OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-19-05 November 2018

MANAGEMENT OF SELECTED FINANCIAL ASSISTANCE AGREEMENTS UNDER THE WIND PROGRAM

Department of Energy
Washington, DC 20585

November 7, 2018

MEMORANDUM FOR THE ACTING ASSISTANT SECRETARY FOR THE OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY

FROM: Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Management of Selected Financial Assistance Agreements under the Wind Program"

BACKGROUND

The Office of Energy Efficiency and Renewable Energy's (EERE) Wind Energy Technologies Office (Wind Program) invests in energy science research and development activities that enable the innovations needed to advance U.S. wind systems, while continuing to address market and deployment barriers. According to the *Department of Energy Fiscal Year 2018 Congressional Budget Request*, as of 2016, wind energy provided nearly 5.5 percent of our Nation's electricity. The Wind Program's long-term goal is to achieve significant reductions in the cost of wind energy.

To accomplish the Wind Program's mission, EERE enters into financial assistance agreements, also referred to as awards, with recipients. In March 2016, the Wind Program had 26 active awards totaling approximately $228 million. The awards ranged from approximately $249,000 to over $50 million and were provided to universities, private organizations, public companies, and public utilities. Award management is a shared responsibility among multiple EERE entities, including the Wind Program, the Financial Assistance Office, and the Procurement Policy and Compliance Office.

Given its significant role in supporting initiatives for energy independence and environmental protection, we initiated this audit to determine whether EERE effectively managed selected Wind Program financial assistance agreements.

RESULTS OF AUDIT

We found that EERE had not always monitored project costs for one of the two financial assistance awards included in our audit in an effective manner. Specifically, we identified issues related to effective monitoring of project costs on the Principle Power, Inc. (Principle) award. We did not identify any issues with the management of the award to Virginia Electric and Power Company, the second financial assistance agreement reviewed.

We reviewed Principle's invoices that had approximately $18 million in total project costs from March 2013 through April 2016, including approximately $10.2 million in costs reimbursed by EERE and approximately $7.8 million in costs contributed by Principle (cost share[1]). Based on our review, we found that:

- Principle had not sufficiently managed its indirect and fringe costs because it did not annually reconcile, or true-up, its provisional billing rates with actual indirect and fringe costs incurred throughout the performance period. As a result, indirect and fringe costs were overstated by approximately $3.2 million from 2013 through 2015.

- Approximately $476,000 of incurred costs were potentially unallowable or had not been properly credited to EERE.

During the audit, EERE took action to address and resolve the issues. As part of approving Principle's final budget, EERE's Contracting Officer considered and made final determinations on the cost issues identified in this report. Because the costs were resolved, no costs are being questioned. In July 2017, EERE formally closed out the Principle award. In addition to these issues, we identified other areas for improvement, which we separately discussed with EERE management.

Aside from the financial issues identified, we found that EERE had otherwise implemented controls designed to enhance project management practices and oversight. Specifically, EERE had implemented:

- Safeguards to ensure that project progress was commensurate with funding obligated to date and that project milestones were well defined and tracked. For example, EERE established budget periods to limit the amount of funding obligated for each phase of the two wind projects we reviewed.

- An adequate oversight process to ensure that financial assistance recipients were receiving required compliance audits.

Management of Indirect and Fringe Costs

We found that Principle had not sufficiently managed its indirect and fringe costs because it did not annually reconcile, or true-up, its provisional billing rates with actual indirect and fringe costs incurred throughout the performance period. The agreement terms and conditions did not provide specific guidance on reconciling indirect and fringe costs annually; however, EERE officials sent Principle guidance stating that while invoicing of indirect costs can be based on estimates, those costs must be "trued-up" at least annually and adjustments made to a future

[1] Cost share is the percentage of total allowable project costs that must come from non-Federal sources.

invoice (or credited back to the Government) if overcharging has occurred. Principle used provisional billing rates of 95.9 percent for indirect costs and 49.5 percent for fringe costs in 2013. In 2014, Principle certified that the actual rates for 2013 were only 48.64 percent for indirect costs and 21.38 percent for fringe costs; however, it did not true-up or reconcile the costs charged to the project for the previous year. As a result, we determined that approximately $1.7 million of the indirect and fringe costs charged to the project in 2013 and 2014 were overstated. Per the terms and conditions of the award, Principle was responsible for managing the indirect costs, and based on the provisional rate agreement, Principle was also responsible for notifying the Department of Energy if it found itself in a position of being over- or under-recovered. After we brought this issue to EERE's attention during our audit, EERE performed an updated reconciliation and identified a total of $3.2 million in overstated indirect and fringe costs from 2013 through 2015.

