



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Management Controls over the
Department of Energy's American
Recovery and Reinvestment Act –
Louisiana State Energy Program



OAS-RA-10-09

May 2010



Department of Energy
Washington, DC 20585

May 3, 2010

**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: Audit Report on "Management Controls over the
Department of Energy's American Recovery and Reinvestment Act – Louisiana
State Energy Program"

BACKGROUND

The Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy (EERE) provides grants to states, territories and the District of Columbia (states) to support their energy priorities through the State Energy Program (SEP). Federal funding is based on a grant formula that considers the population and energy consumption in each state, and amounted to \$25 million for Fiscal Year (FY) 2009. The American Recovery and Reinvestment Act of 2009 (Recovery Act) expanded the SEP by authorizing an additional \$3.1 billion to states using the existing grant formula. EERE made grant awards to states after reviewing plans that summarize the activities states will undertake to achieve SEP Recovery Act objectives, including preserving and creating jobs; saving energy; increasing renewable energy sources; and, reducing greenhouse gas emissions. EERE program guidance emphasizes that states are responsible for administering SEP within each state, and requires each state to implement internal controls over the use of Recovery Act funds.

The State of Louisiana received \$71.6 million in SEP Recovery Act funds; a 164-fold increase over its FY 2009 SEP grant of \$437,000. As part of the Office of Inspector General's strategy for reviewing the Department's implementation of the Recovery Act, we initiated this review to determine whether the Louisiana State Energy Office had internal controls in place to efficiently and effectively administer Recovery Act funds provided for its SEP program.

OBSERVATIONS AND CONCLUSIONS

Our review identified certain risks associated with Louisiana's strategy that could impact the State's ability to meet the goals of the SEP and the Recovery Act. Specifically, the State had not:

- Established controls to prevent double payments for Recovery Act energy conservation rebates to individuals who may have been approved or received payment under an existing State rebate program;

- Developed contingency plans to replace projects in the event that they do not receive timely National Environmental Policy Act (NEPA) approval to enable the expenditure of Recovery Act funds before the April 2012 performance deadline specified in the grant agreement; and,
- Fully documented and monitored, in the past, the status of internally managed SEP projects as required by both EERE and Louisiana policies and procedures.

Louisiana's ability to meet the SEP Recovery Act objectives in a transparent manner could be hindered unless it successfully addresses the above risks. The following paragraphs outline Louisiana's strategy for administering SEP Recovery Act funds and risks associated with its approach.

Louisiana's Strategy

Louisiana developed a strategy for SEP Recovery Act funding that focused on improving energy efficiency in state buildings, housing and small businesses; increasing Energy Star appliance rebates; and, expanding the use of alternative fuels and renewable energy. Due to a statewide hiring freeze, Louisiana outsourced management of the majority of its projects (\$63.3 million) to one general contractor. Louisiana plans to internally manage one project, Education and Outreach (\$2.6 million). The remaining funds are allocated to program specific management expenses, including the contractor's fee, a monitoring contract, and Louisiana's payroll expenses (\$5.7 million). Louisiana formally approved the general contractor in February 2010. State officials plan to initiate a separate consulting contract for monitoring, verifying and auditing expenditures, energy savings and other metrics as required by EERE for Recovery Act funding.

At the time of our fieldwork, Louisiana had not fully established funds controls over Recovery Act monies; therefore, we were unable to review all of the State's proposed controls over Recovery Act funds. However, we were able to identify several areas of risk based upon information provided to us by State officials during our fieldwork.

Energy Conservation Rebates

Louisiana had not established controls to prevent double payments involving the use of Recovery Act funds to pay energy conservation rebates to individuals who may have been already approved or received payment from an existing State rebate program. Prior to the Recovery Act, Louisiana operated its Home Energy Rebate Option (HERO) program that paid rebates to individuals for home energy conservation measures. As part of Louisiana's strategy for achieving the Recovery Act objectives, the State plans to transition management of this program to the recently selected general contractor. According to State officials, the general contractor will implement this project with its own database system, one that will not interface with Louisiana's current database system for HERO. Without recipient information from Louisiana's database, there is a risk of duplicating rebate payments already made by the State. Further, unless there is an interface between the State HERO and the general contractor's databases there is a risk that Recovery Act funds will be used to pay for energy conservation measures previously approved for payment with State funds. Louisiana acknowledged this risk, and had

begun to consider different options for addressing this risk, but had not, at the time of our report, finalized a course of action to mitigate it.

