



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

Audit Report

The Department of Energy's
American Recovery and
Reinvestment Act Energy Efficiency
and Conservation Block Grant
Program— District of Columbia



OAS-RA-14-02


November 2013



Department of Energy
Washington, DC 20585

November 25, 2013

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – District of Columbia"

BACKGROUND

The Department of Energy's Energy Efficiency and Conservation Block Grant (EECBG) Program received about \$3.2 billion under the *American Recovery and Reinvestment Act of 2009* to help state and local entities develop, implement and manage energy efficiency and conservation projects. Of the funding provided, more than \$2.7 billion was distributed to over 2,000 entities using a population-driven formula. In December 2009, the Department allocated about \$9.6 million to the District of Columbia government through the District Department of the Environment (DDOE).

DDOE is the authority on energy and environmental issues affecting the District of Columbia and administers multiple services and programs including energy assistance and weatherization programs. The Program includes energy audits and retrofits for fire stations, public libraries, recreation centers, non-profit organizations, small businesses, condominiums, cooperatives, streetlights and homes. The District of Columbia's award, originally slated for completion by December 2012, was extended until September 2013.

DDOE selected four District of Columbia government agencies and six non-profit community-based organizations (CBOs) to assist in completing retrofits. The government agencies were awarded about \$5.5 million in funding to implement a district-wide strategy to improve energy efficiency of publicly-owned facilities. About \$2.2 million was awarded to CBOs that were to perform retrofits and provide project management services for energy efficiency measure installations. DDOE also allocated about \$980,000 to facilitate contractor-conducted energy audits through its existing Home Energy Rating System program, and \$956,000 for award administration/oversight of the retrofit work.

We initiated this audit to determine whether DDOE effectively managed EECBG funding.

RESULTS OF AUDIT

We identified multiple weaknesses that led us to question the sufficiency of DDOE's controls over Program funding to CBOs. In particular, our audit revealed that DDOE had:

- Awarded \$630,000 to two CBOs, African Heritage Dancers and Drummers (AHDD), a performing arts organization, and Prosperity Media Enterprise (PME), a media organization, both of which lacked adequate experience in the area of energy efficiency retrofits. In our judgment, the evaluations performed by DDOE on these entities' funding proposals failed to recognize that these entities lacked the experience and track record to be successful. Further, DDOE's evaluation and selection of PME may have been improperly influenced by prior professional relationships between DDOE employees and a member of PME's team. Specifically, DDOE's selection of PME, which had no prior experience in energy efficiency retrofits, was based on PME's partnering with a former DDOE employee who had previously supervised two of the DDOE selection panel members.
- Advanced over \$160,000 to three CBOs (AHDD, Arch Training Center, and Anacostia Economic Development Corporation) without assigning corresponding work. Federal regulations and award terms and conditions require recipients to minimize the time elapsed between receiving and disbursing Federal funds; however, these advances had not been used to further Program objectives, and remained outstanding for periods exceeding 14 months. The outstanding advances occurred because DDOE failed to conduct reconciliations in a timely manner. As of the completion of our audit, DDOE had not recovered advanced funds of \$42,500 from AHDD. The District of Columbia had, however, repaid the outstanding balance to the Department using other DDOE funds.
- Not adequately monitored or corrected poor performance from PME and its contractors. DDOE inspections identified reimbursement claims for work not performed for 12 out of 33 projects managed by PME, as well as substandard work on 19 of the 33 projects. Despite noted issues, DDOE allowed PME and its contractors to finish assigned projects without redirecting work to more capable CBOs. Further, DDOE had neither requested nor reviewed PME's inspection documentation until requested for our audit.
- Not notified the Department of unsatisfactory performance of duties and potential false claims by PME and its contractors as required by the special terms and conditions of its grant agreement. Even though DDOE had received multiple reimbursement claim submissions for work not performed by PME, essentially requests for payments that could have amounted to false claims, officials had not notified the Department or the Office of Inspector General of the actions.
- Not maintained sufficient supporting documentation in project files or adequately documented program costs as required by Federal regulations. For example, DDOE reimbursed another CBO, United Planning Organization (UPO), about \$500,000 based on a standardized, spreadsheet template provided to UPO by its contractors, instead of

invoices its contractors typically used to support business transactions. After reviewing all EECBG costs through December 2012, about \$4,000 in costs for PME remained unsupported, an amount we questioned.

Despite these problems, nothing came to our attention to indicate that the work performed by the District of Columbia government entities awarded EECBG funds was not appropriately completed.

We found that the issues identified occurred, primarily, because of an ineffective control environment within DDOE relating to the grants we reviewed. Specifically, multiple controls over the Program's CBO selection and evaluation process, as well as Program monitoring/oversight, were inadequately designed and implemented. Additionally, DDOE had not implemented a process to ensure timely reconciliation of advanced funds, and had not demonstrated sufficient knowledge of fraud, waste and abuse detection, and prevention measures. We also found that multiple personnel absences, when coupled with lack of defined monitoring/oversight policies and procedures, contributed to the issues we identified. These issues were not transparent to the Department because DDOE is a government entity, and consistent with existing practices, was not required to provide detailed documentation supporting its EECBG expenditures. Therefore, Department officials may not have had the information necessary to identify these issues and take appropriate action.

