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

Audit Report

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

Department of Energy
Washington, DC 20585

August 11, 2010

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act: A Status Report

BACKGROUND

The purpose of the American Recovery and Reinvestment Act of 2009 (Recovery Act) was to stimulate the U.S. economy, create or save jobs and invest in the Nation's energy future. The Recovery Act provided $3.2 billion for the Energy Efficiency and Conservation Block Grant Program (Program). Administered by the Department of Energy, the Program provides funding for projects that improve energy efficiency and reduce energy use and fossil fuel emissions. Activities eligible for funding include, for example, energy efficiency building retrofits and large-scale heating and cooling systems.

Using a population-driven formula, the Department distributed about $2.7 billion of the $3.2 billion of the Recovery Act funds authorized for the Program to over 2,300 entities including: State Energy Offices (SEO) located in 56 states and U.S. territories; 1,700 cities and counties; and, 500 Indian tribes. The balance of the funding, nearly $500 million, was directed to competitive grant awards and technical assistance activities.

This audit was initiated to evaluate the Department's progress in implementing the Program and the Recovery Act. Consistent with this objective, we are providing the results of our analysis of the current implementation status of the Block Grant Program, including a description of challenges and impediments faced by the grant recipients in applying for, obtaining approval to, and actually expending funds. We believe that our findings in this area suggest lessons learned and best practices which will prove useful in implementing similar grant programs in the future or in continuing this Program should it be reauthorized.

OBSERVATIONS AND CONCLUSIONS

Actual Program spending has not kept pace with anticipated expenditures. Our review of Department data disclosed that as of August 2010, more than one year after the Recovery Act was passed, grant recipients had expended only about 8.4 percent of the $3.2 billion authorized for the Program. Specifically, the grant recipients, as of August 2010, had:

- Spent[1] $269.7 million for energy efficiency activities and/or projects. That was significantly less than the $675 million anticipated in the Department's initial Project Operating Plans. Three of the territories had not spent any grant money at all, even though funding had been awarded and was available for use. (See Appendices 1 and 2)

- Reported in their Second Quarter 2010 filing that grant money had resulted in creating or saving 2,265 jobs, or about one job per grant award.

These spending levels were inconsistent with initial Department targets as well as the fundamental goals of the Recovery Act to stimulate the U.S. economy and to create new jobs. This was despite what was a herculean effort by Department personnel to get the Program started and executed.

Our analyses of formula based grants demonstrated that delays in spending were prevalent and widespread throughout the Program. Specifically, the amounts requested by recipients either to pay for projects and activities that had already been completed or were expected to be completed in the near future were insignificant compared to the amount of funding obligated by the Department to the recipients. Our examination revealed that the 291 recipients that had received the largest individual awards (those over $2 million), had only spent, on average, less than 8 percent of their funding. Spending delays by these recipients dramatically affect the success of the Program, since this category represents over 70 percent of the total funding allocation for non-competitive, formula grants.

To illustrate, the table below shows the amount of funding spent for the top 10 recipients in terms of the amount of the award. With the exception of the Pennsylvania SEO and the City of Houston, the spending rates for the remaining eight recipients were 2.2 percent or less. In fact, three of the top 10 recipients had spent less than 1 percent of their available funds.

BLOCK GRANT FUNDING SPENT
As of August 1, 2010

Recipient	Amount of Award	Amount of Funding Spent	Percentage of Funding Spent
City of New York	$80,802,900	$1,515,573	1.9%
California SEO	$49,603,400	$404,099	0.8%
Texas SEO	$45,638,100	$790,482	1.7%
City of Los Angeles	$37,017,900	$129,494	0.3%
Florida SEO	$30,401,600	$341,506	1.1%
New York SEO	$29,760,600	$669,270	2.2%
City of Chicago	$27,648,800	$39,090	0.1%
Ohio SEO	$24,979,600	$310,747	1.2%
Pennsylvania SEO	$23,574,800	$10,329,736 (a)	43.8% (a)
City of Houston	$22,765,100	$12,281,093	53.9% (a)

Source: The Department of Energy's iPortal Database as of August 1, 2010.

(a)Pennsylvania SEO's amount of draw-down represents a significant amount of funding advanced to sub-grant recipients. The advances do not necessarily represent actual spending and were at a level not consistent with other recipients presented in the chart. The City of Houston spent the money on supplies and equipment in support of their projects.

[1] The Department defines funding as spent when it is drawn down from the Automated Standard Application for Payments System. According to Federal requirements, grantees should draw down funds as close as possible to the time of actual disbursements. The Department also allowed some grantees to draw down funds as advances to sub-grantees.