In January 2017, EERE approved Principle's final budget, resulting in a reduction in total project costs from approximately $18 million to approximately $15 million, which included adjustments for the actual fringe and indirect rates. The final budget also reduced Principle's cost share to 28 percent, from approximately $7.8 million to approximately $4.2 million. The cost-share percentage agreed to in the initial and revised budgets had ranged from approximately 30 percent to 47 percent throughout the life of the agreement. In July 2017, EERE formally closed out the award.

Principle did not true-up its indirect and fringe costs for a couple of reasons. Principle's Controller stated that the indirect and fringe rate true-ups had not occurred because it was not clear that Principle was required to perform them. However, we noted evidence that Principle had been reminded of this requirement by an EERE Grants Management Specialist in August 2014. We also found that EERE did not enforce the requirement to true-up the indirect and fringe rates due to insufficient coordination among the three EERE groups that managed the award: the Financial Assistance Office, the Wind Program, and the Risk Management and Audit Oversight group[2]. In response to our report, EERE officials agreed that increased coordination would be beneficial and stated that they had taken several steps to improve coordination.

If rate true-ups do not occur in a timely manner for future awards, project costs may not be adequately managed, and recipients may be at risk of falling below the *Energy Policy Act of 2005* cost-share requirements once final adjustments are made to the indirect and fringe costs applied to the projects. These cost-share requirements are either 20 percent or 50 percent, depending on the purpose of the financial assistance award. In some cases, that may result in the need for recipients to pay funds back to EERE. EERE indicated that recovering funds could create a hardship for some recipients, which would have been the case with Principle, had EERE required funds to be returned.

Other Project Costs

Based on our review of project costs, we identified approximately $476,000 of other project costs incurred that were potentially unallowable or were not properly credited to EERE. This

[2] Some award management functions, including those related to indirect costs, performed by the Risk Management and Audit Oversight group were transferred to the Procurement Policy and Compliance Office after our fieldwork was completed.

amount included (1) approximately $328,000 in indirect costs that Principle improperly applied to the project, and (2) a refund of $148,000 that Principle had received on project costs but had not remitted to EERE. In both cases, Principle adjusted for these amounts in the final approved budget. Therefore, we are not questioning any of these costs.

Path Forward

In prior audit reports, we identified issues related to EERE's invoice processes and provided recommendations for improvement. In March 2016, our report on the *Management of the Solar Energy Technologies Office's Technology to Market Program* (OAI-M-16-08) identified the need for EERE to finalize its policy related to the risk-based invoice review approach. EERE finalized the risk-based invoice review policy to standardize the approval process effective for new awards made in September 2016 and for pre-existing awards in November 2016. Based on our review of the training materials for the new invoice review process, we noted several improvements. For example, there are four tiers of invoice review procedures to follow, with the highest risk recipients being required to submit documentation to support all travel and personnel expenses. We did, however, note that there were no specific requirements for invoice reviewers to ensure that indirect and fringe costs were reconciled annually and to adjust project costs, when necessary.

In November 2016, some of the functions related to financial assistance management, such as indirect cost rate determinations, previously performed by EERE's Risk Management and Audit Oversight group were transferred to EERE's Procurement Policy and Compliance Office. The Golden Field Office Director cited a number of reasons for this realignment, including to ensure organizational independence and to maintain accountability and responsibility of EERE's comprehensive and integrated audit framework within a single organization. This organizational change may allow for closer coordination to ensure that recipients adequately manage indirect costs because the realigned functions are now in the same Division as the Financial Assistance Office.

<u>RECOMMENDATIONS</u>

We recommend that the Acting Assistant Secretary for the Office of Energy Efficiency and Renewable Energy:

1. Evaluate whether the realignment of award management functions has improved the coordination between the Wind Program, the Financial Assistance Office, and the Procurement Policy and Compliance Office to ensure an effective and timely process of managing indirect costs throughout the life of financial assistance awards.

2. Incorporate into the invoice review process and procedures a step to ensure that indirect and fringe costs are reconciled annually.

MANAGEMENT RESPONSE

Management partially concurred with our report's findings and recommendations and indicated that corrective actions had been taken to address the issues identified in the report. To address Recommendation 1, Management stated that processes had been put in place to ensure the effective and timely management of recipients' indirect costs throughout the life of financial assistance awards. Additionally, Management stated that it would continue to evaluate whether the realignment of award management functions has improved the coordination between the Wind Program, the Financial Assistance Office, and the Procurement Policy and Compliance Office.

Management partially concurred with Recommendation 2 because it did not agree that the invoice review was the appropriate control to ensure indirect costs were reconciled annually. Subsequent to the official response, Management clarified that while it believed that the reconciliations would best be completed outside of the invoice review process, it did not disagree that the invoice review process should be used to verify that the cost reconciliations were completed. Management provided a standard operating procedure that requires the Procurement Policy and Compliance Office, in conjunction with Contracting Officers, to ensure that the reconciliations are performed annually. Additionally, the standard operating procedure requires Contracting Officers to monitor any necessary cost reimbursements and/or adjustments as part of the invoice review process. Management comments are included in Attachment 3.

