

## State Energy Program Performance Audit

Joint Legislative Audit and Review Committee

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# Today's Presentation

- Overview
  - State Energy Program
  - Energy Efficiency and Renewable Energy Loan and Grant Program
- Why we did this audit
- Audit objectives
- Audit results
- Recommendations

# Why we did this audit

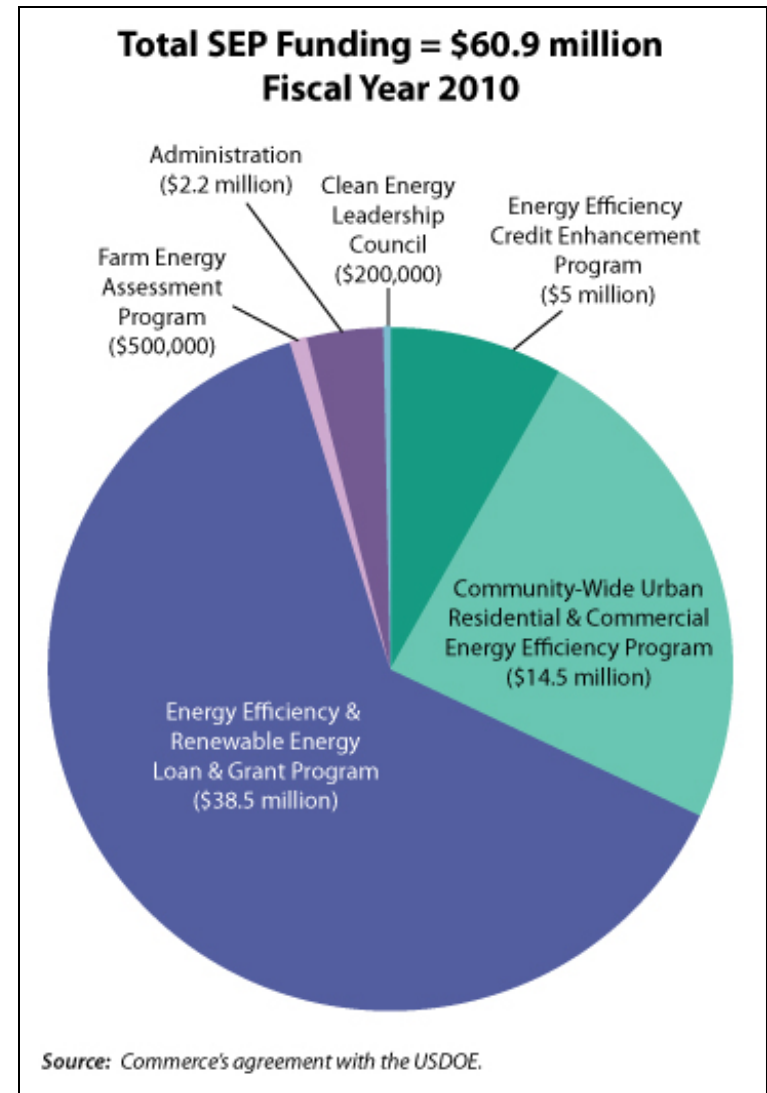
- We conducted the audit because of the Recovery Act's dramatic impact on the size and scope of the State Energy Program and because of the tight timelines for awarding the funds.
- Recovery Act funding boosted the Program from an average of less than \$1 million per year to \$60.9 million available for spending from April 2009 through March 2012.
- We audited 23 of the 37 loan and grant awards and asked:
  - **Has Commerce established and followed sound processes to award state energy grants and loans, monitor recipients' use of funds and determine if specific program outcomes were achieved?**

# Overview: State Energy Program

The State Energy Program is administered by the State Energy Office within the Department of Commerce.

The Energy Efficiency and Renewable Energy Loan and Grant Program received \$38.5 million in Recovery Act funds in FY 2010.

The Energy Office used those funds for grants and loans to businesses and public entities for 37 energy-related projects.



# Too Early to Assess Project Outcomes

- The Energy Office awarded all of the funds within required deadlines, but as expected work had begun on few of the projects when we conducted the audit, so relatively few of the expected outcomes had materialized.
- Commerce has estimated that the projects supported by the Recovery Act funding would generate annual energy savings of at least 3.8 million BTUs (British thermal units) and create between 300 and 400 jobs and retain 100 jobs.
- As of December 2010, Commerce reported about 45 jobs had been created or retained. As of March 2011, about \$10.2 million of the \$38.5 million had been spent.