To its credit, DDOE had taken a number of positive administrative and monitoring actions while implementing the Program. DDOE had, in some instances, detected and disallowed overcharges through inspections and had increased monitoring of PME when problems were identified. We also found that DDOE had initiated several corrective actions as a result of our audit. Specifically, officials informed us that they were in the process of establishing written policies and procedures for the general management of programs and the overall selection process, had addressed the invoicing concern with UPO, and were looking into other Department programs which provided funds to PME, an organization which had been found to have performance issues and a history of overcharging.

Effective internal controls provide assurance that taxpayer dollars are spent as intended and, when properly enforced, can further the objectives of the EECBG Program. Without an adequate control system in place, there is an increased risk of fraud, waste and abuse affecting this and other Department and Federal programs managed by the District of Columbia.

Activities in this Program are a continuing source of concern. As such, the Office of Inspector General continues our coordination with the Department, DDOE, and the CBOs to resolve control and other identified issues. We have also made several recommendations to address the concerns identified in our report.

MANAGEMENT REACTION AND AUDITOR COMMENTS

The Department and DDOE provided comments on the draft of this report. The Department agreed with the recommendations and stated that it was working with DDOE to ensure that all corrective actions were implemented. DDOE generally agreed with the recommendations and

indicated that it had initiated corrective actions. We consider the comments and planned corrective actions to be fully responsive to our findings and recommendations. The comments from the Department and DDOE and our responses are more fully discussed in the body of the report. The Department and DDOE comments are included in Appendix 3.

Attachment

cc: Deputy Secretary
Acting Under Secretary for Science and Energy
Assistant Secretary for Energy Efficiency and Renewable Energy
Chief of Staff

REPORT ON THE DEPARTMENT OF ENERGY'S AMERICAN RECOVERY AND REINVESTMENT ACT ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM – DISTRICT OF COLUMBIA

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THE DEPARTMENT OF ENERGY'S AMERICAN RECOVERY AND REINVESTMENT ACT ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM – DISTRICT OF COLUMBIA

The Department of Energy's (Department) Energy Efficiency and Conservation Block Grant (EECBG) Program received about \$3.2 billion under the *American Recovery and Reinvestment Act of 2009* (Recovery Act) to help state and local entities develop, implement and manage energy efficiency and conservation projects. The Department allocated about \$9.6 million in December 2009, to the District of Columbia government through the District Department of the Environment (DDOE) to establish an EECBG Program.

To assist in completing the EECBG Program activities, DDOE selected four District of Columbia government agencies and six community-based organizations (CBOs) to perform retrofits on fire stations, public libraries, recreation centers, street lights, non-profit organizations, small businesses, condominium cooperatives and homes in the District of Columbia. The government agencies entered into memorandums of understanding with DDOE. DDOE selected the EECBG CBOs from an established, approved vendor list that had been developed in connection with its Weatherization Assistance Program (Weatherization Program). Once selected, the CBOs entered into subgrant agreements with DDOE to provide project management services to facilitate the installation of energy efficiency measures. These services included managing contractors, installation work, documentation processing and inspections. DDOE regularly contracts with CBOs to accomplish energy efficiency related activities and, in turn, the CBOs receive an administrative fee to provide these services.

Although our audit was limited to the EECBG Program, we reviewed the Weatherization Program proposal, evaluation and selection process, given DDOE's reliance on it to select recipients for the EECBG Program. During our audit, we found multiple weaknesses in DDOE's controls over its EECBG Program and noted opportunities for improvement regarding DDOE's CBO evaluation and selection process and program monitoring.

Evaluation and Selection Process

We identified significant weaknesses in DDOE's CBO evaluation and selection process. During our audit, we found that DDOE awarded EECBG funds to two CBOs that lacked adequate experience in energy efficiency retrofits. Specifically, African Heritage Dancers and Drummers (AHDD), a performing arts organization, and Prosperity Media Enterprise (PME), a media organization, were awarded about \$170,000 and \$460,000, respectively, to install, monitor and inspect energy efficiency retrofits in eligible buildings. Such awards did not appear to be prudent given the lack of prior experience with energy-related work and the basic missions of these organizations. These organizations had limited knowledge in these areas, a deficit that impacted their ability to sufficiently perform installation, monitoring and oversight functions. As might be expected given their lack of qualifications, the two CBOs were subsequently identified as having substantial problems. For example, AHDD had not returned about \$42,500 in EECBG funds advanced by DDOE even though it had not performed EECBG work. In addition, PME had numerous performance and accountability concerns.

