Completion

As required by grant agreements issued by the State, we found that sub-recipients had either completed projects or were on track to complete projects within 18 months of the award. As of July 2011, OETD reported that 85 of its 102 projects had been completed within the 18-month period and about \$18.5 million (or nearly 80 percent) of the \$23.6 million State grant had been expended. According to OETD management, and consistent with the results of our project reviews, most projects were performed and completed during the period from late November 2009 through May 2011. The remaining 17 projects are on track to be completed prior to September 2012, the end date of the OETD grant period.

We also found that sub-recipients reported project energy consumption to ENERGY STAR's Portfolio Manager Program, an interactive energy management tool, as required. This interactive energy management tool allows users to benchmark facilities relative to their past performance, monitor energy costs and identify opportunities for savings. Sub-recipients were encouraged to update their project data regularly. During our audit, we found evidence in project inspection reports that State officials periodically checked the system to ensure submissions were up-to-date. Further, sub-recipients were required to submit a follow-up report within 13 months of project completion describing the project's energy conserved in comparison to a 1-year baseline of energy consumed prior to the installation of Recovery Act funded energy conservation measures.

Grant Management

OETD employed several generally effective methods to manage Program grants, including implementing a project tracking database, performing on-site inspections and conducting weekly meetings with regional staff. The database, DEP ARRA Reporting and Tracking System (DARTS), was specifically developed by DEP to track Recovery Act funded programs in the State and serve as a central repository for key project documents. During our review, we verified that controls were in place to ensure documentation was retained in the database as required.

Specifically, we examined documentation such as statements of expenditures and affidavits maintained in project files at the Regional Office and sub-recipient levels and compared them to information contained in DARTS.

Our review of selected projects showed that OETD was monitoring projects as planned. As part of their monitoring activities, OETD project advisors were required to perform on-site inspections for each assigned project and prepare a written report documenting the results of the review. We reviewed inspection reports completed for 26 projects in our sample and noted that the reports included a summary of major project milestones such as project design, subcontractor award, equipment acquisition and commissioning. In addition, project advisors frequently added an estimate of percentage of project completion, provided comments on project status and proposed adjustments based on observations made during the site visit. We examined subsequent reports and found that resolutions of proposed adjustments were documented. Further, although the frequency of inspections was left to the discretion of project advisors, Central Office personnel reported that they encouraged a minimum of three on-site inspections: prior to the start of the project; during work; and, following project completion.

In addition to direct monitoring, we noted that early in the Program OETD management took additional action to increase the likelihood of project success. Specifically, OETD held weekly meetings with Central Office and Regional Office supervisors and project advisors to discuss the status of each project. According to State officials, the project status identified in DARTS and information obtained during inspections served as the basis for discussion. To mitigate the impact of any reported project delays, local officials told us senior management officials had provided added assistance.

Disbursements

Our review showed that OETD stage-gate disbursement and expenditure documentation controls were generally effective in ensuring projects proceeded as planned and reimbursements were made for actual incurred costs. OETD implemented a staged disbursement process that required sub-recipients to meet specific requirements prior to distributing Program funds. We found sub-recipients were advanced 50 percent of their total award upon execution of the grant agreement and submission of any approved building permits, and they received subsequent disbursements only upon OETD receipt of expenditure reports identifying costs incurred.

During our review, we examined documentation related to disbursements for two terminated projects and 26 on-going projects. For the two terminated projects, we found that both sub-recipients had returned the initial disbursements plus interest earned on the funds, as required. For the 26 on-going projects, we did not identify questionable costs during our examination of the statements of expenditures and related receipts. However, our review of select payroll records revealed that in two instances, contractors had paid less than the wage required by the Department of Labor for Recovery Act funded projects. State officials told us that with the State's guidance, contractors will issue corrected payroll records to ensure workers have been paid the required minimum wage and fringe benefits.

Path Forward

Given the importance of the Recovery Act, we suggest that the State continue to closely monitor project performance and funds expended in order to meet Program goals and Recovery Act requirements. In addition, we suggest that Pennsylvania ensure contract workers are paid no less than minimum wage rates required.

No formal recommendations are being made in this report and a response is not required. We appreciate the cooperation of your staff during the conduct of our audit.

Attachment

cc: Acting Assistant Secretary, Office of Energy Efficiency and Renewable Energy, EE-1

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Office of Energy and Technology Deployment (OETD) had managed its Energy Efficiency and Conservation Block Grant Program (Program) award efficiently and effectively, and the goals of the American Recovery and Reinvestment Act of 2009 (Recovery Act) will be achieved.

SCOPE

The audit was performed from February 2011 to August 2011. The scope of the audit was limited to the State of Pennsylvania's (State) implementation of its Program. We conducted work at the OETD's Central Office in Harrisburg, Pennsylvania, and at their Regional Offices in Norristown, Meadville, Pittsburgh, Harrisburg, and Wilkes-Barre, Pennsylvania. In addition, we obtained Program information from the Department of Energy's (Department) Headquarters and Golden Field Office.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed Federal and Departmental regulations applicable to the Program;
- Reviewed State policies and procedures for project and Recovery Act fund management;
- Examined the State's Department of Environmental Protection ARRA Reporting and Tracking System for each project in our sample;
- Interviewed Central Office and Regional Office personnel;
- Reviewed grant records and physically visited 26 projects; and,
- Conducted desk reviews of two terminated projects.

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 conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer processed data to accomplish our audit objective.

The Department's Office of Energy Efficiency and Renewable Energy waived an exit conference. An exit briefing was held with State officials on September 15, 2011.

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 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 Felicia Jones 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://www.ig.energy.gov>

Your comments would be appreciated and can be provided on the Customer Response Form.