



U.S. Department of Energy  
Office of Inspector General  
Office of Audit Services

# Audit Report

## Management Controls over the State Energy Program's Formula Grants



## Department of Energy

Washington, DC 20585

April 26, 2006

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

FROM:

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SUBJECT:

INFORMATION: Audit Report on "Management Controls over  
the State Energy Program's Formula Grants"

#### BACKGROUND

The Department of Energy's (Department) State Energy Program (Program) provides grants to States to support their energy priorities. Congress created the Program in 1996 and established requirements for the States to meet in obtaining grants to promote energy conservation and efficiency and reduce energy demand by developing and implementing comprehensive State energy conservation plans. States are required to match grants with contributions amounting to 20 percent of the appropriated funds awarded to the State. The Department provides grant funds to the States based upon a formula that considers population and energy consumption in each State.

According to the Department, the goals of the Program are to:

- Increase energy efficiency and reduce energy costs;
- Improve reliability of energy sources;
- Demonstrate alternative and renewable energy sources;
- Promote economic growth with improved environmental quality;
- Reduce reliance on imported oil; and,
- Assist States in preparing State energy and emergency plans.

The Department provided approximately \$44 million in Fiscal Year 2005 to support State Energy Programs.

Because of the escalating costs of energy and its importance to national security, we initiated this audit to determine whether the Department had implemented controls to (a) ensure grant funds were used for their intended purpose, and (b) determine the cost benefit of the program in meeting its goals.

#### CONCLUSIONS AND OBSERVATIONS

Office of Energy Efficiency and Renewable Energy's (EERE) Regional Offices did not regularly perform on-site monitoring of State Energy Offices to ensure that grant funds were being used for their intended purpose and had not established or collected



meaningful performance metrics to determine the cost benefit of the Program in meeting its goals. Furthermore, it is unclear at this time how a recent reorganization of EERE's field structure will impact monitoring of the Program.

### Monitoring

EERE Regional Offices were not regularly visiting State Energy Offices to monitor the use of funds or the results of Program activities. We reviewed monitoring reports from four of the six EERE Regional Offices and found that the latest visits varied among State Energy Offices from less than one year to nearly five years ago. We also found that monitoring visits rarely reviewed State financial controls over Program funds.

Although the Department did not implement controls to monitor the States' use of funds or Program accomplishments, nothing came to our attention during our visits to six States to indicate that they were not spending funds for their intended purpose. For example, we found that each of the States had used grant funds, together with State funds, to support their State Energy Offices. These offices prepared and coordinated State energy plans, conducted outreach activities, such as sponsoring or conducting workshops, identified energy cost savings opportunities, and performed energy assessments. States also used grant funds to support projects such as the demonstration and evaluation of energy saving technologies. We also noted that expenditures of Program funds were covered in the States' Single Audit Act audits required by Office of Management and Budget Circular A-133.

Additionally, we found indications that the six States had established financial controls over the funds. For example, States maintained separate accounts to track the use of Program funds. Additionally, we found that States implemented controls to ensure that expenditures of Federal funds for Program activities were supported with invoices and other supporting documentation.

### Performance Metrics

While we concluded that the States were spending funds consistent with the broad goals of the Program, we found that the Department had not established or collected meaningful performance metrics to evaluate the cost benefit of the Program. Although the Program is intended to contribute to percentage improvements in energy efficiency called for in the State Energy Efficiency Programs Improvement Act of 1990 and the Energy Policy Act of 2005, the Department has not identified specific improvements expected directly from the Program.

Furthermore, while States are required to provide estimates of energy savings in annual plans supporting grant applications, the Department did not validate or compare actual results to those planned. For example, States estimate energy savings expressed in British thermal units (Btu) from planned activities in their annual plans. However, representatives from the State Energy Offices that we visited told us that they were not confident in the estimates and did not always use them to measure performance.

To its credit, EERE has attempted to measure program accomplishments through periodic studies by the Oak Ridge National Laboratory (ORNL). The most recent study conducted in 2004, concluded that "the energy efficiency and renewable energy activities performed by the States and territories have resulted in substantial energy and cost savings and emissions reductions." The study, however, did not differentiate between the Program's contributions and those occurring from other influences in reporting outcomes. It also relied on savings estimates based on information provided by the States. ORNL recognized that the savings estimates contain a degree of uncertainty. Furthermore, EERE officials told us that they recognize the need for more definitive, quantifiable performance metrics and are working to develop them in conjunction with the States.