Department officials told us that they recognized the delays in spending, but noted that spending rates have significantly increased since March 2010. For example, management officials pointed out that the $141 million spent as of May 2010, represented a nearly 70 percent increase over the $83 million that had been spent 2 months earlier. Officials also pointed out that they expect spending to continue at an increasing rate since 98.5 percent of the $2.7 billion has now been obligated to grantees.

Further, Department officials expressed the view that the amount of recipient spending was not a leading indicator for Program performance. Specifically, officials stated that there was a timing difference between recipients invoicing expenses and the Department processing payments that resulted in a "reported" lower spending rate than was actually occurring in the Program. Instead, Department officials indicated that "funds obligated by recipients" was a better measure of success and this measure related more directly to meeting the goals of the Recovery Act. For example, officials noted that obligating funds is a key step in starting projects and putting the money to work in the economy. As of July 13, 2010, the Department estimated that grantees had formal commitments (obligations) to spend $1.26 billion (or 46 percent) of their awards for goods and services related to the Program. We could not verify the Department's estimate, however, because it was based on information obtained through telephone calls and less than formal contacts with recipients that were not provided to us.

We concluded, however, that the amount of funds spent on the Program is the most accurate and realistic metric of Program progress. Based on our independent contacts with selected recipients, we confirmed that the amount of funds spent does, for the most part, closely correlate to actual work performed. Specifically, recipient requests for reimbursements were made within 30 days of the work that was performed. Additionally, according to Federal and Departmental regulations, grantees are required to request funds for project costs as close to actual disbursements as possible. Further, even though funding has been obligated by grantees, it may be months before the actual effect is felt in the economy. For example, the Department obligated the majority of the $2.7 billion to grantees by September 30, 2009. However, only a small percentage of the funding has been used to implement energy conservation projects and, as noted above, approximately 2,265 jobs, about 1 per grant, had been created in the 17 months since the passage of the Recovery Act.

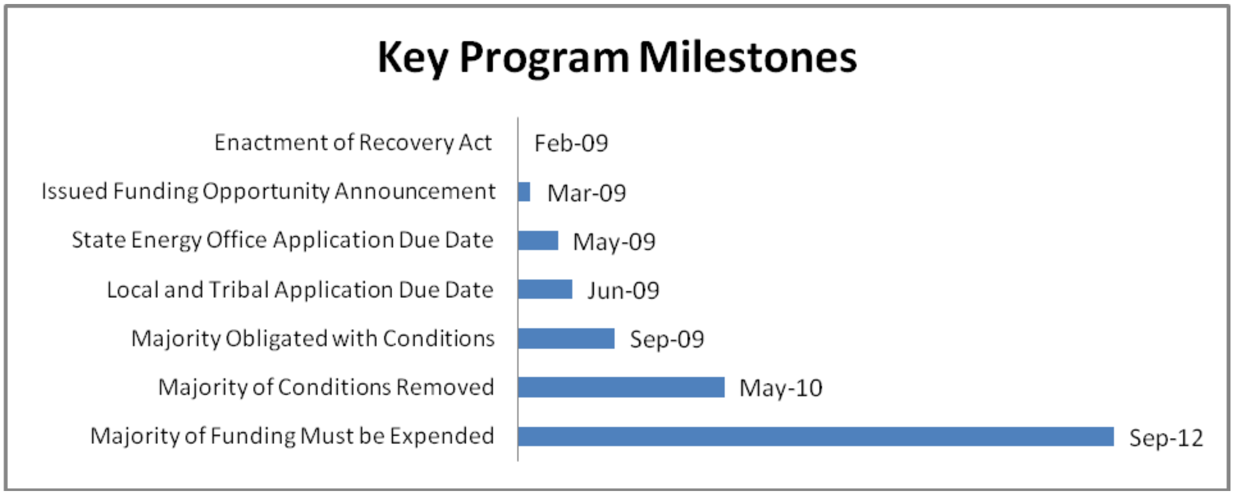
In spite of recent actions by the Department and grantees to overcome impediments associated with the establishment of a new program, the slow rate of spending Block Grant funds has neither met initial Departmental targets nor achieved the desired stimulative effect on the Nation's economy. To their credit, both the Department and grant recipients had taken a number of positive actions to implement the Program. However, as discussed in the remainder of our report, rapid spending of Program funds was hampered by numerous administrative and regulatory challenges associated with implementing a new program at multiple levels of government, including Federal, state and local governmental entities.