In our judgment, the evaluations performed by DDOE on these entities' funding proposals failed to recognize that these entities lacked the experience and track record to be successful. For example, DDOE's score for PME's proposal regarding the level of energy program experience in weatherization and housing renovation activities totaled 27 out of a possible 30, a score similar to those given to other CBOs with substantially more experience in performing energy conservation projects. In addition, for the EECBG Program, despite the lack of experience, AHDD and PME were also rated as a "medium" risk level, the same rating as other more experienced CBOs.

According to DDOE officials, both organizations teamed with project managers with energy efficiency expertise and, as a result, DDOE provided funding based on the presumed expertise of the project manager even though neither organization had weatherization or energy efficiency experience. We noted, however, that such focus may have been inappropriate in that the CBO's EECBG work was not performed solely by one person. The CBOs had specific responsibilities to complete a number of tasks, in addition to the project managers, and were to receive compensation for those tasks. According to the evaluation scoring system utilized by DDOE, the CBOs were to be scored by the committee based on the organization's experience level, not solely on the experience level of an individual. CBOs were evaluated on factors such as performance in weatherization or housing renovations and the capacity to undertake a timely and effective weatherization program. The evaluation sheet contained separate sections on scoring the proposal for the experience of subgrantees and individual resumes submitted.

In addition to concerns about the media organization's lack of qualifications, we also identified a concern that DDOE's evaluation and selection of PME may have been improperly influenced by prior professional relationships between DDOE employees and a member of PME's team. In particular, DDOE awarded EECBG funding to PME based on its Weatherization Program proposal, in which PME had teamed with a project manager that was also a former employee of DDOE. This individual had separated from DDOE in March 2009 and applied for Department funding through the Weatherization Program in August 2009. PME and the project manager were awarded Weatherization Program funds by DDOE, and subsequently awarded EECBG funds in June 2010, based on the Weatherization Program evaluation. We discovered that the project manager had been a former supervisor to two of the six DDOE selection committee members and the EECBG grant manager. DDOE was unable to provide any evidence that it had considered whether the individual's previous employment in DDOE and his role as a former supervisor of two of the selecting officials should have precluded him from working with the agency on these matters.

The project manager's resume submitted to DDOE purported to demonstrate that the individual had managed and directed multiple energy programs within DDOE. However, DDOE officials told us that the project manager, who previously worked as a senior DDOE official, did not have as extensive a role within the organization as described in the resume submitted with PME's proposal. In fact, the officials indicated that the project manager had "embellished" the resume and did not have the experience presented. However, this assertion is inconsistent with the DDOE official's previous statements that PME's selection had primarily been based on this individual's technical experience. Based on the supporting documentation provided, we were unable to determine that the individual had falsely represented any of the prior experience

annotated on the resume. Further, one DDOE official stated that the evaluation committee may not have reviewed the individual's resume in much detail because the committee was aware of the individual's experience based on the familiarity with the individual's previous role within DDOE.

EECBG Program Monitoring

We found weaknesses in EECBG Program monitoring pertaining to advanced funding provided to CBOs, correcting and notifying the Department of the poor performance of duties by one CBO and its contractors, and project file supporting documentation. Under the award terms and conditions, DDOE was responsible for management and oversight of all EECBG activities. However, we found that DDOE:

- Advanced over \$160,000 to three of six CBOs without assigning corresponding EECBG-related projects/work. As a regular business practice, DDOE had advanced the six CBOs EECBG funding as working capital. Federal regulations and terms and conditions of the award state that recipients should minimize the time elapsed between receiving and disbursing Federal funds. Ultimately, because DDOE failed to perform reconciliations of advances to corresponding expenditures in a timely manner, it was over 14 months before one CBO, Anacostia Economic Development Corporation, returned the unused funds and 16 months for another CBO, Arch Training Center. Additionally, AHDD never returned the unused advanced funding. DDOE officials stated that they were always aware of outstanding advances; however, the only formal method for tracking advances was through annual program reconciliation.

To address the advanced funding issue, DDOE stated it had subsequently adopted a reimbursement-only policy; however, we found that the policy had not been formalized in writing. Additionally, despite its assertion, we found that DDOE continued advancing funds to at least one CBO, United Planning Organization (UPO). In fact, during our audit, we found that DDOE had directed UPO to submit invoices for EECBG work even if the work had not been completed. In turn, DDOE paid UPO the requested amounts. Officials told us this process was necessary to provide UPO with funding while fiscal year reconciliations were conducted because that routine usually caused a lapse in payments. By continuing to advance funds, DDOE negated the corrective action intended to resolve the advanced funding issue. Further, DDOE's practice of directing CBOs to submit invoices for work not completed calls into question the integrity of the EECBG invoicing submission and approval process.

