



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report-Issued January 31, 2013

Department of Energy Resources' Use of Certain American Recovery and Reinvestment Act Funds For the period July 1, 2009 through March 31, 2012



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INTRODUCTION AND SUMMARY

The Department of Energy Resources (DOER), established in accordance with Chapter 25A of the Massachusetts General Laws, is one of six agencies falling within the Executive Office of Energy and Environmental Affairs (EEA). The DOER is administered by a Commissioner who is appointed by the Secretary of EEA, with the approval of the Governor. In addition to other grant awards during our audit period, the DOER received American Recovery and Reinvestment Act of 2009 (ARRA) grants from the U.S. Department of Energy under the State Energy Program (SEP) and the State Energy Efficient Appliance Rebate Program (SEEARP).

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a performance audit of certain activities of the DOER for the period July 1, 2009 through March 31, 2012. The objectives of our audit were to determine whether: (1) the DOER had established adequate internal controls over the use of its ARRA funding, (2) ARRA funds awarded to the DOER for the State Energy Program and the State Energy Efficient Appliance Rebate Program were used for their intended purposes and in compliance with program requirements, and (3) the DOER was complying with ARRA accounting and reporting requirements.

Based on our audit, we have concluded that during our audit period, the DOER established adequate internal controls over its ARRA funding, properly administered this funding, and used these funds for their intended purposes.

OVERVIEW OF AUDITED AGENCY

The Department of Energy Resources (DOER), which was established in accordance with Chapter 25A of the Massachusetts General Laws, is one of six agencies falling within the Executive Office of Energy and Environmental Affairs (EEA). The DOER is administered by a Commissioner who is appointed by the Secretary of EEA, with the approval of the governor. The Commissioner is responsible for the development and implementation of policies and programs aimed at creating a cleaner energy future for Massachusetts.

In addition to other grant awards during our audit period, the DOER received American Recovery and Reinvestment Act of 2009 (ARRA) grants from the U.S. Department of Energy under the State Energy Program (SEP) and the State Energy Efficient Appliance Rebate Program (SEEARP). The SEP was created to undertake activities that would preserve and create jobs, save energy, increase renewable energy sources, and reduce greenhouse gas emissions throughout Massachusetts. The DOER allocated this award across three “market title” sub-programs, of which the various initiatives could be easily grouped: Commonwealth Solar Stimulus (CSS), Leading by Example (LBE), and High Performance Buildings (HPB). CSS consisted of projects that increased solar energy capacity across Massachusetts, LBE consisted of projects that involved energy efficiency or other non-solar renewable energy projects at state buildings, and HPB consisted of projects designed to explore deeper energy savings in buildings beyond those created via existing state programs. SEEARP was created to help stimulate the economy and to save energy across the Commonwealth by providing mail-in rebate incentives to replace existing home appliances (e.g., dishwashers, air conditioners, washing machines, refrigerators) with energy- and cost-efficient models.

In order to comply with ARRA requirements and provide transparency on stimulus projects for which Commonwealth agencies distribute funds, the Massachusetts Recovery and Reinvestment Office (MRRO) gathers summary information and reports on what stimulus projects are funded and how stimulus funds are being spent. MRRO reported that \$61,146,000 was awarded to fund these ARRA programs operated by the DOER. MRRO also reported award expenditures totaling \$47,863,350 as of March 31, 2012. The following table summarizes awards and expenditures reported by MRRO:

Department of Energy Resources
Summary of ARRA Awards, Allocations, and Expenditures

As of March 31, 2012

Program	Award	Allocation	Expenditures
SEP	\$54,911,000	\$54,911,000	\$41,628,350
SEEARP	<u>6,235,000</u>	<u>6,235,000</u>	<u>6,235,000</u>
Total	<u>\$61,146,000</u>	<u>\$61,146,000</u>	<u>\$47,863,350</u>

A requirement of ARRA funding is the submission of quarterly reports that help identify the impact of ARRA funds received and expended, including statistics on the creation and/or retention of jobs. Information reported to MRRO indicated that these two ARRA programs administered by the DOER either saved or created 1,609 part-time or full-time positions through the period ended March 31, 2012.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a performance audit of certain activities of the Department of Energy Resources (DOER) for the period July 1, 2009 through March 31, 2012. The objectives of our audit were to determine whether: (1) the DOER had established adequate internal controls over the use of its American Recovery and Reinvestment Act of 2009 (ARRA) funding, (2) ARRA funds awarded to the DOER for the State Energy Program (SEP) and the State Energy Efficient Appliance Rebate Program (SEEARP) were used for their intended purposes and in compliance with program requirements, and (3) the DOER was complying with ARRA accounting and reporting requirements.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- U.S. Department of Energy, Office of Management and Budget Circular A-133 supplement, DOER, Office of the State Comptroller, and Massachusetts Recovery and Reinvestment Office rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether the DOER had controls in place to ensure that federal stimulus funds were adequately safeguarded against loss, theft, and misuse.
- Budgets prepared by the DOER to ensure that ARRA funds were expended for their intended purposes.
- Expenditures of ARRA funds to determine whether they were reasonable, allowable, and allocable under the terms of the program awards. A nonstatistical sampling approach based on the auditors' professional judgment was used to test ARRA expenditure compliance.
- Recordkeeping procedures to determine whether ARRA expenditures were properly authorized, supported by adequate documentation, and accounted for separately within the accounting records.
- The adequacy and timeliness of the DOER's federal stimulus reports to determine whether they were in compliance with reporting requirements.

- Cash management practices to ensure that the DOER limited the time between its request for and use of federal stimulus funds.
- Vendor contracts to determine compliance with program regulations.
- Physical inspections to verify that contract deliverables were achieved.

We obtained grant award, allocation, and expenditure information from systems maintained by the federal government, the Commonwealth, and the DOER. We compared this information with other source documents and interviewed knowledgeable DOER officials about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Based on our audit, we have concluded that during our audit period, the DOER established adequate internal controls over its ARRA funding, properly administered this funding, and used these funds for their intended purposes.

At the conclusion of our audit, the results of our audit were discussed with DOER officials, whose comments were considered in the drafting of the final report.