IMPEDIMENTS TO IMPLEMENTATION

We found that the Department, as well as grant recipients throughout the Nation, faced substantial impediments to establishing the Program in the expedited timeframe the Recovery

Act demanded. Specifically, administrative and regulatory issues plagued the Program from the start.

In an effort to identify specific impediments impacting the Program, we analyzed key steps in the award process and release of funds to grant recipients and collected information from a cross-section of recipients to identify factors that contributed to delays in expediting projects and activities and affected the timely expenditure of Recovery Act funds. The following chart presents the key milestones associated with the award process and release of funds. (See Appendix 3 for a listing of recipients contacted during our audit.)



As shown above, nearly seven months were required to: solicit grant applications; receive and review applications; award funds; and, establish the terms and conditions of spending. Since the Program was a new program for both the Department and grant recipients, each activity along the timeline involved the creation of policies, procedures, regulations, as well as the identification and evaluation of energy efficient activities to be funded. The following sections discuss impediments encountered by the Department and grant recipients at various stages.

Federal Administrative Issues

While authorized by the Energy Independence and Security Act of 2007, actual funding for the Program was not provided until the Recovery Act was passed. When the Recovery Act was passed in February 2009, the Department understandably did not have the necessary resources in place to implement the new Program. At the onset, only two individuals were assigned to the Program. Consequently, the Department used management and staff from other programs to complete such fundamental tasks as developing new regulations and managing the application and award processes.

Additionally, hiring new staff proved to be difficult, as government-wide demand for personnel such as contract specialists and project officers increased largely due to the Recovery Act. To compensate for staffing shortages, management reached out for assistance from other Department programs that had not been directly impacted by the Recovery Act and from contractors. For example, in an effort to expedite the issuance of awards, the Department created a team of technical reviewers to perform initial evaluations of applicant activities. Officials reported, however, that this effort was not entirely successful, because reviewers lacked financial assistance experience and, therefore, failed to obtain key information needed to issue the awards. As a result, officials indicated that awards were further delayed because of the need to request additional documentation such as detailed budget information from recipients.

Finally, we noted that leadership positions such as the Program Director were not initially filled and, subsequently were filled in an acting capacity for varying lengths of time. For example, the Department did not appoint a permanent Program Director until April 2010. The lack of a permanent Program Director, in our opinion, compounded the difficulties normally experienced in establishing a new program. Department officials told us in May 2010, that, in addition to having a permanent Director, the Program also now has a full complement of staff to administer the Program.

State and Local Government Administrative Issues

At the state and local levels, grant recipients told us that they struggled to understand Program requirements, apply for an award and establish their individual programs. Although some recipients may have had experience with similar energy grant programs, many of the 2,300 entities entitled to formula awards were eligible for Federal funding for the first time. These entities needed administrative assistance from the Department but told us that they had difficulty obtaining responses to their questions. For example, officials from the County of St. Louis, Missouri, indicated that during the award process, questions submitted to the Department were not addressed directly, but rather through website postings of frequently asked questions. St. Louis officials told us that they did not always find this technique helpful. Additionally, the County noted that since its award in July 2009, it had received inconsistent Program direction, in part, because their point of contact with the Department had changed several times.

State and local grant recipients also indicated that they were burdened by staffing challenges. Due to the economic downturn, both state and local governments have experienced budget shortfalls that have led to furloughs and hiring freezes. As noted in our Special Report on Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act (OAS-RA-10-04, February 2010), a number of government entities were under hiring freezes that applied to all employees regardless of the source of their funding. Further, many entities had received an unprecedented amount of Recovery Act funding from the Department as well as other Federal agencies. As officials from these entities observed, dramatic funding increases stretched already strained resources and impacted the ability of state and local governments to meet program deadlines. For example, the City of Chicago and the Pennsylvania SEO expressed frustration with implementing the new Program with existing staff because of budget freezes or other hiring issues. Pennsylvania SEO officials told us, in particular, that they were unable to hire a Program Manager until November 2009, when a hiring freeze was lifted. Further, City of Los Angeles officials indicated that they had experienced delays due to budget shortfalls which led to the reorganization of Los Angeles' department responsible for the award.

In addition to staffing issues, state and local entities reported that local jurisdictional requirements have also affected the ability to expedite projects funded under the Recovery Act. Budget and procurement requirements often added significant time to completing planned projects and activities. For example, officials from the County of St. Louis told us that because of local requirements, they were unable to make any financial commitments on Block Grant projects until April 2010 when the Department made their total funding available. County officials also told us that they did not expect funded projects to begin for an additional three months, the time required to obtain the necessary County procurement and budget approvals. Similarly, Georgia SEO officials noted that the local process for approving selected projects took approximately four months from the time a project was proposed until it was approved. Further, Fairfax County, Virginia, officials noted that state regulations will not allow them to obligate or spend grant funding until all award conditions are removed, an event that did not occur for that County until April 2010.

