



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

Examination Report

North Carolina State Energy Office –
Energy Efficiency and Conservation
Block Grant Program Funds
Provided by the American Recovery
and Reinvestment Act of 2009



OAS-RA-13-09

February 2013



Department of Energy
Washington, DC 20585

February 19, 2013

**MEMORANDUM FOR THE ASSISTANT SECRETARY FOR 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 Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Examination Report on "North Carolina State Energy Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an examination of the North Carolina State Energy Office's (Agency) implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Energy Efficiency and Conservation Block Grant (EECBG) Program. The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Lopez and Company, LLP, to express an opinion on the Agency's compliance with Federal laws, regulations and program guidelines applicable to the EECBG Program.

The 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 \$3.2 billion to develop, promote, implement and manage energy efficiency and conservation projects and programs designed to reduce fossil fuel emissions, reduce total energy use of the eligible entities, and improve energy efficiency in the transportation, building and other appropriate sectors. The Agency received a \$20.9 million competitive grant award that was to be expended over an initial 3-year period from September 21, 2009 through September 20, 2012. The Agency requested and received an extension of its grant to March 2013.

OBSERVATIONS AND CONCLUSIONS

Lopez and Company, LLP, expressed the opinion that the Agency complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 21, 2009 through December 31, 2011. The report includes an advisory comment that represents a control deficiency that was not significant enough to adversely affect the Agency's ability to record, process, summarize and report data reliably, and is offered to Agency management as an opportunity for improvement.

Specifically, the Agency's quarterly reports on jobs created and retained were incomplete. The Agency did not ensure all sub-grantees submitted job reporting data in a timely manner and did not make corrections to the reports as required. Further, the months included in the reports were inconsistent with the periods required to be reported under the Recovery Act. The report also points out that guidance on job reporting provided by the EECBG project officer was not consistent with Program policies and procedures according to EECBG Program officials.

The report makes recommendations to the Agency to improve the administration of its EECBG Program. The Agency provided comments that expressed agreement with the recommendations and provided actions taken that addressed the issues identified. While these comments are responsive to the recommendations, the Department of Energy (Department) needs to ensure the actions are adequate to address the findings.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy ensure:

1. Appropriate action was taken by the Agency to address the job reporting issues identified in the attached report; and,
2. EECBG Program project officers are well-versed in Recovery Act job reporting requirements before providing related guidance to grantees.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with our recommendations outlined in this memorandum. The Department stated the Agency had implemented a new process to ensure accurate reporting of job numbers. Further, the Department noted it continues to provide guidance and training to project officers to ensure they are knowledgeable in reporting requirements. The Department's comments are included in their entirety in Attachment 2.

The Department's comments are responsive to our recommendations.

EXAMINATION-LEVEL ATTESTATION

Lopez and Company, LLP, 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 Agency's policies and procedures and reviewing applicable Program documentation. The procedures also included an analysis of activity progress, reimbursement drawdown requests, and compliance with required reporting. Finally, an analysis of associated expenditure data was conducted to test the allowability of payments.

The OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances in which Lopez and Company, LLP, did not

comply, in all material respects, with the attestation requirements. Lopez and Company, LLP, is responsible for the attached report dated October 9, 2012, and the conclusions expressed in the report.

Attachments

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



EXAMINATION REPORT ON COMPLIANCE

OF

Recovery Act Energy Efficiency and Conservation Block Grant Program

State of North Carolina – State Energy Office

PERFORMED FOR

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Prepared by

Lopez and Company, LLP

Report Date: October 9, 2012

CONTRACT NUMBER: DE-IG0000017

WORK ORDER NUMBER: 2011-08

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INDEPENDENT ACCOUNTANT'S REPORT

To the Inspector General,
Department of Energy:

We have examined the North Carolina State Energy Office's (Agency) compliance with Federal and State laws, regulations, and program guidelines applicable to the American Recovery and Reinvestment Act of 2009 (Recovery Act) Energy Efficiency and Conservation Block Grant (EECBG) Program for the period of September 21, 2009 through December 31, 2011. The Agency is responsible for administering the EECBG Program for the State of North Carolina, in compliance with these laws, 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 EECBG Program Federal and State laws, regulations, and program guidelines; and performing other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Agency's compliance with specified requirements.

Because of 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, the Agency complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 21, 2009 through December 31, 2011. Our report includes an advisory comment on a matter that we do not consider a significant deficiency in internal controls.

Lopez and Company, LLP

Lopez and Company, LLP
Chino Hills, California
October 9, 2012

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Section I Description of the North Carolina State Energy Office Energy Efficiency and Conservation Block Grants Program

The State Energy Office (Agency) is one of 11 divisions within the North Carolina Department of Commerce. The Agency is dedicated to ensuring a sustainable energy future for the citizens of North Carolina. The Agency works to increase energy efficiency throughout the state, and promote and increase the use of renewable energy and alternative fuels, along with serving as the principal source of information for these energy areas.