# Awards Included Loans and Grants

- The State Energy Office awarded funding for 32 projects during two rounds of competitive funding. Nine awards were later declined by the recipients or withdrawn by Commerce.
- The Office also selected 13 projects non-competitively and made one sole-source award.
- Ultimately, the Energy Office awarded loans and grants to 37 projects.
- Forty-five (45) percent of the funds were awarded as loans and 55 percent as grants. Loan repayments will go to a revolving loan fund for additional projects in the future.

## Summary of Loan and Grant Awards

Dollars in Millions

	Eligible Applications	Funding Requested	Contracts Signed	Loans (Amount)	Grants (Amount)	Total Awarded
Competitive Rounds	121	\$132.7	23	\$12.4	\$13.2	\$25.6
Sole-Source	n/a	n/a	1	\$0	\$2.0	\$2.0
Non-Competitive Round	n/a	n/a	13	\$4.8	\$6.1	\$10.9
<b>Total</b>	<b>121</b>	<b>\$132.7</b>	<b>37</b>	<b>\$17.2</b>	<b>\$21.3</b>	<b>\$38.5</b>

# Commerce Followed Most Sound Practices

The Energy Office followed most of the sound practices we identified in obligating the Recovery Act funding. For example:

- The Requests for Proposals generated more than 120 proposals that met all minimum requirements, which is evidence of a strong competition.
- The staff organized evaluation teams of energy experts to evaluate the competitive proposals.
- Contracts for the successful projects reflect most of the sound practices we identified.

# Loan and Grant Award Practices Could Be Improved

However, the Office did not follow some important practices in an effort to meet tight Recovery Act deadlines. The staff:

- In two cases, significantly narrowed the scope of work from the original proposals to the final contracts. If the narrowed scope had been used in evaluating the competitive proposals, one award would not have qualified for funding.
- Did not document pre-award risk assessments or conduct reference checks that might have identified potential problems with proposed projects and averted the need to later withdraw one award.

# Loan and Grant Award Practices Could Be Improved

Documentation was lacking or was not retained for several aspects of the program, including:

- The rationale for the sole-source award.
- Changes to the competitive award process that were made between the first and second rounds.
- The reasons why an evaluator credited one proposal with \$4 million in matching funds that were not in the original request.
- The methods used to calculate some energy and job scores.
- Confirmation that one competitive funding application was received before the deadline.

Nothing prohibited the Energy Office from making a \$2 million non-competitive, sole-source award during the first two competitive rounds, but doing so made the process less open and transparent.

# Project Monitoring Could Be Improved

The contracts we reviewed did not specify all the information Energy Office staff will need to effectively monitor contractors' performance.

- Performance measures, such as jobs created/retained and energy savings, were not included in contracts.
- Two contracts did not include timelines for specific tasks.

Office staff made several payments to contractors based on limited information.

- In two cases, the invoices were not specific enough to link the charges to the projects' scope of work.
- In three cases, the invoices did not indicate the contractors' progress to date.

# Project Monitoring Could Be Improved

The Energy Office did not conduct formal post-award risk assessments to determine the appropriate level of monitoring.

- With 37 projects to oversee, risk assessments can help ensure that higher-risk projects are more closely monitored than lower-risk projects.

The staff did not monitor projects to ensure job openings and hiring decisions were reported to Washington's WorkSource system, as required.

- As a result, the Governor and federal agencies may not have received consistent information about jobs preserved and created with Recovery Act funds.

# Recommendations

- **To ensure the program operates consistently** and transparently, we recommend the Energy Office establish specific written policies and procedures and clearly document its processes and award decisions.
- **To ensure funds are awarded fairly and transparently**, we recommend the staff develop project contracts that reflect the original proposals and do not significantly narrow their scope.
- **To promote accountability**, we recommend the Energy Office Office's include clear standards in project contracts for measuring the recipients' performance. This will help to ensure final project outcomes are known and that recipients are accountable for achieving employment and energy savings goals.
- **To ensure funds are invested effectively and efficiently**, we recommend the Energy Office place a greater emphasis on identifying and assessing risks throughout the funding process.

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