NEPA Approval

Louisiana had not established contingency plans to replace projects in the event that they do not receive timely NEPA approval, a problem that could prohibit the expenditure of Recovery Act funds prior to the April 2012 performance deadline specified in the grant agreement. NEPA requires EERE to assess the environmental impacts of major Federal projects before approving Louisiana's SEP Recovery Act projects. EERE issued categorical exclusions, allowed under NEPA, to exempt all except two of Louisiana's proposed projects from the full NEPA evaluation process, Alternative Transportation and Renewable Energy. However, Louisiana has budgeted \$20 million for projects that will require NEPA approval, including natural gas buses, filling stations and commercially available renewable energy projects. According to EERE officials, other states have experienced delays in obtaining NEPA approval for similar projects. State officials told us they have not developed a contingency plan to address the risks associated with NEPA delays. Contingency plans could include using Recovery Act funds to expand projects that have categorical exclusions. State officials acknowledged this risk inherent in the NEPA evaluation process. Although they had not identified a course of action to mitigate it, they agreed it would be prudent to do so.

Internally Managed Projects

Although required by EERE and the State's policies and procedures, Louisiana had not always fully documented performance accomplishments and funding transactions of internally managed SEP projects. EERE's SEP Operations Manual, for example, requires that states maintain project files to accurately track project status. As previously mentioned, Louisiana plans to internally manage the Education and Outreach project. Since Louisiana had only just begun to expend Recovery Act funds at the time of our review, we examined the State's past implementation of documentation and reporting requirements to assess its ability to meet these requirements as they relate to Recovery Act funds.

Our review of past projects showed that the State had not established project files showing the status of the projects nor performance accomplishments for the five internally managed projects that we selected for review. Similarly, our review of financial records showed that the State could not provide support for the amount of funds that it reported to EERE as having been transferred between projects. By not ensuring that information is available on project performance and financial transactions, Louisiana is at risk of not satisfying Recovery Act goals of transparency in reporting on how funds are spent and the outcomes of funded activities.

RECOMMENDATIONS

EERE has provided oversight of Louisiana's use of Recovery Act funds on several levels. For example, the National Energy Technology Laboratory provided a contracting officer and budgetary support while the Golden Field Office provided a project officer and support with NEPA issues. EERE also performed a monitoring visit of Louisiana's SEP that focused on

programmatic controls over Recovery Act funds in February 2010. The review, which did not include non-Recovery Act performance, did not disclose any issues.

As part of EERE on-going oversight and support of Louisiana's use of Recovery Act funds, we recommend that the Executive Director, Field Operations, EERE, ensure that the Louisiana State Energy Office:

1. Provides HERO project information to the general contractor to avoid duplicate payments;
2. Develops a contingency plan to replace projects that do not receive timely NEPA approval; and,
3. Follows existing documentation requirements for internally managed projects.

MANAGEMENT COMMENTS AND AUDITOR RESPONSE

Management concurred with each of the recommendations. EERE will continue to oversee the Louisiana Department of Natural Resources by conducting regular on-site visits, desk monitoring and frequent communication. Louisiana has taken action to (1) establish protocols and a database with the general contractor to ensure there will be no duplicate payments between the state's existing SEP and Recovery Act funds; and, (2) manage the implementation of the Education and Outreach activity by outside contractors by ensuring that it follows the same reporting mechanism as the general contractor. Louisiana is currently developing contingency plans to reallocate Recovery Act funds to program areas that are categorically excluded and performing successfully. Management's comments are included in their entirety in Attachment 2.

Management's comments are responsive to the recommendations.

Attachments

cc: Deputy Secretary
Under Secretary for Energy
Chief of Staff
Director, Office of Risk Management, CF-80
Team Leader, Office of Risk Management, CF-80
Audit Resolution Specialist, Office of Risk Management, CF-80
Audit Liaison, Energy Efficiency and Renewable Energy, EE-3A
Audit Liaison, Golden Field Office
Audit Liaison, National Energy Technology Laboratory

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the Louisiana State Energy Office had internal controls in place to efficiently and effectively administer the American Recovery and Reinvestment Act of 2009 (Recovery Act) funds provided for its State Energy Program (SEP) program.

