

## California Energy Resources Conservation and Development Commission (Energy Commission)

### *It Is Not Fully Prepared to Award and Monitor Millions in Recovery Act Funds and Lacks Controls to Prevent Their Misuse (Report Issued December 1, 2009)*

**Recovery Act Award:** The Recovery Act designated \$3.1 billion for the State Energy Program to promote energy conservation and reduce growth of energy demand. The U.S. Department of Energy (DOE) awarded California \$226 million, which the Energy Commission intends to use for energy efficiency, energy conservation, renewable energy, and other energy-related projects and activities.

**AUDIT HIGHLIGHTS:** Our review revealed that the Energy Commission:

- Had made little progress in implementing its subprograms, and none of the Recovery Act funds are currently being used to provide benefits to Californians.
- Had approved the use of \$51 million for Energy Program services, and of this amount had entered into contracts totaling about \$40 million; however, none of the \$40 million has been spent.
- Although it had begun applying for Recovery Act funds in March 2009, the Energy Commission had not yet implemented a system of internal controls adequate to ensure that those funds are used appropriately.
- Is at risk of awarding the Recovery Act funds in a compressed period of time without first establishing an adequate system of internal controls, which increases the risk that Recovery Act funds will be misused. Further, the State is at risk of having the funds redirected by DOE.

## Energy Commission

RECOMMENDATIONS TO THE ENERGY COMMISSION	6-MONTH RESPONSE FROM THE ENERGY COMMISSION (AS OF APRIL 30, 2010)	RESULTS OF FOLLOW-UP WORK
<p>Promptly take the necessary steps to implement a system of internal controls adequate to provide assurance that Recovery Act funds will be used to meet the purposes of the Recovery Act.</p>	<p>The Energy Commission released solicitations for Audit Support Services and Monitoring, Evaluation and Reporting in November and December 2009, respectively, to obtain assistance in evaluating and developing an adequate internal control system.</p> <p>Perry-Smith was awarded the Audit Support Services contract and the Energy Commission expected to execute the contract in early May 2010.</p> <p>KEMA Inc. was awarded the Monitoring, Evaluation, Verification and Reporting contract and it was executed on April 28, 2010.</p>	<p>The \$3.75 million contract with Perry-Smith is for 2-years, May 2010 through April 30, 2012. The purpose of this Audit Support and Services contract with Perry-Smith is to provide a review of controls, processes, and procedures; recommend where controls can be strengthened; and conduct risk assessments and audits of recipients. The contract contains tasks and timelines associated with the contract goals. Most of the deliverables are not due until August 2010 with drafts due at the end of June.</p> <p>The \$4.1 million contract with Kema Inc. is for more than 3 years, April 2010 through June 30, 2013. This Monitoring, Evaluation, Verification, and Reporting contract requires KEMA to provide performance evaluation and reporting capabilities to assist the Energy Commission in meeting its sub-recipient monitoring and reporting responsibilities. This contract contains specific tasks; however, there are no timelines assigned to the tasks. Without a timeline for performance, the Energy Commission cannot be certain the benefits of the contract will be available in time to provide meaningful monitoring, evaluation, and verification of sub-recipient performance.</p>
<p>Promptly solicit proposals from entities that could provide the allowable services and should execute contracts, grants, or loan agreements with these entities so that California can realize the benefit of the Recovery Act funds.</p>	<p><b>Energy Commission's Subprograms</b></p> <p><b>1. Energy Efficient State Property Revolving Loan Program (\$25 million).</b> According to the Energy Commission, the Department of General Services is managing this program and it expects to loan the entire \$25 million by June 2010. The Energy Commission stated that work had begun on eight projects totaling \$5.5 million and the entire \$25 million has been drawn down and placed into the revolving loan fund. The purpose of this program is to provide loans to state departments and agencies for energy projects on state-owned buildings and facilities.</p> <p><b>2. One Percent Energy Efficiency Loans (\$25 million).</b> The Energy Commission asserts that it has approved 24 loans totaling \$24.8 million and work has commenced on 16 projects. The purpose of this program is to provide energy efficiency improvements to existing residential and commercial buildings.</p>	<p><b>Energy Commission's Subprograms</b></p> <p>1. General Services has entered into two contracts to provide loans for eight projects with costs totaling \$5.5 million: 1) General Services Building and Property Management Branch and 2) the Department of Corrections and Rehabilitation. As of April 30, 2010, the Energy Commission had disbursed the \$25 million to the revolving loan fund, but had only paid one invoice for approximately \$67,500, though it expects to receive more. Though the Energy Commission expects General Services to loan the entire \$25 million by the end of June 2010, General Services had not selected projects to fund with the remaining program funds and does not have a definitive plan or written policies to specify how it will identify projects for the remaining funds. Nonetheless, it has been in contact with the CSU, CDCR, and the Board of Equalization, amongst other agencies to develop project proposals.</p> <p>2. The Energy Commission executed the majority of the agreements between March 2010 and May 2010, with several still pending. We sampled 12 of the 25 loans and as of April 30, 2010, no funds have been disbursed for these loans. The Energy Commission states that the program funds for these loans are paid on a reimbursement basis.</p>