- Had not adequately monitored and corrected poor performance from PME and its contractors. Specifically, in reviewing DDOE's documentation, we found 12 of 33 projects had instances in which the invoices submitted by PME's contractors claimed reimbursement for work not performed and 19 of the 33 jobs failed inspection by DDOE. Further, three of the contractors used by PME failed the DDOE quality control inspection at a rate of more than 57 percent, with one contractor's failure rate exceeding 91 percent. DDOE documentation of its inspections of PME's work showed that DDOE personnel had noted PME submitted claims for installations that were found not to have been

installed, items referenced as "priced too high," incomplete jobs, and jobs with quality issues. DDOE officials stated that PME had been assigned a group of 33 projects in the beginning phase of the award, additional work was not given after issues were identified, and it seemed an appropriate policy to give the responsible entity an opportunity to correct the deficiency or address the problem. DDOE also had not paid the invoices containing the potential false submissions in the instances we reviewed and had performed its own follow-up inspections to ensure that agreed-upon work had been completed and matched the invoiced amounts. While we agree the initial actions were prudent, DDOE had not addressed the systemic issues by allowing PME and its contractors to continue work on tasks included in previously assigned projects without redirecting work to more capable CBOs.

According to PME's agreement with DDOE, work performed by contractors must be monitored and inspected by the CBO. We found, however, that DDOE had neither requested nor reviewed PME's inspection documentation. During our audit, we requested PME's post-installation monitoring documentation to provide evidence these inspections had occurred. Once this information was received, however, we identified multiple inconsistencies between PME's invoice submissions and inspection reports when compared to inspections subsequently performed by DDOE. For example, PME submitted an invoice for one project that included charges for four energy efficiency measures, two of which PME had not inspected. Those measures subsequently failed DDOE inspection. Although an official for PME stated that several contractors were ultimately terminated, we noted that PME had continued to submit the improper claims even though inspections of the installations noted that they failed or were incomplete.

- Had not notified the Department of unsatisfactory performance of duties and potential false claims by PME and its contractors. The terms and conditions of the EECBG award agreement required DDOE to promptly notify the Department or Office of Inspector General of any credible evidence that a contractor, subgrantee, or subcontractor had submitted a false claim under the *False Claims Act*, or similar misconduct involving EECBG funds. DDOE had not notified the Department regarding multiple claim submissions from PME for work not performed, a practice we viewed as representing a series of potential false claims.
- Had not maintained sufficient supporting documentation in project files or adequately documented program costs as required by Federal regulations. For UPO, DDOE had accepted a standardized spreadsheet template as support for EECBG expenses instead of invoices its contractors typically used to support business transactions. Specifically, this condition existed for 42 of 45 projects managed by UPO, totaling about \$500,000. After our review of all EECBG costs incurred through December 2012, DDOE officials worked with the District of Columbia's Chief Financial Officer, the CBOs, and contractors to obtain and provide adequate supporting documentation for the majority of EECBG Program costs. However, DDOE was unable to provide support for about \$4,000 at PME, an amount we questioned as unsupported.

Establishment and Implementation of Policies and Procedures

We found the identified issues occurred because of an ineffective control environment at DDOE relating to the grants we reviewed. Specifically, we found that weaknesses identified in the CBO selection and evaluation process were a result of inadequately designed or implemented procedures. Regarding the selection of PME based on its partnering with a former DDOE employee, we found that the evaluation team had not consulted the general counsel or the ethics officer despite the connection with the former employee. Further, although DDOE had clear evaluation criteria, we found the technical evaluation criteria to be inadequately implemented by DDOE selection committee personnel. For example, one committee member, who previously worked directly for PME's project manager while at DDOE, scored the media company 97 out of a possible 100 points, a score that, in our judgment, was clearly not warranted. We based our conclusion on the fact that the criteria included areas such as experience and the CBOs matching of funds; however, PME had no relevant technical experience and had not provided matching funds, despite the high score.

The weaknesses in program monitoring occurred, in part, because DDOE had not adequately implemented and documented policies and procedures for managing the EECBG Program. For example, DDOE had not implemented a process to ensure timely reconciliation of EECBG funding advances. While DDOE officials told us they reviewed the funds advanced to several CBOs as part of an annual process, in actuality the final reconciliation did not occur until about 14 months after the original advance date. Although DDOE could explain the processes used for monitoring CBOs and subgrantees, these processes had not been documented. DDOE officials told us that CBO inspection reports had been submitted to DDOE for review after inspections were conducted. However, in the absence of written policies and controls, we found that the application of the informal processes had been inconsistently applied. In particular, DDOE had not requested or reviewed the inspection reports from PME before our audit. We also found that DDOE had not established or set a standard for documentation requirements in project files, and program managers over the various areas within DDOE had not been required to document how they managed their specific programs.

Further, we found the lack of notification of unsatisfactory performance of duties and potential false claims occurred because DDOE officials lacked training in fraud, waste and abuse detection and prevention measures. DDOE officials stated that they had not received training in these areas. As a result, DDOE officials had not recognized the reimbursement requests for incomplete and/or improperly performed work to represent potential false claims, and instead viewed the requests simply as demonstrating unsatisfactory performance. DDOE officials also stated that they were not aware that they could take administrative action based solely on performance-related issues as opposed to fraud.