Regulatory and Administrative Requirements

Although the majority of Block Grant funding was obligated by September 2009, these funds for the most part were not available for spending by grant recipients because of "regulatory holds" placed on the funds by the Department. As recently as March 11, 2010, approximately $1.5 billion of the $2.7 billion in obligations had conditions attached that restricted spending for compliance with various regulatory and administrative requirements such as the National Environmental Protection Act (NEPA).

Because of the nature of energy efficiency and conservation projects and activities, regulatory requirements such as those found in the NEPA, the National Historic Preservation Act, and the Davis Bacon Act prevailing wage laws can have a significant impact on the time it takes for a project to be developed and approved. All projects proposed under the Program require NEPA review and approvals (assessments of the project's impact on the environment) by the Department prior to implementation. Projects that involve energy efficient retrofits of historic buildings, those more than 50 years old and possessing "historical significance" may require State approval to ensure compliance with the National Historic Preservation Act. Still other projects are affected by the Buy American requirements of the Recovery Act which govern procurement of materials and equipment manufactured in the United States and/or the Davis Bacon Act addressing requirements to pay contractors the prevailing wage.

Recognizing the delays associated with these requirements, Department officials pointed out that they had taken action to expedite compliance with regulatory requirements. For example, these officials told us that starting in January 2010 they used "NEPA Tiger Teams" to review proposed Program projects for compliance. Further, in May 2010, Department officials told us that they have eliminated the regulatory holds on the vast majority of obligations in order to expedite spending. For example, as of May 11, 2010, only $173 million of obligations was restricted by conditions. The elimination of regulatory holds, however, does not relieve the grant recipient from complying with regulatory requirements such as NEPA reviews before spending Recovery Act funds.

Despite Departmental efforts to expedite regulatory reviews, grant recipients we spoke with expressed frustration with the funding holds and the lack of regulatory guidance provided by the

Department at the beginning of the Program. Examples of problems associated with delays in guidance on regulatory compliance included:

- The NEPA approval process proved to be particularly troublesome to some recipients. The Department issued a series of guidance documents regarding NEPA compliance between October 2009 and April 2010. Colorado SEO officials expressed frustration with the guidance because, in their opinion, the guidance documents appeared to conflict with each other in terms of describing the types of projects that would require a NEPA review. Further, officials from the City of Houston stated that one of their biggest obstacles which delayed the Program was understanding the NEPA process, specifically the information that was required by the Department;

- The Department did not release formal guidance regarding compliance with the National Historic Preservation Act until February 2010. Further, even though the Department delegated authority for compliance with the Act to recipients in August 2009, state officials experienced delays in obtaining the necessary approvals from their local delegated authorities. Ohio SEO officials, for example, told us that they received approval from the State Historic Preservation Office as of June 2010; and,

- The Department did not finalize guidance on the use of Program funds for revolving loans until April 2010. Due to this delay, some recipients still have activities that have not been approved. Notably, the City of New York has a project totaling over $16 million with revolving loan funds identified that is still being developed because of the delay in guidance. Delays related to revolving loan funds were also noted by the County of Miami-Dade, Florida, and the City of Chicago.

PATH FORWARD

Recently, the Department has taken steps to expedite the implementation of the Program. Specifically, the Department:

- In October 2009, and in March 2010, increased the dollar thresholds from $1 million to $10 million for required Departmental approvals of subcontracts and sub-grants. Department approvals of subcontracts and sub-grants is a typical financial assistance activity intended, among other things, to prevent Federally debarred contractors from receiving Federal funds; and,

- In April 2010, established a June 25, 2010, target for grant recipients to obligate funds. The target date is nine months sooner than the March 2011 deadline established under the terms and conditions of most grant agreements. Recipients, however, told us that they did not consider the target date realistic due, in part, to the fact that the Department had not unconditionally released the majority of their funds until early 2010. As previously discussed, as of July 13, 2010, the Department estimated that grantees had formal commitments (obligations) to spend 46 percent of their awards for goods and services related to the Program.