## Energy Commission

RECOMMENDATIONS TO THE  
ENERGY COMMISSION

6-MONTH RESPONSE FROM THE ENERGY COMMISSION  
(AS OF APRIL 30, 2010)

RESULTS OF FOLLOW-UP WORK

3. **Clean Energy Workforce Training Program (\$20 million).** The Energy Commission stated that the Employment Development Department and the Employment Training Panel are managing the workforce training programs. EDD has awarded \$14.5 million in grants to 34 regional partnerships. ETP has awarded \$4.5 million in grants to 14 entities. The purpose of these programs is to train workers in energy efficiency and renewable energy and for skills development and career advancement in the State's emerging green economy.
4. **Clean Energy Business Financing Program (\$30.6 million).** The Energy Commission asserts that it executed a \$1.6 million interagency agreement with the Business, Transportation and Housing Agency in March 2010. The Energy Commission expects loans to be awarded beginning in June 2010. The purpose of this program is to provide low-interest loans to eligible applicants that expand their energy efficiency or renewable energy manufacturing facilities in California.
5. **Energy Efficiency Program (\$110 million).** The Energy Commission asserts that it awarded 12 contracts in three solicitation areas: Municipal Financing, Municipal and Commercial Building Retrofit, and Residential Building Retrofit. The Energy Commission allocated \$30 million each for the Municipal Financing and the Municipal and Commercial Building Retrofit programs. Additionally, it allocated \$50 million for the Residential Building Retrofit program. The first of 12 contracts were approved in April 2010 and the remaining 11 contracts are expected to be approved in May 2010. The Energy Efficiency Program provides energy efficiency improvements to existing residential and commercial buildings.

3. The Energy Commission provided a list generated by EDD of 28 subgrants that EDD has awarded to provide training, most of which will occur during 2010 and into early 2011. A progress report shows that 999 of the 4,809 trainees to be served under the agreement had received training as of March 31, 2010. Our review found 1,007 received training out of a total 4,679 to be served. Although the Energy Commission's response indicated that the ETP had awarded grants to 14 entities, the list provided to us by the Energy Commission showed 14 proposals and only 12 executed agreements. Further, the Energy Commission asserts that one of the 12 is pending termination. Finally, the Energy Commission asserts that agreements will be executive for the two remaining proposals within five business days from June 7.
4. The Business, Transportation and Housing Agency and four financial development corporations will evaluate applicants' financial qualifications and manage the loans. In addition, BTH will be responsible for federal and state progress reports including Section 1512 reporting and the DOE progress reports. The agreement contains deliverables and due dates for BTH's task. The Energy Commission states that no funds have been loaned under this program as of May 2010. The Energy Commission anticipates the potential projects will be approved in late June with agreements executed by late July 2010.
5. The Energy Commission has approved three proposals for the Municipal Financing program with two additional proposals expected to be approved in June 2010. In addition, the Energy Commission has approved three proposals for the Municipal and Commercial Building Retrofit program. Finally, it asserts that it has approved three proposals for the Residential Building Retrofit program with an additional proposal expected to be approved in late June 2010. Although the Energy Commission has approved 9 proposals, it has not executed agreements with any of the entities as of May 28, 2010; therefore, no funds have been disbursed. The Energy Commission does not expect to disburse any funds until August 2010.  
  
