



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

Special Report

Allegations Regarding the Department of Energy's State Energy Program Funding to South Dakota



OAS-RA-L-14-01

April 2014



Department of Energy
Washington, DC 20585

April 14, 2014

MEMORANDUM FOR THE MANAGER OF THE STATE ENERGY PROGRAM

A handwritten signature in black ink, appearing to read "Jack Rouch".

FROM: Jack Rouch, Director
Central Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Special Report on "Allegations Regarding the Department of Energy's State Energy Program Funding to South Dakota"

BACKGROUND

The Department of Energy's (Department) State Energy Program (SEP) provides assistance to states and territories to support energy priorities. The *American Recovery and Reinvestment Act of 2009* (Recovery Act) authorized about \$3.1 billion to enhance SEP with funding based on a formula grant process. In April 2009, the Department awarded about \$23.7 million to South Dakota for its Recovery Act SEP, through the state's Department of Tourism and State Development, which was succeeded by the Governor's Office of Economic Development (GOED). South Dakota's Office of the State Engineer (OSE) managed the technical and program management portions of the award, while GOED managed the financial aspect of the award.

South Dakota used its Recovery Act SEP funds to identify and implement cost-effective energy conservation measures at state institutions such as schools, prisons, and administrative buildings. Its energy conservation projects included the installation of heating/cooling systems, lighting, windows, and other energy conservation upgrades. In 2009, under its Recovery Act SEP, South Dakota conducted a study that identified a total of 1,168 prospective energy conservation measures across approximately two-thirds of the state's facilities total square footage. Further, it allocated about \$23.5 million in subgrants to 22 state institutions for 48 projects, and about \$200,000 to OSE for administrative functions.

The Office of Inspector General received a complaint alleging that South Dakota officials had modified supporting documents for completed, state-funded projects in order to replace state dollars with Recovery Act SEP funds. The complaint also asserted that there were irregularities in a number of building projects managed by two of the state's public institutions, and that there were media reports of potential financial misconduct within the GOED. We initiated this inquiry to examine the circumstances surrounding these allegations.

RESULTS OF INQUIRY

We did not substantiate the allegations. Specifically, nothing came to our attention to indicate that South Dakota used Recovery Act SEP funds to pay for projects that had already been completed prior to the SEP award performance period. Additionally, our limited testing of select files did not identify irregularities that would indicate fraud, waste, abuse, or mismanagement related to Recovery Act SEP funds.

Project Funding

We did not substantiate the allegation that South Dakota officials modified documentation in order to replace state dollars with Recovery Act SEP funds for projects that had been completed prior to the award period of performance. Specifically, the complaint alleged that documentation for state-funded projects had been postdated for reimbursement from Recovery Act SEP funds.

We found that South Dakota had implemented control measures designed to help ensure that Recovery Act SEP costs and obligations were incurred during the award's period of performance. Through interviews and reviews of project files at both the OSE and GOED, we found that South Dakota had a multi-level system involving approvals of officials from independent offices within the state government for award selection, subgrant and contractor agreements, and the invoice review and approval process. We also found that OSE engineers provided technical guidance to subgrantees and solicited and selected contractors for all Recovery Act SEP projects reviewed. OSE engineers also reviewed all Recovery Act SEP project invoices and submitted the invoices to the GOED for payment processing, as evidenced by signatures on invoices and requests for payments. Additionally, the GOED reviewed, processed, and prepared state vouchers for all contractor payments and state agency requests for reimbursement. Further, we verified the selected information found in the project files during our site visit with 9 state institutions at 11 project locations in 4 cities across South Dakota. We toured project sites and verified the installation of conservation measures for selected projects funded under the award. We also corroborated information obtained at OSE and GOED regarding project timeframes with facility personnel at each location.

We reviewed South Dakota's files to validate the timeframes on the projects completed and found that its files contained documentation to support that costs charged to the SEP award were incurred during the authorized period of performance from April 1, 2009 to March 31, 2012. Accordingly, our review of the financial records did not identify any instances in which funds were expended for obligations incurred outside the period of performance. Further, based on information reviewed in the project files, such as requests for proposals, contractor statements of interest, and contracts, we validated that the selection and awarding process had been completed within the authorized grant period for all projects in our sample.

The assertion that there were irregularities in building projects completed by two state institutions identified in the complaint was also not substantiated. Specifically, the complaint indicated that the sequential numbering of construction project records and matching project dates were highly unusual for these types of major building projects as support for the primary allegation that documents had been modified in order to replace state funds with Recovery Act

funds. However, our review of project documentation, together with the result of the previously discussed test work we performed of the state's control structure, did not substantiate the assertion of these purported irregularities.

Regarding the assertion of potential financial misconduct within the GOED, nothing came to our attention that would link the media reports of financial irregularities at GOED to Recovery Act SEP funds. While we found that there were ongoing reviews regarding an individual that had been assigned to the GOED, officials from the OSE and GOED affirmed that the individual had no involvement with the administration of the Recovery Act SEP. Accordingly, in our review of South Dakota's project and financial files, we did not find any indication that the individual was involved in the administration of the Recovery Act SEP.

CONCLUSION

We found that South Dakota had implemented control measures to ensure that Recovery Act SEP costs and obligations were incurred during the award's period of performance. Specifically, South Dakota had maintained an adequate system of controls and records to allow for independent review. Supporting documentation in OSE and GOED project files included contracts and invoices with approving signatures. Finally, our review determined that South Dakota had a multi-level system involving numerous offices and individuals, practices that would reduce fraud risk at the state level. Based on the selected subgrants we reviewed, South Dakota had properly applied those control measures.

We appreciate the cooperation of your staff during this review.

cc: Deputy Secretary
Deputy Under Secretary for Science and Energy
Chief of Staff

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