AUDITOR COMMENTS

We consider Management's comments and corrective actions to be responsive to our recommendations. In regards to Management's partial concurrence to Recommendation 2, we find the standard operating procedures subsequently provided to satisfy the intent of the recommendation.

Attachments

cc: Deputy Secretary
Chief of Staff
Under Secretary of Energy

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

We conducted this audit to determine whether the Office of Energy Efficiency and Renewable Energy (EERE) effectively managed selected Wind Energy Technologies Office (Wind Program) financial assistance agreements.

SCOPE

This audit was conducted between March 2016 and November 2018 at the Golden Field Office in Golden, Colorado. We focused on financial assistance agreements issued to for-profit recipients between 2011 and 2015, and conducted site visits to Virginia Electric and Power Company in Richmond, Virginia, and Principle Power, Inc. (Principle) in Emeryville, California. This audit was conducted under Office of Inspector General project number A16DN030.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable policies, procedures, laws, and regulations pertaining to financial assistance agreements.
- Reviewed reports issued by the Office of Inspector General, Government Accountability Office, and other entities, such as external audit firms.
- Interviewed key personnel from EERE's Wind Program, Financial Assistance Office, and the Risk Management and Audit Oversight group.
- Assessed EERE's process to ensure financial assistance recipients were receiving required compliance audits.
- Identified a universe of eight for-profit financial assistance recipients with awards totaling approximately $158 million, or 70 percent of the total amount awarded as of March 2016. Of that amount, the Wind Program had already obligated approximately $38 million to the for-profit financial assistance recipients. We judgmentally selected two of the three largest awards—Virginia Electric and Power Company, and Principle—totaling approximately $20 million in obligated funds, for more detailed reviews. The sample selection was based on factors such as dollar value, project progress, prior audit history, and percentage expended. We did not conduct a statistical sample; therefore, we cannot project our audit results to the Wind Program's entire funding population.
- Conducted a detailed review of both recipients, to include an evaluation of the subrecipients; invoices; cost share[3] contributions; goals and milestones; and compliance with laws, regulations, policies, and procedures.

[3] Cost share is the percentage of total allowable project costs that must come from non-Federal sources.

- Conducted site visits to both recipients where we interviewed key personnel and obtained an overview of the projects.

- Verified cost share and reviewed the supporting documentation for 10 of the 28 invoices Virginia Electric and Power Company submitted for reimbursement and the Department of Energy had subsequently approved. We selected two invoices for more detailed testing that included obtaining timesheets, payroll reports, and proof of payments to vendors and subrecipients. Because Virginia Electric and Power Company was able to provide adequate supporting documentation for project costs and general ledger discrepancies, we did not expand our testing for costs incurred in the second budget period. We did not conduct a statistical sample; therefore, we cannot project our audit results to the population.

- Determined more in-depth testing was needed for Principle based on the lack of formalized policies and procedures that documented how it managed financial assistance agreements. Principle's total amount of invoiced project costs to date was approximately $18 million. We conducted the following steps.

    - Reviewed all 28 invoices approved for reimbursement and requested detailed supporting documentation, such as payroll reports, timesheets, and itemized travel receipts necessary to adequately support direct project costs.

    - Reviewed and analyzed Principle's indirect and fringe rates for 2013 and 2014 to determine whether Principle had trued-up its provisional billing indirect and fringe rates to actuals, as required.

    - Judgmentally selected the following transactions identified in Principle's certified incurred cost submissions for 2013 and 2014, which is used to calculate Principle's indirect cost rates, to determine whether they were adequately supported.

        - 4 out of 13 travel transactions, representing about $102,000 or about 67 percent of the approximate $153,000 in travel expenses from Principle's certified incurred cost submission for 2013.

        - 16 out of 715 travel transactions, representing about $40,000 or about 26 percent of the approximate $154,500 in travel expenses from Principle's certified incurred cost submission for 2014.

        - 4 out of 34 legal transactions, representing about $204,000 or about 53 percent of the approximate $384,000 in legal expenses from Principle's certified incurred cost submission for 2014.

    We did not conduct a statistical sample; therefore, we cannot project our audit results to the population.

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 findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the implementation of the *GPRA Modernization Act of 2010* and found that the Department had established performance measures specifically related to EERE's Wind Program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of this audit. We conducted a reliability assessment of computer-processed data relevant to our audit objective by comparing the data to source documents. We deemed the data to be sufficiently reliable for our purposes.

Management waived the exit conference on October 2, 2018.