Although Departmental actions such as eliminating conditions on obligated funds, increasing dollar thresholds on subcontractor approvals, and accelerating target dates for grantee obligations are intended to expedite spending, these actions also have associated risks that will require increased vigilance on the part of the Department. Given the delays encountered to date, a compressed timeframe for grantees to obligate and expend funds may increase the risks associated with ensuring compliance with regulatory requirements, such as NEPA, as well as, maintaining effective financial control over the expenditure of funds. Departmental monitoring and review of grantee projects and expenditures will be critical to this process, as well as the Department's obligation to successfully achieve the Recovery Act goals of stimulating the economy and advancing energy conservation. However, the Department's monitoring resources will be stretched because of the thousands of grant recipients and projects that the Department will be required to monitor during a relatively short period of time.

Department officials, however, believed that they had established a workforce that is capable of dealing with current and future demands. In recognition of staffing concerns and workload demands, the Department had taken a number of actions. The Department established a team approach comprised of project managers, contracting officers, and contract specialists to provide Block Grant management and monitoring in an attempt to address the increased workload. It also developed an informal mentoring program for newly hired project officers to increase the success of project oversight for Block Grants over $2 million. Finally, the Department has established a monitoring plan and project management information system to track the status of funded projects. For example, project managers are required to enter the results of desktop reviews and monitoring visits into the project management information system which will be used to identify projects that are not meeting their financial or programmatic objectives.

CONCLUSION

The Block Grant Program was intended to strengthen the Nation's economy and create jobs at the local level, and it represented a major national investment in our energy future. However, due to a number of institutional impediments at all levels, these goals have yet to be met. Further, the issues discussed in this report are similar to those discussed in our Special Report on Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act (OAS-RA-10-04, February 2010). Taken together, the two reports provide a series of lessons learned which can be applied prospectively to ensure that programmatic goals and objectives are met as expeditiously as possible.

MANAGEMENT AND AUDITOR COMMENTS

Management concurred with many of the observations in the report.

Management, however, fundamentally disagreed with the report's conclusion that the Program has not achieved its economic stimulus and job creation goals. Specifically, management stated that obligations by the grant recipients are a better measure of the Program's economic impact than spending since the obligation of funds shows that the recipients have contracts in place upon which contractors based their hiring decisions. Management also pointed out that the jobs created statistics, which were based upon the Office of Management and Budget approved job calculation methodology, show that the Program ranked in the top 20 percent of Recovery Act programs. Further, management pointed out that the jobs created statistics paint a limited picture of the Program's impact since they do not account for indirect and induced jobs creation which could double the total job created statistics. Management also pointed out that the report's focus on the largest grant recipients ignored the smaller grant recipients who have met Department targets. Specifically, management pointed out that city and county grantees receiving less than $250,000 had met the Department's September 30, 2010, target of making twenty percent of payments—more than three months ahead of schedule. Finally, management pointed out that, in March 2010, the Department revised spending targets and that it has consistently met or exceeded the revised targets for the months March-June 2010.

