



U.S. Department of Energy
Office of Inspector General
Office of Investigations

Investigative Report

Management Alert on the State Energy Efficient Appliance Rebate Program



INV-RA-11-01

December 2010




Department of Energy

Washington, DC 20585

December 3, 2010

MEMORANDUM FOR THE ACTING UNDER SECRETARY OF ENERGY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Management Alert on the State Energy Efficient
Appliance Rebate Program

IMMEDIATE CONCERNS

The purpose of this management alert is to convey concerns regarding state-level implementation of the Department of Energy's State Energy Efficient Appliance Rebate Program (Rebate Program), which promotes the purchase of ENERGY STAR[®] qualified appliances.

The Office of Inspector General (OIG) recently received an allegation concerning potential abuse of the program in the State of Georgia. Our investigation confirmed that an individual purchased multiple hot water heaters and returned them to the store, yet applied for and inappropriately received rebates under the Rebate Program. While we cannot confirm whether or not this was an isolated circumstance, our fundamental concern is that the Georgia program may currently lack sufficient safeguards to deter certain types of fraudulent or non-compliant rebate submissions. If similar process vulnerabilities exist in other jurisdictions, the Rebate Program could be exposed to abusive practices on a broad scale. For this reason, we are bringing this matter to your attention for expedited consideration.

BACKGROUND

In July 2009, after enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Department issued a Financial Assistance Funding Opportunity Announcement to U.S. states and territories. The purpose of this announcement was to award formula grants totaling \$300 million in Recovery Act funds for the establishment and administration of the Rebate Program, which enables consumers to receive rebates to purchase new energy-efficient appliances when they replace used appliances. Over half of the participating states and territories have closed their rebate programs, as funds have been expended.

As part of its effort to ensure transparency and accountability of the Rebate Program, the Department developed a framework of information to be provided on customer rebate application forms. The Department suggested the collection of this information from rebate requestors.

The State of Georgia developed Rebate Program eligibility rules and established terms and conditions, which were reviewed and approved by the Department. The State's implementation of the project consisted of an online application that required rebate recipients to provide, at a minimum, the following information: 1) date of purchase; 2) purchase price; 3) retailer name; 4) retailer city; 5) retailer state; 6) first and last name of recipient; and 7) recipient address. The State also required rebate requestors to self-certify—by checking an online box—to the following:

I certify this appliance purchase replaces an existing appliance, which will be properly recycled. Refrigerators and freezers are required to be removed and recycled, and I acknowledge that I may be subject to a future audit.

Individuals were also required to accept the State's "Terms and Conditions" for participation which included, in part, being a State resident, purchasing a qualified ENERGY STAR[®] product and limiting rebate submissions to one rebate per product category per address. Upon entry of the required information, individuals were directed to a confirmation page, which had to be printed, signed and mailed—along with a copy of the purchase receipt—to the State rebate office.

OBSERVATIONS

Our investigation confirmed that, while consistent with the Department's program guidance, the State of Georgia's rebate process had vulnerabilities that may have allowed ineligible recipients to receive funds under the Rebate Program.

Information concerning alleged misuse first came to our attention when the operations manager of a national home improvement store called the Inspector General Hotline. The manager reported that an individual ordered two hot water heaters for pickup at a later time. One water heater was apparently for the customer, the other for a family member. The following day the customer returned to the store and obtained refunds for the water heaters. The manager advised that shortly thereafter the customer ordered two additional hot water heaters in the names of two other family members. These water heaters were also returned and refunds were issued. According to the manager, the customer explained that he had found a lower price for the water heaters at another home improvement store.

The manager expressed to the OIG—based on the fact that the customer purchased and returned four water heaters under four different names and addresses—that the purchase and return pattern was highly unusual leading to his concern that the individual was obtaining receipts in order to inappropriately receive appliance rebates.

The OIG contacted Georgia officials and determined that rebate claims had, in fact, been submitted under the names provided by the store manager. Other relevant details were also confirmed (e.g., dates of purchase, location of purchase, etc.). The State approved the claims and issued four rebate cards in the amount of \$199 each. State of Georgia officials cooperated fully with our investigation.

During an interview with the OIG, the customer acknowledged that he had purchased the hot water heaters in question. He further acknowledged that despite the fact that he returned the water heaters and obtained refunds from the store, appliance rebates were issued to him and his family members. He explained that he purchased the water heaters for rental properties and provided the paperwork to a family member who assisted in managing the properties for him. He further asserted that as a result of a miscommunication, the family member mistakenly submitted the appliance rebates not knowing he had returned the items. The family member was unavailable for an interview by the OIG. The customer informed the OIG that he planned to return the rebates to the State, acknowledging that he and his family were ineligible.

The OIG shared the information it had developed with the State, and also provided the customer with relevant contact information to facilitate the return of the inappropriately obtained rebate funds. The State has since verified that the bulk of the rebate funds had been returned. The customer informed the State that one of the rebate cards was never received.

We found that the State of Georgia implemented certain proof of purchase requirements in order for residents to receive rebate funds. It required a copy of a receipt but not information that is commonly required in many commercial rebate programs, such as the product serial number or the original Universal Product Code (UPC) from the product's packaging. Although submission of this information was not required by the Department, our analysis suggested that requiring the submission of a serial number or UPC label may deter would-be abusers of the system. We could not, however, conclude with certainty that such additional information or documentation would prevent ineligible submissions. Yet, in this case, a removed UPC label may have prevented a return of the hot water heaters to the store, as retailers often require original packing to process a customer return. At a minimum, the family member who submitted the rebate applications would have had to communicate more closely with the original purchaser to obtain the UPC and/or serial number, at which time the family member would have learned about the return of the units.

RECOMMENDATION

Whether or not the assertions of innocence by the customer in this case can ultimately be substantiated, it was clear that rebate funds were paid to ineligible recipients. Given the fact that the Rebate Program has only finite funding, such action prevented other eligible individuals or families from participating in the program.

As noted, this matter was brought to our attention by an alert and observant store manager who sensed a potential problem in the operation of this important program. We could not determine if this was an isolated incident, or whether it reflected a systemic weakness in the control structure of the Rebate Program. However, considering that over 50 states and territories have participated in the \$300 million Rebate Program, inadequate controls expose the program to potential abuse on a significant scale. In this regard, we recommend that the Department work with states and territories to identify and implement additional steps designed to deter fraudulent or ineligible rebate submissions for this program and any future similarly structured programs. We recognize that balancing costs and benefits is both important and challenging. The measures

should not unduly burden the program nor create obstacles that would discourage legitimate participation. Yet, the objective should be to ensure that rebate funds are distributed to deserving individuals and families who replace inefficient appliances with ENERGY STAR[®] qualified appliances.

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