



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

# Audit Report

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





## Department of Energy

Washington, DC 20585

April 23, 2012

### MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

A handwritten signature in cursive script that reads "George W. Collard".

FROM: George W. Collard  
Assistant Inspector General  
for Audits  
Office of Inspector General

SUBJECT: INFORMATION: 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"

#### BACKGROUND

Under the American Recovery and Reinvestment Act of 2009, the Department of Energy's Energy Efficiency and Conservation Block Grant Program (Program) received \$3.2 billion in funding to help U.S. state and local entities develop, implement, and manage energy efficiency and conservation projects. Funding of \$2.7 billion was, for the most part, distributed to over 2,000 entities using a population driven formula. An additional \$453 million was provided by the Recovery Act for innovative energy projects proposed by Government entities and was awarded as part of a competitive process. Authorized projects include the development of energy conservation strategies; energy efficiency audits and retrofits; transportation programs; financial incentive programs for energy efficiency improvements; establishment of advanced building codes and inspections; installation of energy efficient traffic signals and street lighting; and, installation of renewable energy technologies on municipal buildings.

The Department awarded the City of Philadelphia \$39.1 million, including \$14.1 million in formula grant funds and \$25 million in a competitive grant. The formula grant projects include the Energy Works Loan Fund, installation of bike racks, solar compacting litter baskets and solar panel installation. The competitive grant projects focused on a commercial retrofit program, a residential retrofit program, and an energy management and communications program.

Because of the risks inherent in establishing a large, new program of national significance, we initiated this audit to determine whether the City had managed its Recovery Act block grants efficiently and effectively.

#### CONCLUSIONS AND OBSERVATIONS

We found that the City could improve its management of its Recovery Act block grants. Specifically, we noted that the City:

- Erroneously transferred \$2 million of public utility rebates earned on block grant projects to its general fund to meet budget needs. The City reportedly misunderstood the nature of the rebates. When we brought the issue to their attention, officials developed, and the Department approved, a plan to use rebate funds on additional block grant projects;
- Incorrectly calculated the amount of interest owed to the U.S. Department of Treasury on competitive and formula funds advanced specifically for block grant projects. The City not only applied an erroneous rate, but also failed to compound interest. After we brought the error to their attention, City officials recalculated the interest and planned to remit \$5,700 to the U.S. Department of Treasury, as required; and,
- Had not ensured that equipment purchased with Recovery Act funds had actually been installed as required in the grant agreements. We identified three instances where energy efficient lighting had been purchased, but not installed, defeating the intent of the Recovery Act to reduce energy consumption. Recipients told us they purchased the equipment with formula funds to hold in inventory until existing lighting burned out.

We made recommendations to address the issues identified during our audit and improve the City's management of its Recovery Act block grants.

#### Use of Utility Incentive Funds

The City deposited \$2 million in rebates earned on the expenditure of block grant funds into its general fund for use on general purpose needs rather than restricting the use of those rebates to Recovery Act block grant activities, as required. In its agreement with the Department, the City confirmed that it would use any rebates earned to cover costs incurred on an approved block grant lighting project. With its Recovery Act funding, the City planned to replace 85,000 conventional traffic lights with energy efficient light-emitting diode (LED) traffic lights at a cost of about \$3.1 million. By spending money on energy efficient lighting, the City became eligible for a public utility's incentive program—a rebate program that returned funds based on the type of LED traffic light purchased and installed. However, contrary to its agreement with the Department, we found that the City had deposited proceeds from the rebate program into its general fund where monies could be used to support any of the City's budgetary needs. Federal regulations and the terms and conditions of the City's block grants expressly require rebates earned on the expenditure of Federal funds to be used only for authorized projects and prior to the request of any additional Federal funds.

The misallocation of rebate funds occurred because the City believed the funds were "utility retroactive discounts" rather than rebates related to its block grant expenditures. After we brought our concern about the characterization of the rebates to management's attention, City officials developed, and the Department approved, a plan for using the rebate funds to support additional block grant projects.

### Interest Earnings

The City incorrectly calculated the amount of interest owed to the U.S. Department of Treasury on competitive and formula funds advanced to meet block grant project needs, using a lower interest rate than appropriate and failing to compound interest. As a result of our audit, the City recalculated the interest earnings and will return \$5,700 to the U.S. Department of Treasury.