### Program Guidance

Although EERE's *State Energy Program Operations Manual* calls for Regional Offices to perform at least one formal site visit to each State per year, EERE did not ensure that the Regional Offices followed this guidance. Furthermore, although the Department is currently consolidating the six EERE Regional Offices at the National Energy Technology Laboratory and the Golden Field Office, it had not specified how it will assign responsibility for or staff the Program monitoring function within these entities.

Regarding the collection and establishment of meaningful performance metrics, the Department did not provide adequate guidance to the States for measuring program accomplishments. Specifically, the Department relied on estimated Btu savings by the States to measure performance which did not always provide realistic estimates of program accomplishments. For example, most States have education and outreach components to their Program activities; however, none of the States we reviewed had an accurate method of determining energy savings that could result from these activities. The representatives stated that the Btu-oriented metrics used by the Department were not always useful in describing program results. Several State representatives told us that they were developing performance metrics for reporting to their State legislatures.

### Program Results

Without improvements in monitoring and the establishment and collection of realistic performance metrics, the Department is unable to determine the cost benefit of its yearly investment of approximately \$40 million in Program activities. Improved monitoring and performance metrics would help ensure that available Federal funds will be directed toward the most cost-effective energy efficiency programs. For example, we noted during our audit that several States have accumulated large unused balances in grant awards, including nine States that had accumulated balances representing over two years of grant funds made available to them. Program officials stated that they are monitoring the States' use of funds and are working with the States to reduce large accumulated balances.

## RECOMMENDATION

1. We recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:
  - (a) Specify the monitoring responsibilities and staffing of the State Energy Program mission at the re-organized EERE field sites;
  - (b) Implement regularly scheduled monitoring visits that address administrative, financial, and programmatic areas; and,
  - (c) Complete work with the State Energy Offices to design appropriate quantifiable performance measures in order to determine the cost benefit of the State Energy Program.
2. Because of the increasing energy challenges facing the nation and the limited amount of Federal funds available to address those challenges, we further recommend that the Assistant Secretary use the results of improved performance measures to re-evaluate the cost benefit of the State Energy Program.

## MANAGEMENT REACTION

In responding to a draft of this report, management agreed with our recommendations and stated that corrective actions will be implemented. Management's comments, which are provided in their entirety in Appendix B of the report, were responsive to our recommendations.

Attachment

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

## OBJECTIVE

To determine whether the Department had implemented controls to (a) ensure grant funds were used for their intended purpose, and (b) determine the cost-benefit of the program in meeting its goals.

## SCOPE

The audit was performed between February and April 2006 at EERE's Headquarters, Washington, D.C.; Central Region Office, Golden, Colorado; Southeast Regional Office, Atlanta, Georgia; and Mid-Atlantic Regional Office, Philadelphia, Pennsylvania. In addition, audit work was performed at the State Energy Offices in Denver, Colorado; Tallahassee, Florida; Atlanta, Georgia; Boise, Idaho; Harrisburg, Pennsylvania; and Salt Lake City, Utah.

## METHODOLOGY

To accomplish the audit, we:

- Obtained and reviewed applicable laws, regulations, strategic plans, and guidance;
- Interviewed Department representatives at EERE's Headquarters and three Regional Offices and State Energy Office representatives at six States;
- Tested Regional Offices to determine whether they were conducting site visits and performing financial reviews of grant recipients;
- For the six States reviewed, tests were conducted to determine whether:
  - Grant applications met mandatory requirements;
  - States complied with grant provisions such as the requirement for a 20 percent matching cash or in-kind contribution and the ceiling on office supplies, library materials, and equipment not to exceed 20 percent of the State's annual Federal award;
  - Funds were used for prohibited activities such as purchasing land or buildings and conducting research, development, or demonstration of techniques and technologies not commercially available;
  - States established financial controls over grant funds;
  - Funds were being used for their intended purpose; and,
  - Periodic financial and program reports were submitted.

- Reviewed the results of State audits conducted in accordance with the *Single Audit Act* and Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent 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 reviewed goals and performance measures applicable to the State Energy Program as required by the *Government Performance and Results Act of 1993*. We relied on computer-processed data to accomplish the audit objective. When appropriate, we performed limited test work of data reliability during our audit and determined that we could rely on the computer-processed data.