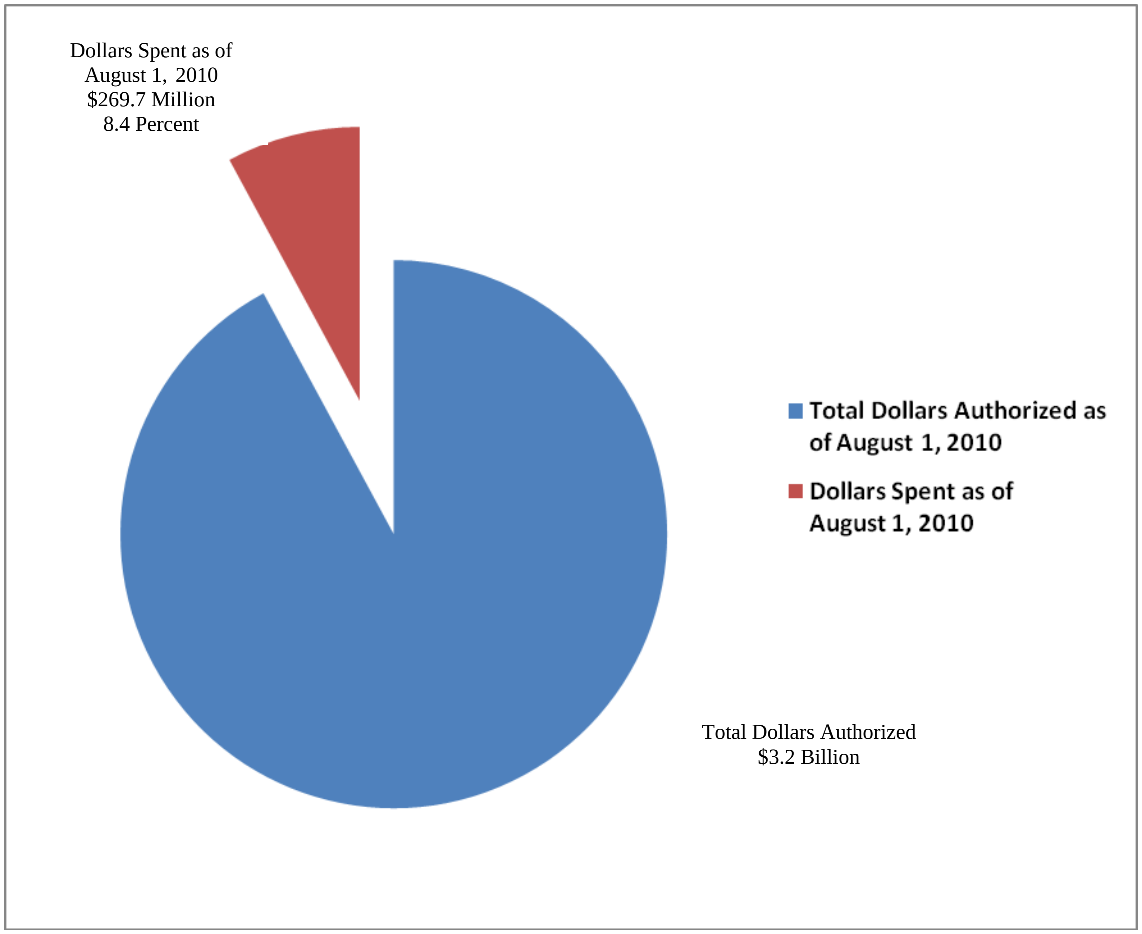
Although funds obligated by grant recipients is a "leading indicator" of the Program's future stimulative effect, we concluded that the amount of funds actually spent is a sound measure of the economic activity created by the Program to date. Specifically, as discussed in the report, our work indicated that there is a close correlation between the time grant recipients draw down their grant funds and when the work was actually performed. The performance of work and the resulting payment of wages for that work is, in our view, a sound indicator of the extent to which the Program has created jobs and injected funds into the economy. We focused on the largest grant recipients because, as acknowledged by management, they represent a sizeable portion of the funds. Also, the largest grant recipients represented more complex projects that involved the types of activities and regulatory requirements that were the subject of this report.

After submission of its comments on our draft report, management provided information to support modification of Program spending targets. We concluded that the revised targets better reflect actual spending to date given the impediments to implementation experienced by the Program.

Management's comments are included in their entirety in Appendix 5.

cc: Deputy Secretary
Under Secretary for Energy
Chief of Staff
Assistant Secretary for Energy Efficiency and Renewable Energy
Chief Financial Officer
Senior Advisor, Office of American Recovery and Reinvestment Act

Block Grant Recovery Act Dollars Authorized Compared to Dollars Spent



Source: The Department's iPortal database as of August 1, 2010

Total Formula Grant Funding Awarded Compared to Total Funding Spent as of August 2010