Under the Energy Efficiency and Conservation Block Grant (EECBG) Program, grantees receive assistance in developing, promoting, implementing, and managing energy efficiency and conservation projects and programs. These projects and programs are designed to reduce fossil fuel emissions, reduce total energy use of the eligible entities, and improve energy efficiency in the transportation, building, and other appropriate sectors. As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the U.S. Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy received \$3.2 billion in EECBG Program funding. Of this amount, \$2.7 billion was awarded through formula grants and \$454 million was allocated through competitive grants.

The Agency received a \$20.9 million competitive EECBG grant award, which was to be expended over a 3-year period from September 21, 2009 through September 20, 2012. It opted to allocate these funds into four program categories: energy efficiency retrofits, technical consulting to local governments, energy conservation in the transportation sector, and reduction of greenhouse gases. The Agency requested and received an extension of its grant to March 2013.

Section II Classification of Findings

Material Weakness

For purposes of this engagement, a material weakness is a significant deficiency or 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. We had no findings classified as material weaknesses.

Significant Deficiency

For purposes of this engagement, a significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected. We had no findings classified as significant deficiencies.

Advisory Comment

For purposes of this engagement, an advisory comment represents a control deficiency that is not significant enough to adversely affect the Agency's ability to record, process, summarize, and report data reliably.

Advisory comments represent matters that come to our attention during the course of the review, and are offered to the Agency's management as an opportunity for improvement. Advisory comments, if any, are provided along with recommendations and discussion of the significance of the comments.

Section III Summary of Findings

Area/Finding

Advisory Comment

Financial Management and Reporting

IV.1 Jobs Created and Retained Data Included In Recovery Act Reports Were Not Complete

Section IV Schedule of Findings

FINANCIAL MANAGEMENT AND REPORTING

IV.1 Jobs Created and Retained Data Included In Recovery Act Reports Were Not Complete (Advisory Comment)

Condition

The Agency's quarterly reports on jobs created and retained were incomplete because sub-recipients did not timely provide jobs information to the Agency and/or did not report jobs on the proper calendar quarter. Based on a review of 20 sub-recipient quarterly jobs reports reviewed, we found:

- Five reports were submitted after the due date to the Agency and therefore, the jobs data were not included in the Agency's report. The Agency did not make corrections to quarterly reports as required by the Recovery Act. Agency officials stated that they only made corrections to its quarterly reports if instructed by the Department's project officer; otherwise, they would include the information in the next quarter.
- The months included for 16 reports were inconsistent with the periods required to be reported under the Recovery Act. The Recovery Act required recipients to report jobs each year for the quarters ending March, June, September and December. However, the Agency and its sub-recipients reported data for different quarterly periods. For example, for the calendar quarter ending September, the reports included jobs data from June through August instead of July through September.

EECBG Program Notice 10-07C and Office of Management and Budget (OMB) Memorandum M-10-08, allow grantees to adjust job reports, but only for the most recent quarter. The OMB Memorandum further states that guidance related to revising jobs data from previous quarters would be provided at a later date.

Cause

The Agency indicated that sub-recipients often had difficulty obtaining the required jobs data from contractors on a timely basis. Further, the Agency did not have a formal process to record and track timely submissions of jobs data received from sub-recipients and lacked sufficient staffing resources to perform the necessary tracking and follow-up in a timely manner. Additionally, the Agency determined that it would delay sub-recipient jobs reporting by one month to allow sub-recipients time to accumulate and transmit accurate data for the required quarterly periods. Although the Agency did not get formal approval from the Department's project officer, it distributed a letter to its sub-recipients instructing them to use the amended methodology. As a result of our inquiry on this matter, the Agency contacted the project officer

Section IV Schedule of Findings (Cont.)

and received a written confirmation that this reporting method was acceptable. However, based on our discussions with Department EECBG officials, the approval was not consistent with Program policies and the recipient should have reported jobs in accordance with Recovery Act requirements.

Effect

Because of incomplete sub-recipient jobs information and improperly reporting the calendar quarters, the Agency presented data that was not accurate for the required reporting periods.

Recommendation

We recommend the Agency:

- 1.1 Develop and implement policies and procedures to ensure that jobs data is received from sub-grantees timely and the data is properly included in the Agency's reports;
- 1.2 Revise its procedures to require sub-recipients to report jobs information on the proper calendar quarter to ensure compliance with Recovery Act reporting requirements;
- 1.3 Ensure jobs reporting data for prior quarters are recalculated to reflect complete information from sub-recipients and the appropriate calendar quarters; and,
- 1.4 Maintain documentation reflecting these calculations for future adjustments to the prior quarters pending guidance from OMB.

Management Response

Management agreed with the finding and recommendations. Based on its response, the Agency implemented a new policy to ensure all jobs reporting data was entered correctly, including requiring sub-grantees to report jobs on the proper calendar quarter. In addition, the Agency will maintain documentation of recalculations for future adjustments.