We discussed the results of this audit with EERE on April 21, 2006.

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## **State Energy Program**

### Program History

The State Energy Program (Program) was established to promote energy conservation and efficiency and reduce energy demand by developing and implementing comprehensive State energy conservation plans supported by Federal financial and technical assistance.

The Program was formed in 1996 by consolidating the State Energy Conservation Program (SECP) and the Institutional Conservation Program (ICP). The SECP had provided State funding for a variety of energy efficiency and renewable energy activities. The ICP had provided schools and hospitals with a technical analysis of their buildings and the installation of energy conservation measures identified in that analysis.

The SECP was created under the Energy Policy and Conservation Act during the energy crisis of the early 1970s. Events during that period increased the nation's awareness of its dependence on foreign oil and the need to lessen this dependence. Congress responded with legislation that established a broad range of conservation programs, provided support for the development of new and more efficient sources of energy, and established the Department of Energy (Department) to lead and administer the effort.

The SECP was expanded in the Energy Conservation and Production Act of 1976, which added a supplemental State Plan to the base plan established through the earlier law. In 1983, SECP experienced further growth when it was allocated funds under the Warner Amendment (P.L. 95-105). These new monies came from refunds collected by the Federal government from oil companies that had overcharged for petroleum and petroleum products. Passed on to the States as Petroleum Violation Escrow (PVE) funds, the new monies stimulated the States to expand programs and create new ones to get consumers to develop more efficient energy habits. Additional funds began flowing into energy conservation programs as a consequence of the Exxon and Stripper Well settlements in 1986.

As a result of the funding infusions in the 1980s, energy-saving strategies and programs grew and evolved in complexity. A host of information, education, and technology demonstration activities were added to mandatory activities to meet the needs of various consumer groups.

State-based energy conservation and efficiency programs were further developed by passage of the State Energy Efficiency Programs Improvement Act of 1990 (P.L. 101-440) and the reorganization of the Department's Office of Energy Efficiency and Renewable Energy (EERE). The Act encouraged States to undertake activities designed to improve energy efficiency and stimulate investment in and use of alternative energy technologies. It also invited States to venture into energy technology commercialization services programs.

## Program Funding

The Program is funded through several sources that include Congressional appropriations, State matching funds, PVE funds, and any income the Program's activities can generate. Congressional funds available to the Program are allocated to the 50 States, U.S. Territories, and the District of Columbia (States) through noncompetitive formula grants.

Annual appropriated funds have ranged from a low of \$25.6 million in Fiscal Year (FY) 1996 to a high of almost \$44.6 million in FY 2003. Total Congressional funds available to the program are allocated to States according to the following formula:

- If available funds equal \$25.5 million, such funds are awarded to the States based on allocations (as described in 10 CFR 420.11) from the two programs, SECP and ICP, that were combined to form the Program;
- If the available funds for any fiscal year are less than \$25.5 million, then the base allocation for each State will be reduced proportionally;
- If the available funds exceed \$25.5 million, \$25.5 million will be allocated as specified above and the amount in excess of \$25.5 million will be allocated as follows:
  - One-third of the available funds divided among the States equally;
  - One-third of the available funds allocated on the basis of the population of the participating States as contained in the most recent reliable census data available from the Bureau of the Census, Department of Commerce, for all participating States at the time the Department needs to compute State formula shares; and,
  - One-third of the available funds allocated on the basis of the energy consumption of the participating States as contained in the most recent State Energy Data Report available from the Energy Information Administration.

Program funds awarded by States for FYs 2004, 2005, and 2006 are detailed in Schedule 1.

## Limitations and Restrictions on Use of Program Funds

Recipients of Program funds are subject to limitations and restrictions on fund use. In addition, States must contribute to program costs.

Specifically, a State's spending on office supplies, library materials, and equipment for Program activities is limited to no more than 20 percent of the State's annual Federal award. The limit does not apply to supplies, library materials, and equipment that are

integral to a program activity, such as brochures distributed as part of an education program or equipment used in preparing a demonstration.