Further, according to the Energy Commission, the Municipal Financing Program is on hold as a result of a lawsuit filed in Riverside—Western Riverside Council of Governments versus the Department of General Services, and the California Energy Commission.

For all of the subprograms identified above, the Energy Commission asserts that it will monitor performance using procedures that result from its contract for Audit Support Services and the contract for Monitoring, Evaluation, and Verification; however, those procedures were not defined as of May 28, 2010.

## Department of Community Services and Development

### *Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds (Report Issued February 2, 2010)*

**Recovery Act Award:** The Recovery Act designated \$5 billion for the national Weatherization Assistance for Low-Income Persons (Weatherization) program to improve home energy efficiency for low-income families through the installation of weatherization materials such as attic insulation, caulking, weather stripping, furnace replacements, and air conditioners.

The U.S. Department of Energy (DOE) awarded California \$186 million in three installments: \$18.6 million in April 2009, \$74.3 million in June 2009, and the remaining \$93 million is available when the State demonstrates progress in implementing the Weatherization program.

**AUDIT HIGHLIGHTS:** Our review of CSD's implementation of the Weatherization program revealed the following:

- Delays in weatherizing homes—both beyond and within its control—could jeopardize CSD's ability to reach a key milestone by September 2010. CSD estimated that it would weatherize more than 15,000 by September 2010.
- Increases in the average cost to weatherize a home could affect the number of low-income persons CSD is able to assist using Recovery Act funds.
- Improvement is needed in CSD's cash management practices to meet the federal requirements for the Weatherization program.
- CSD's intent to use existing monitoring procedures could result in a large number of subrecipients receiving no on-site monitoring until well after the Recovery Act funds are spent.

## Community Services and Development

RECOMMENDATIONS TO CSD	60-DAY RESPONSE FROM CSD (AS OF APRIL 12, 2010)	RESULTS OF FOLLOW-UP WORK
<p><b>Production</b></p> <p>Seek federal approval to amend its plan for implementing the Weatherization program and seek an extension from DOE for fulfilling the progress milestones.</p> <p>Promptly develop and implement the necessary standards for performing weatherization activities under the program.</p> <p>Once CSD receives plans from local service providers, it should make any necessary adjustments in its state plan to accurately reflect the average costs per home for weatherization assistance and the estimated number of homes to be weatherized under the program.</p>	<p><b>Production</b></p> <p>CSD asserted that it is on target to reach its September 30, 2010, production milestone of 12,900 weatherized homes.</p> <p>As of March 31, 2010, CSD reported that 2,934 dwellings in California were weatherized with an additional 1,174 in process and 1,864 units assessed and scheduled for production. This level of production represents approximately 75 percent of its goal of weatherizing 3,912 units during the first quarter of 2010.</p> <p>CSD asserted that it plans to complete testing of its energy audit process to identify weatherization measures by April 30, 2010. CSD asserts that it is finalizing its selection of energy audit software.</p> <p>As of April 12, 2010, CSD asserted that it executed 32 out of 41 contracts. Of the remaining 9 contracts, 5 are pending execution and 4 are in negotiation. CSD reported that it recently contracted with Maravilla, the State's largest service provider. Two service areas are still not covered: San Francisco Bay Area and a region in Los Angeles. CSD asserted that it is negotiating with the city of San Francisco, the city of Oakland, and Los Angeles Department of Water and Power. It expected to execute the contracts with the city of San Francisco by May 2010 and the cities of Los Angeles and Oakland by June 30, 2010. In addition, CSD asserted that it expected to execute a contract with an existing provider for Alpine and El Dorado counties by April 15, 2010.</p>	<p><b>Production</b></p> <p>CSD amended its State Plan to reduce the number of homes it intends to weatherize from 50,080 down to 43,150. However, at the request of the Governor's Office the DOE performed an assessment of CSD in March 2010 and informed CSD that it may need to weatherize 3,300 more homes if the average cost to weatherize each home remains low.</p> <p>As of April 30, 2010, service providers weatherized 3,965 homes, 1,478 short of CSD's goal. If this pace of weatherizing homes continues, CSD will not meet the goal of weatherizing 30 percent or 12,900 of the 43,150 units by September 30, 2010. Access to the additional \$93 million in Recovery Act funds available to the State is contingent upon meeting the goal.</p> <p>DOE recommended that CSD submit its audit protocol by May 2010 for approval of additional weatherization measures. CSD hopes to complete the new audit protocol by June 15, 2010.</p> <p>As of May 27, 2010, CSD has executed contracts with 36 service providers, totaling approximately \$67 million. It executed a contract with Maravilla a major service provider; however, the DOE recommended that CSD closely monitor Maravilla because of past fiscal and resource accountability issues.</p> <p>It also intends to have contracts to cover Alameda, San Francisco, certain areas of Los Angeles, Alpine and El Dorado counties by June 30, 2010.</p>

