



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

# Audit Report

Follow-up on the Department of Energy's Implementation of the Advanced Batteries and Hybrid Components Program Funded under the American Recovery and Reinvestment Act



OAS-RA-L-12-05

July 2012



**Department of Energy**  
Washington, DC 20585

July 10, 2012

MEMORANDUM FOR THE DIRECTOR, NATIONAL ENERGY TECHNOLOGY  
LABORATORY

*Joanne Hill*

FROM: Joanne Hill, Director  
Central Audits Division  
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Follow-up on the Department of Energy's Implementation of the Advanced Batteries and Hybrid Components Program Funded under the American Recovery and Reinvestment Act"

BACKGROUND

Under the American Recovery and Reinvestment Act of 2009, the Department of Energy's Advanced Batteries and Hybrid Components Program (Advanced Batteries Program) received almost \$2 billion to support the construction of U.S. based battery and electric drive component manufacturing plants. As of June 2012, the Advanced Batteries Program had awarded 30 grants to for-profit manufacturers and had expended about \$1.2 billion.

In April 2010, we issued our first report on the Advanced Batteries Program, *Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act* (OAS-RA-L-10-04). In short, we concluded that the Department had made significant progress implementing the Advanced Batteries Program, including developing a comprehensive monitoring system plan to reduce the financial, technical and marketing risks associated with large-scale projects. Because of the importance of the Advanced Batteries Program to stimulating the economy, creating jobs and establishing a U.S. capability to manufacture advanced batteries, we initiated this follow-up audit to determine whether the Department had managed the Advanced Batteries Program efficiently and effectively. During the course of our review, we also evaluated circumstances related to an allegation received by the Office of Inspector General that an employee of one recipient had unduly influenced procurement decisions and violated conflict of interest provisions.

CONCLUSIONS AND OBSERVATIONS

Based on our test work, we were unable to substantiate the allegation related to a potential conflict of interest. Our review, however, identified opportunities for the Department to improve its administration of the Advanced Batteries Program. Specifically, the Department could:

- Better define regulations governing the retention of documentation supporting procurement decisions. Regulations currently require for-profit recipients to follow best

commercial practices, but do not define such practices. One recipient in our sample had purchased about \$24 million in equipment and services without adequately documenting purchasing decisions;

- Ensure recipients adequately safeguard equipment purchased with Federal funds. We were unable to locate equipment purchased by one recipient totaling about \$500,000; and,
- Obtain and review required audit reports to ensure the sufficiency of internal controls and compliance with laws and regulations. Of 28 program recipients, 8 had not submitted required reports.

As outlined in the remainder of our report, we believe that action to address these issues will enhance overall transparency and accountability.

### Procurement

The Department's financial assistance regulations applicable to purchases made by for-profit grant recipients required the use of best commercial practices. However, the regulations neither specified criteria defining "best commercial practices" nor described the sufficiency of procurement documentation that recipients were required to maintain supporting that best commercial practices were followed. We found that one recipient had not fully documented its implementation of best commercial practices, including justification for selection decisions and cost price analyses, for purchases totaling \$24 million. Specifically, for 17 of 39 purchases we reviewed, we found the recipient had not widely solicited bids and lacked sufficient documentation to support its solicitation and selection decisions.

Although not fully documented, Department management told us that recipients had either solicited bids and/or had valid reasons for not publically soliciting bids. For instance, officials commented that the recipient in question chose sub-contractors who were either familiar with ongoing projects or possessed unique knowledge of project specifications. While we acknowledge that valid reasons may have existed, we are concerned that the lack of documentation can potentially affect transparency and diminish oversight.

### Safeguarding Assets

While recipients were required to have property accountability systems in place, one of the three recipients we reviewed had not maintained records detailing information such as the location of equipment purchased with Recovery Act funds. In the absence of detailed inventory records, we attempted to locate property using information contained in invoices. However, despite the assistance of recipient officials familiar with the premises and knowledgeable about the purchases made, we were unable to locate 20 of the 37 equipment items sampled. The missing items were valued at approximately \$500,000. Detailed records of equipment purchased with Federal funds are important in the event of loss, damage or theft. Additionally, adequate documentation protects the Department's financial interest in equipment purchased with Federal funds, particularly in the event of recipient bankruptcy or default.

Department officials noted that our findings were inconsistent with the results of their own equipment inventory monitoring. Specifically, the Department stated that it had tested inventory at eight sites and reported locating all of the equipment sampled. While we did not validate the accuracy of the Department's reported results, they appear to indicate that the issues we identified may not be systemic.