SCOPE

The audit was performed between August 2009 and January 2010. We conducted work at the Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy (EERE), Washington, D.C.; Golden Field Office (Golden), Golden, Colorado; National Energy Technology Laboratory (NETL), Pittsburgh, Pennsylvania; and, the Louisiana State Offices, Baton Rouge, Louisiana.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed laws and regulations, State Energy Program Formula Grants Recovery Act Funding Opportunity announcement, and Office of Management and Budget policies and procedures relevant to the management of the Department's EERE Recovery Act funding;
- Reviewed grant award files, terms and conditions, and correspondence documents;
- Held discussions with Louisiana, Golden, and NETL officials;
- Reviewed Louisiana's SEP Recovery Act state plan and the methodology used for the assumptions in the state plan;
- Reviewed prior SEP grants, policies and procedures for managing SEP projects, requests for proposals; and,
- Performed transaction testing for SEP Recovery Act transactions and reconciled Fiscal Years 2008 and 2009 Petroleum Violation Escrow Accounts.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed the significant internal controls and found that measures specifically related to accounting for the Recovery Act SEP program had not been fully established. 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 upon computer processed data to accomplish our audit objective.

We briefed Louisiana officials on October 15, 2009, and Department officials at Golden and NETL on October 28, 2009. An exit conference was held with Department officials on April 28, 2010.



Department of Energy
Washington, DC 20585

April 15, 2010

MEMORANDUM FOR: George Collard
Assistant Inspector General
for Performance Audits

FROM: Kathleen B. Hogan (**508 Version No Signature**)
Deputy Assistant Secretary
for Energy Efficiency
Office of Technology Development
Energy Efficiency and Renewable Energy

SUBJECT: Response to the Office of Inspector General Draft Report on
"Management Controls over the Department of Energy's American
Recovery and Reinvestment Act - Louisiana State Energy Program"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's (IG) draft audit report "Management Controls over the Department of Energy's American Recovery and Reinvestment Act - Louisiana State Energy Program."

We concur with the recommendations as stated. EERE will continue to oversee that the actions described by the Louisiana Department of Natural Resources (DNR) are followed by conducting regular on-site visits, desk monitoring and frequent communication. The EERE Louisiana SEP Project Officer recently visited the State of Louisiana, and we will continue to work with DNR to ensure their ARRA SEP programs and projects are positioned for success.

Should you have any questions, please contact Mark Bailey at 202-586-9424.

Attachments

Response to Inspector General
Audit Report: "Management Controls over the Department of Energy's American Recovery and Reinvestment Act - Louisiana State Energy Program"

Recommendation 1

Establish controls to prevent double payments for Recovery Act energy conservation rebates to individuals who may have been approved or received payment under an existing State rebate program;

Response

Concur

Since the time of the IG's audit last year, the Louisiana Department of Natural Resources (DNR), the office responsible for management of the Department of Energy's State Energy Program contracted with a general contractor in February 2010 to administer the SEP programs. The DNR and the general contractor have established protocols and a database to ensure there will be no duplicate payments between the state's existing State Energy Program and the Recovery Act (RA) SEP funds. Compliance with protocols will result in shared project information between the existing program database and the new program database. These protocols are included in the executed contract with the general contractor.

Estimated Completion Date: Completed

Recommendation 2

Develop contingency plans to replace projects in the event that they do not receive timely National Environmental Policy Act (NEPA) approval to enable the expenditure of Recovery Act funds before the April 2012 performance deadline specified in the grant Agreement.

Response

Concur

DNR is currently developing contingency plans to address this matter. Should NEPA or other issues arise with any awarded projects, DNR's plan will be to reallocate the funds to program areas that are categorically excluded and performing successfully.

Estimated Completion Date: *May 31, 2010*

Recommendation 3

Fully document and monitor the status of internally managed SEP projects as required by both EERE and Louisiana policies and procedures.

The existing Education and Outreach activity included in the annual SEP grant is managed internally, however, implementation of the Education and Outreach activity funded with ARRA funds will be managed by outside contractors that will follow the same reporting mechanism as the general contractor. These activities will be managed in the same way as all outside contracts.

Response

Concur

Estimated Completion Date: Completed

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