With regard to adequately monitoring and correcting poor performance of the CBOs and their contractors, we found that DDOE had not maintained formal records of vendors, subgrantees, and/or persons with whom it had performance issues. Rather, officials stated that they knew the record of various organizations based on internal experiences. DDOE officials stated that they had a "mutual understanding" that DDOE would no longer work with specific CBOs or their contractors. However, the officials had not formalized this understanding.

We found that another contributing factor was the loss of institutional knowledge due to turnover of experienced staff. We identified multiple examples of personnel turnover that created temporary losses of institutional knowledge. This, combined with the lack of documented policies and procedures, created an environment rife with control concerns. For example, in three instances we identified, key DDOE officials took extended leave and multiple DDOE officials noted that the lack of written policies disrupted operations because interim personnel performing the responsibilities were unclear on how the program was to be managed. It was under the interim individual's supervision in which the concerns were noted with the advances.

The issues we identified were not transparent to the Department because DDOE was treated as a state entity by the Department, and under the existing financial assistance award agreement, was not required to provide detailed documentation supporting its EECBG expenditures. As such, the Department may not have had the information necessary to identify the issues and take appropriate corrective action.

Impact and Path Forward

Effective internal controls provide assurance that entities identify, detect and mitigate risks that can hinder operations and program objectives. Without a proper control system in place, there is an increased risk for fraud, waste and abuse. In the case of DDOE, some of the risks were realized, with the overall control environment greatly contributing to the issues within the EECBG Program. Further, because the District of Columbia and DDOE manage other Department and Federal programs, it is essential that effective controls are implemented and followed.

Although we remain concerned about DDOE's overall monitoring of the CBOs, to its credit, DDOE had taken a number of positive steps while implementing the EECBG Program, including developing administrative systems and monitoring tools designed to ensure proper accounting for Recovery Act funding and compliance with laws and regulations. Specifically, DDOE had detected and disallowed about \$23,000 in overcharges through its post-installation inspections for one CBO before payment had been made. DDOE had also increased the number of projects reviewed by DDOE officials in response to the identified problems with this CBO. In addition, even though DDOE had not recovered advanced funds from one CBO, it returned those funds to the Department from its own funding sources.

We found that DDOE also had initiated multiple corrective actions as a result of our audit. DDOE officials told us they are in the process of establishing written policies and procedures relating to general management of programs and the overall selection process. Specifically, DDOE officials stated they are developing standard operating procedures that will incorporate changes to DDOE's application and selection process and that the new Fiscal Year 2014 request for applications included a requirement for applicants to provide quality assurance plans with their applications. DDOE officials also told us that they have instituted additional controls over the selection process, including prohibiting program staff from participating in evaluation panels, and requiring signed confidentiality and conflict of interest statements from evaluation panel reviewers. Further, officials informed us that they have taken action to revise DDOE's internal

reconciliation process. DDOE officials also told us they had addressed the invoicing issue with the CBO that had submitted spreadsheets instead of invoices. Finally, DDOE officials said that they were looking into other Department programs that had funded the CBO with performance issues and overcharges. Officials stated that the same types of issues were noted in at least one other Department program. We found these actions generally responsive. However, because DDOE is in the process of initiating and documenting the changes to its organization, these actions remain to be fully completed.

The actions taken thus far should, if fully implemented, help resolve problems with the District of Columbia's administration of financial assistance award. However, more remains to be done. As such, we recommended a number of corrective measures.

RECOMMENDATIONS

To address the problems outlined in our report, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy require DDOE, as part of its administration of Department funds, to:

1. Evaluate the selection process for future awards and those with remaining funding to ensure Federal regulations governing working with former employees are addressed and established evaluation criteria is implemented effectively;
2. Complete and implement written policies and procedures relating to program management and advanced funds;
3. Evaluate monitoring processes to ensure performance and overcharging issues are documented and addressed formally;
4. Provide training to personnel on fraud, waste and abuse, and the suspension and debarment process; and
5. Establish procedures to notify the Department of potential fraud, waste, abuse and mismanagement.

We also recommend that the Contracting Officer for the DDOE's EECEBG Program:

6. Resolve the questioned costs identified in our report.

MANAGEMENT REACTION

The Department and DDOE generally agreed with the recommendations in the report. The Department stated it had been working with DDOE to ensure that all corrective actions were implemented. For example, the Department planned to review, comment, and monitor implementation of improved policies and procedures related to conflicts of interest; request for application documentation; subgrantee performance issues; and notifications of potential fraud, waste, abuse and mismanagement. Additionally, the Department stated that it would work with

DDOE, and provide resources as needed and available, to assist DDOE in adequately training its staff. In regard to our questioned costs, the Department stated that it was actively working with DDOE to resolve the amounts. The Department stated that it would require DDOE to complete its corrective actions on or about December 6, 2013.