	Total Awarded/ Obligation	Total Spent / Outlay	Percent of Funds Spent
Alabama	31,748,000	3,753,539	11.8%
Alaska	24,963,000	1,959,823	7.9%
American Samoa	9,593,500	6,596	0.1%
Arizona	72,453,900	4,747,995	6.6%
Arkansas	19,495,000	2,601,187	13.3%
California	352,996,355	37,082,833	10.5%
Colorado	42,414,800	4,543,080	10.7%
Connecticut	24,560,500	2,802,161	11.4%
Delaware	15,918,700	1,407,263	8.8%
District of Columbia	9,593,500	50,390	0.5%
Florida	168,339,200	14,689,598	8.7%
Georgia	67,115,760	3,288,558	4.9%
Hawaii	15,068,200	352,167	2.3%
Idaho	17,118,257	3,017,835	17.6%
Illinois	112,008,919	9,409,834	8.4%
Indiana	42,237,672	3,697,209	8.8%
Iowa	19,708,900	1,176,494	6.0%
Kansas	25,514,300	2,956,559	11.6%
Kentucky	25,136,500	1,162,792	4.6%
Louisiana	33,714,700	3,566,731	10.6%
Maine	14,664,780	1,787,922	12.2%
Maryland	52,292,173	1,539,704	2.9%
Massachusetts	41,509,860	9,388,753	22.6%
Michigan	76,785,507	8,550,723	11.9%
Minnesota	38,484,100	9,528,175	24.8%
Mississippi	17,150,500	2,999,256	17.5%
Missouri	47,858,737	5,215,192	10.9%
Montana	15,214,700	1,284,300	8.4%
Nebraska	19,154,769	1,280,999	6.7%
Nevada	32,195,125	10,006,273	31.1%
New Hampshire	17,275,200	2,162,934	12.5%
New Jersey	71,080,200	5,552,604	7.8%
New Mexico	21,983,300	1,934,500	8.8%
New York	175,375,300	6,944,436	4.0%
North Carolina	58,136,500	3,778,808	6.5%
North Dakota	12,818,000	867,465	6.8%
Ohio	82,298,300	9,352,199	11.4%
Oklahoma	36,114,455	3,082,479	8.5%
Oregon	34,651,500	4,305,466	12.4%
Pennsylvania	101,791,219	17,706,285	17.4%
Puerto Rico	31,240,195	3,904,659	12.5%
Rhode Island	14,599,200	872,615	6.0%
South Carolina	31,623,100	3,512,710	11.1%
South Dakota	14,648,700	1,408,233	9.6%
Tennessee	41,940,050	2,266,009	5.4%
Texas	207,839,975	25,552,895	12.3%
Utah	27,455,800	2,857,250	10.4%
Vermont	11,768,540	485,809	4.1%
Virginia	59,754,300	3,467,304	5.8%
Washington	58,696,400	9,349,668	15.9%
West Virginia	14,003,800	1,314,397	9.4%
Wisconsin	38,539,800	4,180,624	10.9%
Wyoming	12,057,600	506,878	4.2%
Territories (Guam, Northern Mariana Islands, Virgin Islands)	28,780,500	0	0.0%
Totals (56)	$2,689,481,848	$269,220,088	10.0%

Source: The Department's iPortal database as of August 1, 2010.

Recipients Contacted During Our Audit

Recipient	Award Date	Total Amount Awarded	Percentage of Funding Spent as of August 1, 2010
City of New York	09/28/2009	$80,802,900	1.9%
City of Los Angeles	07/27/2009	$37,017,900	0.3%
City of Chicago	09/28/2009	$27,648,800	0.1%
City of Houston	09/28/2009	$22,765,100	53.9%
County of Miami-Dade	09/14/2009	$12,523,700	17.9%
County of Fairfax	10/26/2009	$9,642,800	2.5%
County of St. Louis	07/27/2009	$8,488,900	3.2%
Ohio SEO	09/21/2009	$24,979,600	1.2%
Pennsylvania SEO	09/21/2009	$23,574,800	43.8%
Georgia SEO	09/14/2009	$21,630,700	1.1%
Colorado SEO	09/30/2009	$9,593,500	12.9%

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine the Department of Energy's (Department) progress in implementing the Energy Efficiency and Conservation Block Grant Program (Program) and the American Recovery and Reinvestment Act of 2009.

SCOPE

We conducted the audit from October 2009 to August 2010 at Department Headquarters in Washington, D.C.; the Golden Field Office (Golden) in Golden, Colorado; the Oak Ridge Office (Oak Ridge) in Oak Ridge, Tennessee; and, the Yucca Mountain Site Office (Yucca Mountain) in Las Vegas, Nevada.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable Federal and Departmental regulations related to the Program;
- Reviewed a sample of Block Grant award files to ensure that adequate documentation had been maintained;
- Interviewed officials from the Golden, Oak Ridge, Yucca Mountain and Headquarters offices to gain an understanding of the administration of the Program;
- Interviewed a sample of grant recipients to determine impediments to implementing the Program;
- Reviewed Department data to obtain information on Block Grant awards, obligations and spending; and,
- Analyzed Department data for total obligations and funds spent to determine spend rates.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, the audit included reviews of Department and regulatory policies and procedures related to the Department's management of the Block Grant Program. We assessed performance measures in accordance with the *Government Performance and Results Act of 1993* and concluded that the Department had established performance measures related to administration of the Block Grant 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 conducted an assessment of computer-processed data relevant to our audit objective and found it to be sufficiently reliable.

The exit conference was held with management on August 10, 2010.

July 22, 2010

MEMORANDUM FOR: GREGORY FRIEDMAN
INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN(**508 version no signature)**
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
OFFICE OF TECHNOLOGY DEVELOPMENT
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Management response to the Office of Inspector General's Report entitled "The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act: A Status Report."