### Project Monitoring

The City had not ensured lighting equipment purchased through its Small Business Retrofit Program had been properly installed according to grant agreements. During our site visits, we found that three of the City's sub-recipients had not installed energy efficient lights as specified in their proposals. For example, one sub-recipient had purchased compact fluorescent light bulbs (CFLs) to replace incandescent bulbs, but had not installed them. The sub-recipient was reportedly waiting for the old bulbs to "burn-out" prior to installing the new bulbs. The City was not aware the new light bulbs had not been installed, and therefore, the energy savings had not been realized. According to 10 CFR 600.240, *Monitoring and Reporting Program Performance*, grantees are responsible for monitoring activities to ensure compliance with applicable Federal requirements and achievement of performance goals.

City officials relied on recipients to provide photograph and invoice documentation showing materials had been purchased and installed. However, the photographs did not always include all items purchased and installed; and City officials did not physically verify the installation and operation of equipment purchased with Federal funds. The City agreed that its monitoring program could be improved; and as a result of our audit, City officials told us that they are visiting all of the Small Business Retrofit Program recipients.

While the dollar impact in the three cases we identified is relatively small, the lack of monitoring could eventually have an impact on the achievement of Program goals. As of December 31, 2011, approximately 47 percent of the \$39.1 million the City received under the Recovery Act remained to be spent.

### RECOMMENDATIONS

To achieve the objectives of the Recovery Act, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy ensure the City:

1. Uses the \$2 million in rebate proceeds earned on Recovery Act block grant activities for approved grant purposes;
2. Calculates and remits interest earnings properly; and,
3. Closely monitors project performance and funds expended.

## MANAGEMENT REACTION AND AUDITOR COMMENTS

The Department concurred with the findings and recommendations in our audit report. Management noted that City officials developed a plan for using the rebate funds to support additional block grant projects. The Department also stated it had developed guidance to assist other grantees in understanding how to use rebate funds and continued to work with the City to ensure that adequate oversight is in place for compliance in the Small Business Retrofit Program.

The City also provided comments in response to our report. Specifically, the City indicated there was confusion about the definition of retroactive discounts and rebate funds. The City also stated it implemented 100 percent verifications for the Small Business Retrofit Program, at our request. While we did not specifically recommend this action in our report, we are encouraged by the City's actions.

We consider the comments and planned actions of the Department and City responsive to our recommendations. The comments can be found in their entirety in Attachment 3.

### Attachments

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

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine if the City of Philadelphia (City) had managed its American Recovery and Reinvestment Act of 2009 (Recovery Act) block grants efficiently and effectively.

### **SCOPE**

This report contains the results of an audit conducted between April 2011 and April 2012. The scope of the audit was limited to the City's formula and competitive block grants. We conducted work at the City's offices in Philadelphia, Pennsylvania. In addition, we obtained Energy Efficiency and Conservation Block Grant Program (Program) information from the Department of Energy's (Department) Headquarters in Washington, DC, and the Golden Field Office in Golden, Colorado.

### **METHODOLOGY**

To accomplish the audit objective, we:

- Reviewed Federal and Department regulations applicable to the Program;
- Reviewed City policies and procedures for project and Recovery Act funds management;
- Assessed compliance with the Buy American provision of the Recovery Act, Davis-Bacon Act, National Historic Preservation Act, National Environmental Policy Act, and the Department's Waste Stream Plan requirements;
- Interviewed the City oversight team and project managers;
- Reviewed invoices and subcontract agreements for reasonableness of costs incurred for 15 projects; and,
- Observed the implementation of six projects.

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 the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the objective. In particular, we assessed the implementation of the *GPRM Modernization Act of 2010* as it relates to the audit objective and found that the Department had established performance measures related

to the use of Recovery Act funds for the Program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer-processed data to accomplish our audit objective.

The Department waived an exit conference.



### **PRIOR AUDIT REPORTS**

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), 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:


- Audit Report on [\*The State of Nevada's Implementation of the Energy Efficiency and Conservation Block Grant Program\*](#) (OAS-RA-12-02, November 2011)
- 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 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

March 30, 2012

MEMORANDUM FOR: GEORGE W. COLLARD  
ASSISTANT INSPECTOR GENERAL  
FOR AUDITS  
OFFICE OF INSPECTOR GENERAL

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

SUBJECT: The Department of Energy's (DOE) Energy Efficiency and Conservation Block Grant Program Funded under the American Recovery and Reinvestment Act for the City of Philadelphia

The Office of the Inspector General (OIG) makes three recommendations for how the City of Philadelphia could improve its management of its Recovery Act Block Grant. The OIG's recommendations address compliance issues. We concur with the OIG's recommendations and have been working with the City of Philadelphia to ensure they implement plans that address these recommendations.