DDOE stated it had initiated corrective actions and had begun to integrate our recommendations into the EECBG Program. Specifically, DDOE stated it had drafted policies and procedures to improve upon program areas cited in our report. DDOE asserted that its mandatory ethics training provides some fraud, waste and abuse training. DDOE also stated that it would add training for personnel on issues identified in our report, including identifying and reporting potential fraud, and procedures for suspension and debarment. However, DDOE expressed concern that our report extrapolated findings to the control environment of the entire agency, based on our review of only one grant. In addition, while DDOE acknowledged that it had been unable to provide a specific invoice to support the \$4,000 expenditure questioned in our report, it indicated that the costs, related to the installation of a boiler, were justified. Specifically, DDOE stated that it had post-installation documentation evidencing that the boiler had been installed and had conducted price research to support the boiler's fair market value.

AUDITOR COMMENTS

The comments received from the Department and DDOE were responsive to our recommendations. We clarified in our report that our assessment of DDOE's control environment was specific to the EECBG and Weatherization Assistance grants reviewed. The Department indicated in its response that it would work with DDOE to resolve the questioned costs.

The comments from the Department and DDOE are included in Appendix 3.

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine the sufficiency of internal controls over the District of Columbia's Department of the Environment (DDOE) Energy Efficiency and Conservation Block Grant (EECBG) funding.

SCOPE

The audit was performed at the Department of Energy's (Department) Headquarters, DDOE Headquarters, and the District Office of the Chief Financial Officer in Washington, DC, as well as selected subrecipient locations. We limited our scope to the EECBG Program and the evaluation process for the Weatherization Assistance Program.

METHODOLOGY

To accomplish the audit objective, we:

- Conducted interviews and meetings with Department and DDOE officials.
- Reviewed applicable laws, regulations, and policies and procedures pertaining to the EECBG Program under the *American Recovery and Reinvestment Act of 2009*.
- Determined applicable cost principles and procurement standards.
- Reviewed all invoices and conducted a complete review of DDOE's records for reimbursements submitted as of December 31, 2012.
- Reviewed prior audits of the EECBG Program conducted by the Department's Office of Inspector General and the U.S. Government Accountability Office.
- Obtained access to the Department's Strategic Integrated Procurement Enterprise System and reviewed individual award files for the DDOE's EECBG Program.
- Reviewed the Department's and DDOE's risk assessments and implementation of mitigation measures.
- Reviewed the Department's site visit documentation for all reviews completed from inception of the award to December 31, 2012.
- Examined DDOE's monitoring documents for the EECBG Program. Specifically, we reviewed the last three quarterly reports as of December 31, 2012. We judgmentally sampled seven monthly monitoring reports based on known project activities and advancement timeframes. We also judgmentally sampled invoices within the home

Appendix 1 (continued)

energy rating program based on duplicate names and addresses, and traced the invoices to entries within the internal system to verify duplicate payments were not made. Because we did not use a statistical sample, we could not project to the population.

- Conducted site visits to District of Columbia agencies, three community-based organizations, one contractor and eight project sites. We judgmentally selected the locations based on attributes including EECSBG activities, project descriptions and project costs.

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. The audits included tests of controls, and compliance with laws and regulations necessary to satisfy the 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 considered the establishment of Recovery Act performance measures that included certain aspects of compliance with the *GPRRA Modernization Act of 2010*, as necessary to accomplish the objective. We conducted an assessment of computer-processed data relevant to our audit objective and found it to be reliable.

We conducted an exit conference with the Department and DDOE on November 22, 2013.

PRIOR REPORTS

Under the *American Recovery and Reinvestment Act of 2009*, the Office of Inspector General has initiated a series of audits designed to evaluate the Department of Energy's Energy Efficiency and Conservation Block Grant Program. Our series of audit reports include the following:

- Examination Report on [*South Carolina Energy Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-21, May 2013).
- Audit Report on [*The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – State of Colorado and County of Boulder, Colorado*](#) (OAS-RA-13-16, March 2013).
- Examination Report on [*Connecticut Department of Energy and Environmental Protection – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-14, February 2013).
- Examination Report on [*Texas State Energy Conservation Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-13, February 2013).
- Examination Report on [*City of Los Angeles – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-12, February 2013).
- 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*](#) (OAS-RA-13-09, February 2013).
- Audit Report on [*The Department's Implementation of Financial Incentive Programs under the Energy Efficiency and Conservation Block Grant Program*](#) (OAS-RA-L-13-02, December 2012).
- Examination Report on [*The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – Efficiency Maine Trust*](#) (OAS-RA-13-04, November 2012).
- Examination Report on [*County of Los Angeles – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-02, October 2012).