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and comment on the results of the Audit "The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act: A Status Report." Although there were no specific recommendations offered in the Report, EERE management appreciates the IG sharing their observations and is committed to continuing to improve the EECBG Program. The Program was funded for the first time by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Due to rapid increases in payments and significant progress on project implementation, EERE believes the Program is successfully contributing to the job creation and stimulus goals of the Recovery Act.

While EERE concurs with many of the observations in the Report, we do not concur with the following statements about the Program's ability to meet Departmental targets and the goals of the Recovery Act (see also Attachment A, Regulatory and Administrative Requirements):

1. **"The [EECBG payments figure] was significantly less than the $575 million anticipated in the Department's Project Operating Plans." (p. 2)**

The $575M figure cited by the Report is not reflective of the actual Departmental targets as agreed by Senior Management on March 29, 2010. EECBG has consistently met or exceeded Departmental targets for the months of March—June 2010 (see Attachment B, Table 1).

2. **"Spending levels were inconsistent with Department targets as well as the fundamental goals of the Recovery Act to stimulate the U.S. economy and to create new jobs." (p.2); and "the slow rate of spending Block Grant funds has neither met Departmental targets nor achieved the desired stimulative effect on the Nation's economy." (p. 3)**

The Program has been meeting departmental targets, and is successfully contributing to the job creation and stimulus goals of the Recovery Act. EECBG deployment continues to accelerate rapidly—total payments doubled between Q1 and Q2 2010, and approximately $1.2B has been obligated by grantees (i.e. formally committed to projects), which is the key leading indicator of job creation, project execution and stimulus impact.

The Report focused on the largest EECBG grantees when analyzing the pace of spending. While this sample represents a sizeable portion of funds, it is a minority of grantees. By June 30, 2010, the group of 600+ city and county grantees receiving less than $250,000 had already met the Department's September, 30, 2010 target of making 20% of payments—more than three months ahead of schedule. This widespread impact is critical to achieving the desired stimulative effect on the Nation's economy.

Furthermore, the measure used by the Report as the basis for its observations, referred to as "spending," is in fact a measure called "payments." This measure is not "spending" as such, and is rather a lagging indicator. As part of standard risk mitigation measures, payments generally occur only *after* project spending has occurred (after projects have reached completion, and invoicing and billing processes are completed). "Funds obligated by grantees" is a leading, and perhaps better, indicator of Program performance because it marks the point of formally committing funds, allowing jobs to be created and projects to be implemented. Despite acknowledging EERE's assertion that funds obligated by grantees is a leading indicator of spending, the Report does not portray the critical stimulative impact of grantees entering into formal commitments with sub-recipients, vendors and other implementation partners. Having exceeded $1.2B, the funds obligated by EECBG grantees are a strong indicator of the stimulative effect of the EECBG Program on the U.S. economy. The actual "spending" level in the Program lies somewhere between the ~$200M in payments cited in the Report and the $1.2B in funds obligated by grantees. This indicates that hundreds of millions of dollars in stimulus impact has occurred, and this impact continues to accelerate.

Accordingly, and as noted in the Report, payments have significantly increased in recent months. During the six week period between May, 12, 2010, to June 22, 2010, total payments increased by $52.2M or 36%, nearly $9M per week. During the two week period from June 22, 2010, to July 6, 2010, total EECBG payments increased by an additional $30M or $15M per week. The coming months truly will be a "Recovery Summer" as grantees continue to see their obligated funds result in completed projects.

The Report also notes that according to the first quarter 2010 filing, EECBG directly resulted in creating or saving 1,254 jobs, as reported to OMB. This nominal figure paints a limited picture of impact because the OMB job calculation methodology only accounts for *direct* jobs. It does not account for the *indirect* job creation or *induced* impacts that represent a major portion of stimulative impact. The Council of Economic Advisors estimates that 64% of job creation and retention generated by Federal stimulus represents direct *and* indirect effect, and another 36% of job creation and retention represents *induced* effects. The 1,254 number only represents a portion of the aforementioned 64% of impact, and none of the 36% of impact.

Given this limited nature, the 1,254 figure must be viewed in relative context to judge Program performance. The figure results in the EECBG Program ranking 36th out of 200 "Top Programs" for job creation and retention, as listed on Recovery.gov.[1] This ranking places EECBG in the top 20% of Recovery Act programs. This suggests the Program is one of the leading programs in successfully contributing to the job creation and stimulus goals of the Recovery Act.

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[1] Recovery.gov rankings for CYQ1 2010 are available at: http://www.recovery.gov/Pages/TextView.aspx?data=jobSummaryProgram&topnumber=200&qtr=2010Q1

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