**OIG Recommendation 1: Ensure that the \$2 million in rebate proceeds earned on Recovery Act Block Grant activities are used for approved grant purposes.**

**DOE Response:** DOE agrees with the recommendations of the OIG. As noted in the Draft Report, Philadelphia officials developed, and DOE approved, a plan for using the rebate funds to support additional Block Grant projects in Philadelphia. On December 12, 2011, Philadelphia presented to DOE the city spend plan that showed that all rebate funds indeed were spent on Energy Efficiency and Conservation Block Grant (EECBG) projects and that expected rebate funds were earmarked for permissible EECBG projects. On December 13, 2011, the DOE Contracting Officer approved the city plan regarding the rebate funds. In fact, the city has spent additional city funds beyond those received from the utilities on EECBG projects. All funds have now been properly spent on EECBG projects.

DOE developed guidance to assist other EECBG grantees in understanding how to use funds from rebates, and how to properly differentiate them from "utility retroactive discounts".  
[http://www1.eere.energy.gov/wip/pdfs/finalrebatefaqs\\_120104.pdf](http://www1.eere.energy.gov/wip/pdfs/finalrebatefaqs_120104.pdf)

**OIG Recommendation 2: Ensure that interest earnings are properly calculated and remitted.**

**DOE Response:** DOE agrees with the recommendations of the OIG. The City recalculated the interest earnings and informed DOE that it will return \$5,700 to the Treasury.



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**MANAGEMENT COMMENTS**

***OIG Recommendation 3:*** Ensure that project performance and funds expended are closely monitored.

***DOE Response:*** DOE agrees with the recommendations of the OIG. As a result of the OIG recommendations, Philadelphia reports that they are visiting all of the Small Business Retrofit Program recipients to ensure compliance. In addition, Philadelphia is working with the Department, through the EECBG Project Officer, to ensure that as they continue to spend award funds, adequate oversight is in place to ensure compliance.

DOE thanks the OIG for its recommendations and will continue to implement all corrective actions.



CITY OF PHILADELPHIA

OFFICE OF THE MAYOR

March 19, 2012

Rickey R. Hass  
Deputy Inspector General for Audits and Inspections  
Office of Inspector General  
U.S. Department of Energy  
1000 Independence Avenue SW  
Washington, DC 20585

Dear Mr. Hass:

Thank you for the opportunity to provide comments on the Draft 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." The City wishes to provide comments on two sections: the use of utility incentive funds and project monitoring.

Use of Utility Incentive Funds

While the draft report acknowledges that, "The misallocation of rebate funds occurred because the City believed the funds were "utility retroactive discounts" rather than rebates related to its Block Grant expenditures," the City believes that the report should also acknowledge that confusion about the definition of rebate funds and utility retroactive discounts was widespread.

In response to questions by EECBG recipients, Project Officers and Contracting Officers, the U.S. Department of Energy (DOE) issued new guidance on the treatment of utility rebates and utility retroactive discounts (URDs) on September 1, 2011. According to the guidance memo, DOE determined that such guidance was needed to ensure consistency across the EECBG program and awards. By the time DOE issued the guidance, the City had already received and deposited the utility incentives. When the new guidance was brought to the attention of the City and the DOE Contracting Officer and Auditors, the City provided information demonstrating why it believed the utility incentive payments were not "rebates" as defined in the guidance. DOE's Contracting Officer reviewed this information and disagreed with the City's position. Upon receiving notice of the Contracting Officer's determination, the City promptly developed and DOE approved a plan to for using the utility incentives to support additional Block Grant Projects. The plan is a result of compromise and should not be construed as an acknowledgment of an error by the City or as the City's agreement with DOE's position. However, the City believes that the approved plan resolves this issue in a manner that is fair and reasonable, and without prejudice to the City's position on this issue.



CITY OF PHILADELPHIA

OFFICE OF THE MAYOR

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Project Monitoring

We appreciate that the draft report recognizes that “the dollar impact in the three cases we identified is relatively small.” The dollar impact was in fact tied to a small number of light bulbs. The City agreed at the DOE IG’s request to institute 100 percent verification of installations, but we believe that it is worth noting that this comes at a cost and dollars spent on verification are dollars not expended on energy efficiency. Given the extremely small dollar amount that this stands as an example of, the City respectfully requests that the DOE IG consider applying a risk management approach to requests for 100 percent verification programs.

Thank you again for the opportunity to provide comments. We have appreciated the professionalism of the Office of Inspector General team over the course of this 12-month audit process.

Sincerely,

A handwritten signature in cursive script that reads "Katherine Gajewski".

Katherine Gajewski  
Director of Sustainability  
City of Philadelphia



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