The Program also places restrictions on the types of projects that can be performed. Some projects are prohibited, depending on the source of funds. For example, States are prohibited from using Program financial assistance to:

- Build mass-transit systems or exclusive bus lanes, or for the construction or repair of buildings or structures;
- Purchase land, buildings, or structures, or any interest therein;
- Subsidize fares for public transportation;
- Subsidize utility rate demonstrations or State tax credits for energy conservation or renewable energy measures; and,
- Conduct, or purchase equipment to conduct research, development, or demonstration of energy efficiency or renewable energy techniques and technologies not commercially available. (However, demonstrations of commercially available energy efficiency or renewable energy techniques and technologies are permitted.)

In addition, the Program places restrictions on the purchase and installation of equipment and materials for energy efficiency and renewable energy measures, including reasonable design costs. States can only use Program funds for these activities if certain conditions are met, such as the activities are not for buildings owned or leased by the Federal government and do not supplant weatherization activities under the Weatherization Assistance Program for Low-Income Persons.

Furthermore, States and subrecipients of Program funding, such as subgrantees and contractors, are subject to applicable federal cost principles for determining allowable costs and expenditures. Federal cost principles contain basic guidelines for determining the allowability of selected items of cost, distinguishing between direct and indirect costs, and allocating shared costs across programs.

In addition to these limitations and restrictions, Program regulations require that States contribute cash, in-kind contributions, or both for Program activities in an amount totaling at least 20 percent of the appropriated funds awarded to the State. For example, the States contribution can consist of:

- Allowable costs incurred by the States, subgrantees, or cost-type contractors under applicable cost principles and verifiable from recipients records;
- Third-party in-kind contributions and costs borne by non-Federal grants;
- Contributions not reported as cost-sharing for any other Federally-assisted project or program; and,

- Costs that are necessary and reasonable for proper and efficient accomplishment of project or program objectives and not paid for by the Federal government under another grant or award.

### Program Grant Award Process

Before awarding Program funds to a State, the Department requires the State to submit a State Plan that includes an annual Grant Application. The annual Grant Application serves as a State's request for formula grant funding and defines how the State will use allocated funds for the fiscal year. The application includes a list of mandatory and optional activities and budgetary information on the activities to be undertaken together with program implementation information. The mandatory program activities include:

- Lighting efficiency standards for public buildings;
- Activities that promote the use of car pools, van pools, and public transportation;
- Standards and policies affecting procurement practices;
- Thermal efficiency standards for new and renovated buildings;
- Traffic laws that permit right turns on red lights after stopping and left turns from a one-way to a one-way street; and,
- Procedures for ensuring effective coordination of programs within the State.

The State Plan contains a Master File which describes the State's energy efficiency goals and the mandatory activities the State intends to undertake to achieve those goals. The Master File also describes how mandatory activities have been or are being implemented and how they are being or will be maintained. The Master File contains information that generally does not change from year to year. The State is required to submit to the Department an amendment to the Master File if the State plans to change any of the items listed in the Master File.

Currently, the Department's six regional offices are responsible for reviewing the State Plan including the Grant Application and Master File within 60 days of receipt from the States. The scope of the regional offices' reviews include determining whether:

- Mandatory program activities required by implementing legislation were adopted and are being carried out effectively;
- Quantitative estimates of anticipated energy savings, where provided, are realistic and achievable;

- Adequate attention has been given to project planning and management for effective program implementation and there is well-thought-out conservation plan that includes program evaluation and monitoring plans;
- New proposed program activities are a viable and cost-effective method of reducing energy consumption; and,
- State Plan complies with applicable Federal regulations.

After annual grant funds are awarded, each State is required to submit a periodic Financial Status Report and a Program Status Report. The Financial Status Report provides an accounting for grant funds. The Program Status Report provides information such as details of the activities funded, milestone status, accomplishments, performance outcome data collected, leveraged funds, outstanding issues, and variances from plans. States are generally required to submit these reports 30 days after the end of each quarter with final reports due 90 days after the end of the final quarter. In some cases, the Department has permitted States to submit their reports on a semi-annual rather than a quarterly basis.

#### Program Oversight

EERE Headquarters and Regional Offices perform various oversight and support functions during the post-award period. These functions include overseeing the implementation of the Program, developing and implementing effective policies and procedures, providing technical assistance and guidance, and analyzing State performance reports on a periodic and continuing basis.