Appendix 2 (continued)

- Examination Report on [*California Energy Commission – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-01, October 2012).
- 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 City of Philadelphia*](#) (OAS-RA-12-09, April 2012).
- Special Report on [*Lessons Learned/Best Practices during the Department of Energy's Implementation of the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-12-03, January 2012).
- Audit Report on [*The State of Nevada's Implementation of the Energy Efficiency and Conservation Block Grant Program*](#) (OAS-RA-12-02, November 2011).
- Letter 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*](#) (OAS-RA-L-11-11, September 2011).
- Management Alert on [*The Status of Energy Efficiency and Conservation Block Grant Recipients' Obligations*](#) (OAS-RA-11-16, September 2011).
- Audit Report on [*The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the Recovery and Reinvestment Act: A Status Report*](#) (OAS-RA-10-16, August 2010).

MANAGEMENT COMMENTS

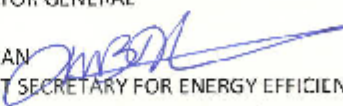


Department of Energy

Washington, DC 20585

NOV 08 2013

MEMORANDUM FOR: GREGORY H. FRIEDMAN
INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN 
DEPUTY ASSISTANT SECRETARY FOR ENERGY EFFICIENCY
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to the Office of Inspector General's Draft Audit Report on
"The Department of Energy's American Recovery and Reinvestment
Act Energy Efficiency and Conservation Block Grant Program – District
of Columbia"

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) Draft Audit Report on "The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program (EECBG) – District of Columbia".

The Office of Weatherization and Intergovernmental Programs is providing this memo in response to the October 2013 OIG Draft Audit Report, regarding the District Department of the Environment's (DDOE's) EECBG grant awarded to the District of Columbia.

EERE provides guidance and support to all grantees pursuant to the Code of Federal Regulations (CFR), 10 CFR 600 and 7 CFR 225 (A-87). As applicable, EERE also provides grantees 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 six recommendations for the Department of Energy's oversight of the EECBG District of Columbia award. EERE continues to address OIG's recommendations and has been working with award recipients to ensure that all corrective actions are implemented.

The responses below address the OIG's findings:

OIG Recommendation 1: Evaluate the selection process for future awards and those with remaining funding to ensure Federal regulations governing working with former employees are addressed and established evaluation criteria is implemented effective y.



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EERE Response: DDOE drafted improved written policies and procedures addressing issues including conflicts of interest. EERE has reviewed, commented on and will be monitoring the effectiveness of DDOE's improved policies. The EECBG District of Columbia award period of performance ended on September 6, 2013. This award is currently in closeout. If effective, EERE will require that DDOE formalize and implement its improved policies before final closeout on or about December 6, 2013. EERE will continue to monitor the effective implementation of DDOE improved processes to ensure compliance with policies and procedures in any future awards.

OIG Recommendation 2: Complete and implement written policies and procedures relating to program management and advanced funds.

EERE Response: DDOE asserts that they have significantly overhauled their request for application (RFA) documentation, including modifying their policy to allow reimbursement only. DDOE has sent the revised RFA to their current sub-recipients and will provide the revised RFA to future sub-recipients. EERE has requested that DDOE provide the revised RFA and supporting documentation to EERE for review and comment. EERE will monitor any future DDOE awards to ensure that the policies and procedures are effective and properly implemented. The period of performance of this award concluded on September 6, 2013. The award is currently in the closeout process. EERE will require DDOE to finalize the draft RFA policies and procedures and to fully implement the revised RFA before finalizing closeout on or about December 6, 2013.

OIG Recommendation 3: Evaluate monitoring processes to ensure performance and overcharging issues are documented and addressed formally.

EERE Response: DDOE asserts that they are drafting improved written policies and procedures that require formal documentation of performance issues by sub-grantees. EERE will request, review and comment on DDOE's improved policies and procedures to ensure that they are properly implemented. EERE will monitor any DDOE future awards to ensure the policies and procedures are followed and working effectively. The period of performance of this award concluded on September 6, 2013. The award is currently in closeout. EERE will require that these policies and procedures are written and implemented by DDOE before finalizing closeout, on or about December 6, 2013.

OIG Recommendation 4: Provide training to personnel on fraud, waste, and abuse and the suspension and debarment process.

EERE Response: EERE will continue to work with DDOE and to provide resources as needed and as available to assist DDOE in adequately training its staff. EERE will monitor any future awards to help prevent fraud, waste and abuse.

OIG Recommendation 5: Establish procedures to notify the Department of potential fraud, waste, abuse and mismanagement.

EERE Response: EERE has requested that DDOE provide a copy of written policies and procedures that require DDOE to notify EERE or OIG of potential fraud, waste, abuse and mismanagement. EERE plans on providing DDOE input on these policies and procedures to ensure that they are properly implemented, and monitor any future awards to help prevent fraud, waste, and abuse. This period of performance of this award concluded on September 6, 2013. The award is currently in closeout. EERE will require that these policies and procedures are written and implemented by DDOE before finalizing closeout on or about December 6, 2013. DOE will determine if a monitoring visit is necessary to ensure these policies are properly implemented, and, if required, will perform on-site monitoring before December 6, 2013.