## Community Services and Development

RECOMMENDATIONS TO CSD	60-DAY RESPONSE FROM CSD (AS OF APRIL 12, 2010)	RESULTS OF FOLLOW-UP WORK
<p><b>Monitoring</b> Develop a plan for monitoring sub-recipients that includes all requirements called for in the Recovery Act.</p>	<p><b>Monitoring</b> According to its state plan, monitoring consists of third-party inspections, annual on-site visits, quarterly desk reviews, and fiscal monitoring.  CSD asserts it has implemented a process to identify service providers who are not meeting production expectations.  CSD planned to execute a contract with a third-party vendor by May 2010 to perform field inspections of at least 5 percent of completed dwellings.  CSD said it has hired more staff to increase monitoring activities. Finally, CSD is negotiating with Department of Finance to establish an MOU to increase its capacity to conduct audits.</p>	<p><b>Monitoring</b> CSD plans to conduct 34 site visits by September 30, 2010.  CSD developed a ranking system to identify providers who are not meeting productivity goals. It conducted 13 on-site visits to providers whose production was less than 50 percent of their goals for March 31, 2010. Issues and barriers to meeting the goals include contract language, delays approving Davis-Bacon Plans, lack of training availability, and delayed post-inspections. CSD received corrective action plans for 12 of 13 providers.  In its April 30, 2010, report the U.S. DOE raised concerns with CSD using RHA for quality assurance because RHA is the primary contractor that provides technical assistance and training to service providers and therefore posed a conflict of interest. The U.S. DOE recommended that CSD resolve this issue by July 1, 2010. As of May 28, 2010, CSD is seeking a contract with DGS but did not indicate when it expects to execute the contract. In the meantime, it intends to finalize a contract with Richard Heath and Associates (RHA). It expects this contract to be executed by June 30, 2010.</p>
<p>CSD should ensure that it has the authority to provide advances as outlined in its current policy and segregate the duties of preparing claim schedules and requesting payments from the duties of accessing Weatherization program funds.</p>	<p>CSD asserts that it obtained guidance from the U.S. DOE and that U.S. DOE is evaluating its contract advance payment policies. It plans to take steps based on the feedback it receives from the U.S. DOE.</p>	<p>U.S. DOE agrees that CSD's cash advance policy may not be compliant with federal regulations.</p>

The challenge of meeting goals on the number of homes states are to weatherize is not unique to California. The GAO, in its report issued in May 2010, stated that recipients ability to use available funds for weatherization and to weatherize the number of homes targeted varies considerably. In its report, the GAO indicated that as of March 31, 2010, nationwide about 80,000 homes had been weatherized or about 13 percent of the 593,000 homes originally planned. The GAO report identified Illinois, Florida, Iowa, and New York as examples of states meeting or exceeding their targets for weatherization production. Mississippi, which the U.S. Department of Energy (DOE) identified as one of the front runners nationwide, was ahead of its scheduled production having weatherized about 45 percent of the total 5,468 planned as of March 31, 2010. DOE also identified Washington and Idaho as the only two states that had weatherized at least 30 percent of the homes outlined in their respective state plans. In contrast, GAO identified others that were behind schedule including the District of Columbia, which had weatherized 14 percent of the homes in its plan, Georgia had weatherized 11 percent, and North Carolina only 7 percent. GAO reported that as of March 31, 2010, California had weatherized only 2,934 homes, less than 7 percent

of the 43,400 total homes it planned to have weatherized with Recovery Act funds. As I previously mentioned, the DOE has set goals for each recipient to weatherize 30 percent of the homes identified in their respective weatherization plans by September 30, 2010.

Among the recommendations made by the GAO in its May report was that DOE clarify its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting program requirements—given the pressures felt by state and local agencies related to these areas.