EERE Headquarters is primarily responsible for ensuring policy consistency for treatment of States and subrecipients nationwide, resolving programmatic issues, and networking with other Federal programs. Headquarters is also responsible for overseeing the Regional Offices by monitoring, reviewing reports, assessing performance, and issuing annual guidance for program direction and awarding funds. Headquarters' staff assigned to the Program consists of three employees who devote full time to the Program and four employees who provide support to the Program and other EERE programs.

EERE's six Regional Offices serve as the States' primary points of contact. In addition to reviewing the State's annual grant application, the Regional Offices receive and analyze periodic reports submitted by the States, resolve operating and administrative issues, and provide technical assistance to the States. The Regional Offices are also responsible for establishing a rapport and an effective dialogue to ensure good communication between the States and the Department. Each Regional Office can develop its own procedures to process and review periodic reports received from the States as well as follow-up procedures for any problem areas identified.

Regional Office representatives are responsible for performing site visits of the States as part of their oversight of Program activities. The Department's *State Energy Program Operations Manual* calls for Regional Offices to perform at least one formal site visit to each State per year, and any variation from annual visits requires justification and

concurrency by Program Headquarters. The *State Energy Program Operations Manual* describes the typical monitoring visit as lasting from 1 to 3 days and may include administrative, financial, and programmatic areas. The administrative review evaluates the management system, the financial review examines business operations and accounting practices for all sources of funds, and the programmatic review takes a look at the State Plan. For example, the *State Energy Program Operations Manual* describes the financial review as ensuring that procurement, payroll, and contracting procedures meet applicable requirements, financial records are properly maintained and accurate, inventory systems are reliable, and documentation is sufficient.

Effective July 1, 2006, EERE's Regional Offices will be realigned and consolidated into two existing Department organizations – the Golden Field Office in Golden, Colorado, and the National Energy Technology Laboratory in Morgantown, West Virginia. Consequently, the six regional offices will be closed on June 30, 2006.

The Program relies on its computerized WinSAGA system (Systems Approach to Grants Administration for Windows) as a data base to accumulate State Plans and budgeting, financial, and program performance information. Most States input data directly into WinSAGA. For the remaining States, the Regional Offices input data into WinSAGA based on documentation provided by the States.

**State Energy Program Formula Grant Allocations**  
**Fiscal Years 2004 to 2006**

<b>State/Territory</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Alabama	\$ 707,000	\$ 708,000	\$ 543,000
Alaska	342,000	351,000	264,000
Arizona	645,000	659,000	500,000
Arkansas	540,000	544,000	424,000
California	2,977,000	2,953,000	2,269,000
Colorado	678,000	685,000	540,000
Connecticut	633,000	634,000	514,000
Delaware	309,000	310,000	236,000
District of Columbia	290,000	290,000	223,000
Florida	1,539,000	1,564,000	1,193,000
Georgia	996,000	1,010,000	769,000
Hawaii	322,000	324,000	246,000
Idaho	360,000	361,000	274,000
Illinois	1,797,000	1,769,000	1,456,000
Indiana	1,042,000	1,048,000	837,000
Iowa	612,000	617,000	494,000
Kansas	557,000	560,000	442,000
Kentucky	722,000	726,000	567,000
Louisiana	895,000	872,000	657,000
Maine	403,000	400,000	314,000
Maryland	804,000	802,000	642,000
Massachusetts	967,000	958,000	786,000
Michigan	1,486,000	1,491,000	1,229,000
Minnesota	903,000	911,000	745,000
Mississippi	519,000	524,000	400,000
Missouri	849,000	863,000	688,000
Montana	348,000	335,000	257,000
Nebraska	428,000	432,000	338,000
Nevada	391,000	394,000	294,000
New Hampshire	373,000	374,000	294,000
New Jersey	1,240,000	1,232,000	1,005,000
New Mexico	406,000	412,000	314,000
New York	2,428,000	2,404,000	2,014,000