OIG Recommendation 6: Contracting Officer for the DDOE's EECBG Program resolve the questioned costs identified in our report.

EERE Response: The Project Officer and Contracting Officer for DDOE's EECBG Program are actively working with DDOE to resolve the questioned costs identified in the OIG report. Insufficiently substantiated costs will be disallowed before closeout is concluded, on or about December 6, 2013.

DISTRICT OF COLUMBIA COMMENTS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
District Department of the Environment



October 31, 2013

Rickey R. Hass
Deputy Inspector General for Audits and Inspections
U.S. Department of Energy
Washington, DC 20585

**RE: DDOE Management Response to the Draft Audit Report for DOE's ARRA
EECBG Program, dated October 2013**

Dear Mr. Hass:

The District Department of the Environment ("DDOE") has reviewed the above-referenced draft audit report ("Report") provided by your office on October 11, 2013, and hereby submits its management response below.

The audit examined one grant but extrapolates the findings to the control environment of the entire agency, even though none of the other work of the agency was examined. DDOE accepts responsibility for administration of this grant, and in our responses to your recommendations below we include steps we are taking to improve our written policies and procedures.

The Report makes six recommendations. DDOE concurs with five and has already begun to integrate them into the Program, as follows:

Recommendation #1: Evaluate the selection process for future awards and those with remaining funding to ensure Federal regulations governing working with former employees are addressed and established evaluation criteria is implemented effectively.

DDOE concurs. DDOE's Request for Applications ("RFA") format and procedure, as revised in 2013, specifies the evaluation criteria in Attachment 1 of the RFA 2013-11-WAP, Weatherization Assistance Program for Fiscal Year 2014. In addition, DDOE requires all grant programs to collect conflict of interest declarations from evaluation and selection panel members.ⁱ With regard to working with former employees, the District of Columbia's Ethics Manual, published in 2012,ⁱⁱ cites to applicable federal regulations and provides guidance regarding the "revolving door" for government employment. All DC Government employees are now required to take the related online ethics training and make an ethics pledge.

Recommendation #2: Complete and implement written policies and procedures relating to program management and advanced funds.

DDOE concurs. DDOE intends to adopt by December 31, 2013, an Energy Programs Standard Operating Procedures ("SOP") manual to implement this recommendation, and has added other measures to strengthen the audited Program. The standard RFA sets out the policy against making funding advances to subgrantees except in special circumstances, the use of detailed evaluation criteria, and application of District ethics rules to the Program. Specifically, section 6.1(c) on page 21 of the RFA states, "DDOE's standard practice for grant award payments is to



DISTRICT
DEPARTMENT
OF THE
ENVIRONMENT

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Appendix 3 (continued)

funds at the beginning of the grant period. If the applicant seeks start-up payments it should make the request in its proposal, and explain the request.”

Recommendation #3: Evaluate monitoring processes to ensure performance and overcharging issues are documented and addressed formally.

DDOE concurs. DDOE will implement this through the new SOP manual, with particular attention to financial, technical and performance monitoring.

Recommendation #4: Provide training to personnel on fraud, waste, and abuse, and the suspension and debarment process.

DDOE concurs and will add this to the present training. The District’s mandatory ethics training provides some training on fraud, waste and abuse. DDOE will include fraud, waste, and abuse trainings in fiscal year 2014, including monitoring and reporting procedures, failed inspections, inaccurate invoice submissions, non-compliance letters, corrective action, and emphasis on identifying and reporting potential fraud, and procedures for suspension and debarment.

Recommendation #5: Establish procedures to notify the department of potential fraud, waste, abuse and mismanagement.

DDOE will so notify US DOE. The new SOP manual and training will emphasize such transparency.

Recommendation #6: Resolve the questioned costs identified in our report.

DDOE concurs with questioning the \$3,999.29 undocumented expenditure for a new, replacement boiler, and provides the following explanation to justify the expenditure. The audit report states that DDOE was able to provide only an email to support this expenditure. The subgrantee, PME, had bundled the boiler purchase and installation in a larger figure. DDOE repeatedly requested a specific invoice from PME, but PME failed to provide a receipt for the boiler’s purchase. DDOE conducted a post-installation inspection and determined that the contractor had indeed delivered a boiler to the business and that the boiler had been installed. Photographs were taken. DDOE’s previous price research, its case review, and inspection of the project showed that approximately \$4,000 was a fair market price for the boiler.

We thank you for this opportunity to review the draft audit report and provide our comments.

Very truly yours,

Keith A. Anderson
Director

[Signature]
1 See Citywide Grants Manual and Sourcebook, <http://open.dc.gov/book/citywide-grants-manual-and-sourcebook/80-review-and-award-process>, Sec. 8.1, para. (b) (p. 18).

ⁱⁱ Ethics Manual, District of Columbia Board of Ethics and Government Accountability (Updated April 1, 2013), available at <http://bega.dc.gov/>, (44 pages), pp 32-33 (last visited 10/30/2013).

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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 that 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.

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