### Audit Requirements

We also noted the Department had not obtained and reviewed all required audit reports. As of January 2012, the Department had not received Fiscal Year (FY) 2010 audit reports from 8 of the 28 for-profit recipients required to submit annual audits by June 2011. Federal regulations require for-profit financial assistance recipients to obtain an independent audit for each year they expend \$500,000 or more in Federal awards. Audits are designed to provide assurance that internal controls are adequate and recipients have complied with applicable laws and regulations and the terms and conditions of awards. Department officials informed us that they had followed up with recipients on audit reports not yet submitted.

A prior Office of Inspector General report, *Solar Technology Pathway Partnerships Cooperative Agreements* (OAS-M-11-02, March 2011), described the lack of guidance on reporting requirements related to for-profit recipients and recommended the Department revise its guidance. The Department recently issued guidance on audits of for-profit awardees, but the requirements had not yet been fully implemented at the time of our review.

### Path Forward

Given the size of the program, we emphasize the importance of maintaining adequate documentation to support all purchasing decisions and continuing to ensure assets purchased with Federal funds are safeguarded. As noted above, the Department indicated that recent actions had been taken to obtain required audit reports and clarify guidance related to those reports.

### SUGGESTED ACTIONS

To address the issues identified in this report and improve management of the Advanced Batteries Program, we suggest that the Director for the Project Management Center at the National Energy Technology Laboratory:

1. Clarify documentation expectations for the use of best commercial procurement practices by recipients;
2. Ensure that missing equipment is located and tracked for the one recipient identified in our review; and,
3. Obtain all FY 2010 internal control and compliance audits in accordance with Federal regulations.

We appreciate the cooperation of the Department and its on-going efforts to ensure the Advanced Batteries Program is managed efficiently and effectively. Because no recommendations are being made in this report, a formal response is not required.

Attachments

cc: Deputy Secretary  
Associate Deputy Secretary  
Acting Under Secretary of Energy  
Assistant Secretary for Energy Efficiency and Renewable Energy  
Acting Chief Financial Officer  
Chief of Staff

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine whether the Department of Energy (Department) has managed the Advanced Batteries and Hybrid Components Program (Advanced Batteries Program) efficiently and effectively.

### **SCOPE**

The audit was performed between April 2011 and May 2012, at Department Headquarters in Washington, DC, and the National Energy Technology Laboratory in Pittsburgh, PA, and Morgantown, WV. In addition, we visited three financial assistance recipients, including A123 Systems, Inc. in Waltham, MA, Livonia, MI, and Romulus, MI; Delphi Automotive Systems, LLC, in Kokomo, IN; and, Johnson Controls, Inc. in Milwaukee, WI, and Holland, MI.

### **METHODOLOGY**

To accomplish the audit objective we:

- Obtained and reviewed relevant laws and regulations related to the implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) and grants administration;
- Reviewed individual grant award files from the Department's Strategic Integrated Procurement Enterprise System;
- Interviewed project officers and contract specialists regarding grants made under the Department's Advanced Batteries Program;
- Reviewed subcontractor data for inclusion of Davis-Bacon Act wage requirements as prescribed by the Recovery Act;
- Interviewed officials of three financial assistance recipients, and analyzed financial transactions and implementation of financial assistance requirements as prescribed by the terms and conditions of the awards; and,
- Determined whether the Department obtained required annual audits of internal controls and compliance with laws and regulations.

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 objective. We believe the evidence obtained provides a reasonable basis for

our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRA Modernization Act of 2010* and found the Department had not established performance measures related to the Advanced Batteries Program. 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 conducted an assessment of computer-processed data relevant to our audit objective and found it to be reliable.

Management waived an exit conference.

## **PRIOR REPORTS**

- Audit Report on [\*Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act\*](#) (OAS-RA-L-10-04, April 2010). The audit found that the Department of Energy (Department) had made significant progress in implementing the Advanced Batteries and Hybrid Components Program. During the audit, nothing was noted to indicate that the Department had not followed its predetermined award process and selection criteria. In addition, a comprehensive monitoring plan was implemented, and if successful, should reduce the financial, technical and marketing risks associated with the projects.
- Audit Report on [\*Solar Technology Pathway Partnerships Cooperative Agreements\*](#) (OAS-M-11-02, March 2011). The audit noted that the Department had developed and implemented controls designed to ensure solar projects were awarded in compliance with applicable regulations and that the projects were making adequate technical progress. However, testing revealed the Department's financial monitoring of the \$120 million expended for these projects was not always adequate. Specifically, the Department had neither ensured that recipients complied with audit requirements nor had it requested audits of costs incurred by recipients.



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