**State Energy Program Formula Grant Allocations**  
**Fiscal Years 2004 to 2006**

<b>State/Territory</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
North Carolina	\$ 1,004,000	\$ 1,016,000	\$ 787,000
North Dakota	317,000	321,000	246,000
Ohio	1,669,000	1,674,000	1,370,000
Oklahoma	621,000	633,000	491,000
Oregon	576,000	577,000	450,000
Pennsylvania	1,753,000	1,706,000	1,394,000
Rhode Island	346,000	346,000	272,000
South Carolina	627,000	636,000	486,000
South Dakota	309,000	310,000	238,000
Tennessee	833,000	848,000	660,000
Texas	2,611,000	2,663,000	1,984,000
Utah	445,000	448,000	344,000
Vermont	305,000	305,000	238,000
Virginia	977,000	983,000	774,000
Washington	810,000	806,000	620,000
West Virginia	479,000	482,000	383,000
Wisconsin	939,000	947,000	773,000
Wyoming	301,000	304,000	228,000
American Samoa	227,000	227,000	170,000
Guam	235,000	235,000	177,000
Northern Marianas	226,000	226,000	170,000
Puerto Rico	539,000	543,000	433,000
Virgin Islands	243,000	247,000	184,000
<b>Total</b>	<b>\$43,900,000</b>	<b>\$44,000,000</b>	<b>\$34,640,000</b>



Program Activities at States Visited

Colorado

Total Program formula grant funds awarded to Colorado for Program Year 2005 were \$685,000. Colorado's Program activities using formula grant funds and matching non-Department funds included:

*Rebuild Colorado*

Continuing program designed to implement energy efficiency in Colorado buildings through performance contracting. Activities included providing workshops, newsletters, and other informational media and materials; performing energy audits; and developing programs to educate and encourage the public to support high performance design and energy management. (Program Year 2005 budgeted Program grant funds were \$300,000 including carryover).

*Administration*

Program activities designed to facilitate the State energy office's efforts directly related to implementing and meeting Program goals. Specific activities include monitoring State programs for compliance with State plans, preparing contracts and monitoring contractual performance, and providing support for Special Project administrative activities. (Program Year 2005 budgeted Program grant funds were \$139,140 including carryover).

*Geo-Digeste*

Program designed to demonstrate whether combining an anaerobic digester with a geochange heating and cooling system will optimize energy-efficiency in an animal feeding operation. Although both systems are available to the public, they had not been previously been integrated and evaluated for energy savings. (Program Year 2005 budgeted Program grant funds were \$145,000 including carryover).

*Biomass*

Program designed to support biomass utilization of forest and urban woody waste, agricultural wastes, animal wastes, and grown-for-energy-conversion plantings within Colorado. Activities include forming coalitions, formulating plans, preparing educational materials and news

announcements, and conducting feasibility studies that will maximize sustainability of biomass as an offset to foreign petroleum use within the communities. (Program Year 2005 budgeted Program grant funds were \$90,000 including carryover).

## Florida

Total Program formula grant funds awarded to Florida for Program Year 2005 were \$1,564,000. Florida's Program activities using formula grant funds and matching non-Department funds included:

### *Hydrogen Fueling Infrastructure*

Program designed to accelerate development and market introduction of hydrogen technologies in Jamestown and Boggy Creek. The fueling station will accommodate operation and evaluation of hydrogen internal combustion engine shuttle buses, permit comparison of differing hydrogen generation technologies, and increase public awareness of hydrogen as a fuel source. Activities include equipment commissioning, project evaluation, and a community outreach meeting. (Program Year 2005 budgeted Program grant funds were \$1,718,528 including carryover).

### *Hydrogen Internal Combustion*

Programs designed to evaluate the use of hydrogen internal combustion engines and fuel delivery systems. Specifically, this technology will be installed in a shuttle bus and in an airport baggage carrier to evaluate drivability, reliability, and performance. The program will also increase public awareness of hydrogen as a fuel source. Activities include obtaining airport security clearance, delivery of equipment, operator training, and project evaluation. (Program Year 2005 budgeted Program grant funds were \$1,090,667 including carryover).

### *Stationery Fuel Cells – Homosassa Springs State Wildlife Refuge*

Program involves installation and operation of a completely renewable and sustainable fuel cell system for the purpose of evaluating reliability and increasing public awareness of hydrogen technologies. Activities include attendance at a permitting meeting, equipment installation and commissioning, and project evaluation. (Program Year 2005 budgeted Program grant funds were \$92,000 including carryover).