Section V Complete Management Response



**North Carolina Department of Commerce
Energy Division**

Beverly Eaves Perdue, Governor
Jonathan S. Williams, Assistant Secretary, Energy

J. Keith Crisco, Secretary
Ward Lenz, N.C. Energy Office Director

North Carolina State Energy Office Management Comment Letter
October 23, 2012

Lopez and Company, LLP
14728 Pipeline Avenue
Suite E
Chino Hills, California 91709

Dear Lopez and Company,

We have received the audit of the Energy Efficiency and Conservation Block Grant Program performed for the U.S. Department of Energy, Office of the Inspector General. The Summary of Findings and the Schedule of Findings were carefully reviewed by the North Carolina State Energy Office (SEO). You will find our response to the specific finding attached.

The North Carolina Department of Commerce places great value on compliance to all federal and state rules and regulations. Therefore, our management team reviewed the audit report with open minds and in a spirit of collaboration between the State and the U.S. Department of Energy. Notwithstanding any differences of opinion, we have declined to take exception to specific finding, conclusions or recommendations in the report. We have focused instead on how your recommendations can help us complete the Energy Efficiency and Conservation Block Grant Program successfully and in compliance.

We believe that our reply demonstrates a high level of action and accountability. We also believe that the ultimate value of an audit is reflected in the audit team's objective review of the SEO's operations and in the future improvement of business practices pursuant to the final report. The staff at Lopez and Company, LLP has done a very thorough job of reviewing the State Energy Office with objectivity, professionalism and expertise.

Thank you for the opportunity to work with your team on improving our compliance with the rules and regulations for the Energy Efficiency and Conservation Block Grant Program.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ward Lenz".

Ward Lenz

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Section V Complete Management Response (Cont.)

North Carolina State Energy Office
Management Comment Letter

Summary of Findings

Financial Management and Reporting (Advisory Comment)

IV.1 Jobs Created and Retained Data Included in Recovery Act Reports Were Not Complete

Recommendation

1.1 Develop and implement policies and procedures to ensure that jobs data is received from sub-grantees timely and the data is properly included in the Agency's reports

Response:

During the auditor's exit meeting with the NC State Energy Office Management Team on February 10, 2012, this finding was discussed. However, over ninety percent of the sub-awards had completed their projects in December 2011. For the remaining ten percent of sub-awards, the SEO implemented a new policy to ensure that all jobs data was recorded properly. All sub-grantees were informed about the policy change to require sub-recipients to report jobs on the proper calendar quarter by email notification.

Recommendation

1.2 Revise its procedures to require sub-recipients to report jobs information on the proper calendar quarter to ensure compliance with Recovery Act reporting requirements

Response:

As stated in the response to Recommendation 1.1, the SEO revised its procedures to require sub-grantees to report jobs on the proper calendar quarter.

Recommendation

1.3 Ensure jobs reporting data for prior quarters are recalculated to reflect complete information from sub-recipients and the appropriate calendar quarters

Response:

As stated in the response to Recommendation 1.1, the majority of the sub-awards closed in December 2011. The State Energy Office has made and will continue to make every effort to recalculate the jobs data for those sub-awards to reflect the appropriate calendar quarter.

Recommendation

1.4 Maintain documentation reflecting these calculations for future adjustments to the prior quarters pending guidance from OMB

Response:

The State Energy Office Business Team Section will maintain documentation for any recalculations for future adjustments.

DEPARTMENT COMMENTS



Department of Energy
Washington, DC 20585

January 28, 2013

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 Examination Report on
"North Carolina State Energy Office – Energy Efficiency and
Conservation Block Grant Program Funds Provided by the American
Recovery and Reinvestment Act of 2009"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) December 2012 Examination Report on the North Carolina State Energy Office Energy Efficiency and Conservation Block Grant (EECBG) Program. EERE provides guidance and support to all grantees pursuant to 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 made two recommendations for EERE's oversight of the North Carolina State Energy Office (SEO). EERE concurs with the OIG's recommendations and has been working with the North Carolina SEO to ensure that all corrective actions are implemented. The following responses by EERE address the OIG findings as outlined in the draft examination report on the North Carolina State Energy Office;

The OIG recommends that the Assistant Secretary for Energy Efficiency and Renewable Energy ensure:

OIG Recommendation 1.1: Appropriate action is taken by the Agency to address the job reporting issues identified in the attached report:

EERE Response: The North Carolina SEO has implemented a new process to ensure that sub-recipients accurately report jobs each quarter. The Department of Energy's EECBG program has made resources available, including best practice guidance, to assist



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the Agency in reporting this information. The North Carolina SEO's business team agreed to maintain documentation reflecting job reporting calculations for possible future adjustments to prior quarters.

OIG Recommendation 2: EECBG Program project officers are well-versed in Recovery Act job reporting requirements before providing related guidance to grantees.

EERE Response: The Department of Energy's EECBG program provided resources to EECBG Project Officers, including best practice guidance and extensive training relating to Recovery Act job reporting requirements. DOE's Office of General Council provides subject matter expertise on Davis Bacon Act compliance to EECBG Project Officers on specific issues and questions. Finally, in anticipation of grant close out, EECBG will provide appropriate guidance to recipients clarifying reporting rules, including accurate reporting of jobs information.

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