## California Emergency Management Agency

### *Despite Receiving \$136 Million in Recovery Act Funds in June 2009, It Only Recently Began Awarding These Funds and Lacks Plans to Monitor Their Use (Report Issued May 4, 2010)*

**Recovery Act Award:** The Recovery Act designated \$2 billion for the national Edward Byrne Memorial Justice Assistance Program (JAG Program) to support a variety of activities targeted at preventing and controlling crime and improving the criminal justice system.

The U.S. Department of Justice (DOJ) awarded California \$225.3 million; \$135.6 million (60 percent) allocated for statewide distribution through Cal EMA and the remaining \$89.7 million (40 percent) allocated directly to local government units such as cities and counties.

**AUDIT HIGHLIGHTS:** Our review revealed that Cal EMA:

- Is moderately prepared to administer its Recovery Act JAG Program.
- Began awarding Recovery Act JAG program funds to sub-recipients in February 2010 even though the DOJ allocated \$135.6 million to Cal EMA in June 2009, about eight months earlier. As of February 2010 Cal EMA had awarded only 4 subgrants totaling \$4 million and by March 11, 2010, it had awarded 52 additional grants totaling \$31 million.
- Was unable to provide policies and procedures or plans that demonstrated that it could meet monitoring requirements specific to the Recovery Act JAG program.
- Could not demonstrate that it had adequately identified the number of staff needed to monitor the use of Recovery Act funds.
- Failed to consistently report to federal agencies the administrative costs it charged to its Recovery Act JAG Program award. For the quarter ending December 31, 2009, Cal EMA reported \$104,000 in administrative cost to the DOJ and no such costs to the Recovery Accountability and Transparency Board (Recovery Board).

## California Emergency Management Agency

RECOMMENDATIONS TO CAL EMA	INITIAL RESPONSE FROM CAL EMA	COMMENTS AND RESULTS OF FOLLOW-UP WORK
<p>Promptly execute subgrant agreements with sub-recipients so California can more fully realize the benefits of the Recovery Act funds.</p>	<p>As of April 20, 2010, Cal EMA reports that it had executed 204 of its 226 grant awards.</p>	<p>Cal EMA's budget records show it has executed 214 subgrants as of May 24, 2010. These subgrants total \$118.9 million, representing 88 percent of the \$135.6 million available under the JAG award for Cal EMA to administer.</p>
<p>Plan its monitoring activities to provide reasonable assurance that its sub-recipients of the Recovery Act JAG Program administer federal awards in accordance with laws, regulations, and the provisions of contracts or grant agreements.</p>	<p>Cal EMA asserted that its Monitoring Division's manual that addresses assessing, mitigating, and monitoring sub-recipient risk will be expanded to explain in greater detail the coordination of monitoring activities between its Program and Monitoring staff, as well as more fully quantify the number and scope of sub-recipient reviews that will occur during each fiscal year.</p>	<p>We did not conduct follow-up work because it would be premature to do so.</p>
<p>Identify the workload associated with monitoring sub-recipients of its Recovery Act JAG Program and the workload standards necessary to determine the number of program staff needed.</p>	<p>Cal EMA asserted that it provided the BSA auditors a workload measurement tool for review. Cal EMA further stated that it used this model to calculate the total number of positions needed for the Recovery Act JAG grant funds to prepare a Budget Change Proposal. Finally, Cal EMA asserted that the Legislature allocated \$592,000 for fiscal year 2009–10 to administer the ARRA JAG Program.</p>	<p>Cal EMA provided the audit team three workload measurement tools; however, none provided convincing evidence of the number of program staff needed to administer the Recovery Act program. Cal EMA has requested that the Legislature authorize increased funding of \$800,000 for fiscal year 2010–11 and an additional \$800,000 for fiscal year 2011–12 to administer the program.</p>
<p>Develop the necessary procedures to ensure that it meets its Recovery Act reporting requirements.</p>	<p>Cal EMA asserts that it has implemented procedures to assure the information reported to the federal government is timely and accurate.</p>	<p>Cal EMA revised its accounting and reporting procedures to require increased communication among staff regarding federal reporting requirements. This revised process should also identify and allow reconciliation of differences between data reported to the Recovery Board and to DOJ.</p>