### *Wind Energy*

Program involves examining the potential for both utility and small scale wind energy development. These applications will occur both offshore and in

the coastal and farming regions. Activities include wind energy resource mapping and assessing and promoting wind energy use. (Program Year 2005 budgeted Program grant funds were \$65,000 including carryover)/

## Georgia

Total Program formula grant funds awarded to Georgia for Program Year 2005 were \$1,010,000. Georgia's Program activities using formula grant funds and matching non-Department funds included:

### *Agriculture*

Program works with the various segments of the agricultural community to provide education, demonstration, and general information on the efficient use of energy. Activities are focused specifically on irrigation systems, poultry house operations, pesticide and fertilizer application, animal production systems, peanut production and curing, and rural housing. (Program Year 2005 budgeted Program grant funds were \$70,000 including carryover).

### *EarthCraft House Program*

Program designed to encourage the building and marketing of more energy efficient homes. Activities include promoting the program, training builders and inspectors, and inspecting the homes. (Program Year 2005 budgeted Program grant funds were \$65,000 including carryover).

### *EPD Energy Staff Person*

This action allowed the State's Environmental Protection Division to hire a person to incorporate energy issues into environmental planning and program activities. Specific activities engaged in included assisting with the State Energy Policy and coordinating with other State agencies. (Program Year 2005 budgeted Program grant funds were \$90,000 including carryover).

### *Program Management*

This action involves all activities necessary for developing the Program, coordinating with other agencies and organizations, and implementation and evaluation of programs. Specific activities include developing contracts, planning programs, and monitoring programs. (Program Year 2005 budgeted Program grant funds were \$579,395 including carryover).

*Public Information*

Program activities designed to make energy efficiency information available to citizens by distributing publications and managing all aspects of publication acquisition and inventory. Additional activities include responding to requests for information and carrying out data searches. (Program Year 2005 budgeted Program grant funds were \$30,000 including carryover).

*State of Georgia Utilities Analysis*

Program to create and populate a database of State government utility costs and provide analysis of more efficient energy rates to be achieved in numerous accounts. Activities include gathering data, estimating energy savings potential, negotiating new utility rates, and identifying utility over billing. (Program Year 2005 budgeted Program grant funds were \$75,605 including carryover).

Idaho

Total Program formula grant funds awarded to Idaho for Program Year 2005 were \$361,000. Idaho's Program activities using formula grant funds and matching non-Department funds included:

*Rural Energy Efficiency and Energy Resources*

Program provides technical assistance and education for energy efficient practices in irrigation, determining the feasibility of developing energy conservation in new agricultural areas, offering irrigation energy audits in promoting loan program, and providing limited technical assistance with diverse energy source alternatives, such as wind, solar, hydropower, geothermal bioenergy, and alternative fuels. Also identify new opportunities for energy efficiency in agriculture activities such as dairy audits and potato cellar control systems. Activities include conducting workshops, organizing conferences, demonstrating equipment, promoting anaerobic digestion techniques, and providing technical assistance. (Program Year 2005 budgeted Program grant funds were \$101,912 including carryover).

*Consumers' Education and Information*

Program is designed to increase public awareness and advance technical knowledge through publication of news media, fact sheets, and brochures on energy conservation and alternative fuels and the maintenance of an energy hotline. The program also provides educational experiences for

schools on water and energy conservation and for residents on transportation and air quality issues. Activities include publishing and distributing a quarterly magazine, responding to hotline concerns, and supporting energy campaigns. (Program Year 2005 budgeted Program grant funds were \$69,145 including carryover).

#### *Energy Efficiency in Buildings*

Ongoing program promotes energy efficiency in residential and commercial buildings. Specifically, the program provides technical training and assistance, promotes construction of energy efficient homes through home rating programs, and provides building energy efficiency assistance to communities through Rebuild Idaho and the Northwest Energy Efficiency Manufactured Home programs. Activities include maintaining an energy efficiency website; certifying and inspecting Energy Star and manufactured housing; providing Hotline call support to home buyers, manufacturers, and utilities; and, providing educational assistance to building owners. (Program Year 2005 budgeted Program grant funds were \$85,665 including carryover).

#### *SEP Program Administration*

Program activities designed to facilitate State Energy Office efforts directly related to implementing and meeting Program responsibilities. Specific activities include preparing and submitting Program plans, monitoring the use of Program and PVE funds, preparing quarterly reports, and general oversight and planning activities. (Program Year 2005 budgeted Program grant funds were \$108,379 including carryover).