RELATED REPORTS

Office of Inspector General

- Audit Report on *Management of the Solar Energy Technologies Office's Technology to Market Program* (OAI-M-16-08, March 2016). The audit disclosed that financial management issues were identified with one recipient, Soitec Solar Industries LLC (Soitec). Soitec, the largest for-profit recipient in the Technology to Market Program, claimed more than $7 million in project costs on its first two invoices that were not adequately supported or were duplicative. After the issues were brought to the Technology to Market Program's attention, officials took a number of actions and resolved the questioned costs. The issues identified were due, in part, to Soitec's lack of understanding of Federal financial assistance award requirements. It was determined that the Department of Energy's guidance on required supporting documentation was inconsistent between post-award information presented to Soitec and the financial assistance agreement. In addition, the Technical Project Officer had a heavy workload of more than 100 awards, which made it difficult to provide adequate oversight.

- Audit Report on *The Department of Energy's Water Power Program* (OAS-M-14-07, June 2014). The audit disclosed that for-profit recipients had not completed and submitted compliance audits as required by Federal regulations. Further, payment restrictions were not put in place to address weaknesses identified in an accounting system audit at one recipient. Specifically, the Water Power Program did not modify the terms and conditions of the recipient's previously negotiated awards despite the results of an audit that indicated significant problems with the recipient's accounting system, such as its inability to identify and separate unallowable costs. In some instances, it was identified that the Water Power Program had not ensured recipients managed project funds in accordance with Federal regulations and/or the terms and conditions of their awards.

Government Accountability Office

- Report to Congressional Requesters on *Wind Energy: Additional Actions Could Help Ensure Effective Use of Federal Financial Support* (GAO-13-136, March 2013). The Government Accountability Office identified 82 Federal wind-related initiatives, with a variety of key characteristics, implemented by nine agencies in fiscal year 2011. The 82 wind-related initiatives that the Government Accountability Office identified were fragmented across agencies, most had overlapping characteristics, and several that financed deployment of wind facilities provided some duplicative financial support. The Government Accountability Office recommended that, to the extent possible within their statutory authority, the Departments of Energy and Agriculture formally assess and document whether the Federal financial support of their initiatives was needed for applicants' wind projects to be built. The Department of Energy agreed with the recommendation related to its initiatives.

MANAGEMENT COMMENTS

Department of Energy
Washington, DC 20585

September 25, 2018

MEMORANDUM FOR: SARAH B. NELSON
ASSISTANT INSPECTOR GENERAL
FOR AUDITS AND ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

FROM: STEVEN G. CHALK
ACTING DEPUTY ASSISTANT SECRETARY
FOR RENEWABLE ENERGY
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Management Response to Office of Inspector General Draft Audit Report on "Management of Selected Financial Assistance Agreements Under the Wind Program"

The Department of Energy (DOE), Office of Energy Efficiency and Renewable Energy (EERE), appreciates the opportunity to review the Office of Inspector General's (OIG) September 2018 draft audit report entitled, "Management of Selected Financial Assistance Agreements Under the Wind Program."

EERE is in partial concurrence with the findings and recommendations identified in the report. We recognize that even the most well run programs can benefit from an external evaluation and we appreciate the input of the OIG as we continue to work to enhance our Program. Specific responses to your recommendations are provided below.

OIG Recommendation 1: We recommend that the Acting Assistant Secretary for the Office of Energy Efficiency and Renewable Energy evaluate whether the realignment of award management functions has improved the coordination between the Wind Program, the Financial Assistance Office, and the Procurement Policy and Compliance Office to ensure an effective and timely process of managing indirect costs throughout the life of financial assistance awards.

EERE Response:

Concur. EERE has implemented processes to ensure the effective and timely management of recipients' indirect costs throughout the life of financial assistance awards. These processes ensure collaboration between the Wind Energy Technology Office (WETO), Financial Assistance Office (FAO) and Procurement Policy and Compliance Office (PPCO). EERE will continue to evaluate whether the realignment of award management functions has improved the coordination between WETO, FAO, and PPCO.

OIG Recommendation 2: We recommend that the Acting Assistant Secretary for the Office of Energy Efficiency and Renewable Energy incorporate into the invoice review process and procedures a step to ensure that indirect and fringe costs are reconciled annually.

EERE Response:

Partially concur. EERE has developed guidance and procedures to ensure that Incurred Cost Proposals (ICPs) are reviewed properly, and that adjustments or reimbursements are addressed in a timely manner. The basis for partial concurrence is that EERE does not agree that invoice review is an appropriate control to ensure indirect costs are reconciled annually. Invoice review ensures costs are allowable, allocable and reasonable, and that indirect costs are billed in accordance with a recipient's approved indirect rates. Recipients typically submit multiple invoices for review and approval during their fiscal year, whereas indirect and fringe costs are only required to be reconciled on an annual basis. EERE will continue to work with recipients to emphasize how important it is for them to negotiate and finalize their indirect cost rates on an annual basis.

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. Comments may also be mailed to us:

Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 586-7406.