#### Pennsylvania

Total Program formula grant funds awarded to Pennsylvania for Program Year 2005 were \$1,706,000. Pennsylvania's Program activities using formula grant funds and matching non-Department funds included:

#### *Pennsylvania Energy Harvest Grants*

Program provides grants to various entities within Pennsylvania that will emphasize renewable and clean energy projects. One grant will provide technical assistance to businesses in establishing environmentally sustainable business practices. Follow up surveys and reports will demonstrate energy benefits resulting from implemented measures. (Program Year 2005 budgeted Program grant funds were \$2,868,055 including carryover).

*Public Awareness*

Program is designed to increase public awareness of energy efficiency and pollution prevention through workshops, conferences, home improvement shows, Earth Day, news releases, news articles, web-based information, and other activities for various segments of the State population. Specific activities include disseminating information, participating in Earth Day and farm show activities, video production, and updating the Pennsylvania Solar Manual. (Program Year 2005 budgeted Program grant funds were \$50,000 including carryover).

*Metal Casting Best Practice*

Program is designed to establish a Best Practices Deployment Program to reduce energy consumption, reduce environmental impact, and improve the competitiveness of Pennsylvania's metal casting industry. Activities include developing a website, conducting workshops, conducting best practices work visits, responding to requests, and reporting on the program. (Program Year 2005 budgeted Program grant funds were \$62,119 including carryover).

Utah

Total Program formula grant funds awarded to Utah for Program Year 2005 were \$448,000. Utah's Program activities using formula grant funds and matching non-Department funds included:

*Administration*

Program activities designed to facilitate the State energy office's efforts directly related to implementing and meeting Program goals. Specific activities include supporting State programs for buildings, transportation, education, and utilities. (Program Year 2005 budgeted Program grant funds were \$348,309 including carryover).

*School Education K-12*

Program designed to promote energy efficiency in schools by training teachers and distributing energy materials. Activities include providing energy training to teachers, distributing energy materials, implementing student debate, operating the Energy Action in Schools, and conducting Energy Smart presentations. (Program Year 2005 budgeted Program grant funds were \$55,000 including carryover).

*Transportation Clean Cities Program Delivery*

Program was designed to increase use of alternative fuel vehicles within the Wasatch Front by establishing a cost-effective, self-sustaining alternative fuel vehicle infrastructure. Specific activities include holding stakeholders and committee meetings, updating website, and distributing brochures. (Program Year 2005 budgeted Program grant funds were \$60,000 including carryover).

*Buildings – Codes*

Program promotes incorporation of the latest energy efficiency technologies in new buildings and the retrofitting of existing buildings. Activities include participating in the State Building Energy Efficiency Program, operating a hotline, improving public awareness, reviewing compliance with school building plans, working on code enforcement, and providing training. (Program Year 2005 budgeted Program grant funds were \$40,000 including carryover).

*Renewables*

Program provides information, technical assistance, and demonstrations to prospective users of small scale renewable resources. The program would install four 50-meter towers with anemometers and related equipment to augment the Utah Anemometer Loan Program and assess Utah's wind resource potential. Specific activities include holding workshops, loaning anemometers, developing clean energy working groups, and participating on the Community Clean Energy Campaign. (Program Year 2005 budgeted Program grant funds were \$123,091 including carryover).



**Department of Energy**  
Washington, DC 20585

April 26, 2006

MEMORANDUM FOR William S. Maharay  
Deputy Inspector General for Audits  
Office of Inspector General

FROM: Alexander A. Karsner  
Assistant Secretary  
Energy Efficiency and Renewable Energy

SUBJECT: Response to the Draft Inspector General's Audit Letter  
Report, "Management Controls over the State Energy  
Program's Formula Grants"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's (IG) draft audit letter report, "Management Controls over the State Energy Program's Formula Grants."

We concur in the recommendations as provided, and will take timely and effective action to implement them. Regular, comprehensive monitoring is an essential component of effective program administration. As part of the Regional Office consolidation, EERE will ensure that SEP is adequately staffed and a regular schedule of both desk and on-site grantee monitoring is established. We will continue to work with the State Energy Offices as well in refining SEP's performance measures and collecting relevant information.

Should you have any questions, please contact Jim Powell, Program Manager of the Office of Weatherization and Intergovernmental Program, at 202-586-3648.



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