

OFFICE OF AUDITS & ADVISORY SERVICES



AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) COMPLIANCE AUDIT OF THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT

FINAL AUDIT REPORT

Chief of Audits: [James L. Pelletier, CIA, CICA](#)
Senior Audit Manager: [Tom Philipp, CIA, CCSA](#)
Senior Auditor: [Laura Flores, CIA, CFE, CGAP](#)
Auditor II: [Angela Chen, CPA](#)

Intentionally Left Blank



County of San Diego

DONALD F. STEUER
CHIEF FINANCIAL OFFICER
(619) 531-5413
FAX (619) 531-5219

AUDITOR AND CONTROLLER
1600 PACIFIC HIGHWAY STE 166, SAN DIEGO, CALIFORNIA 92101-2478

TRACY M. SANDOVAL
ASST. CHIEF FINANCIAL OFFICER/
AUDITOR & CONTROLLER
(619) 531-5413
FAX (619) 531-5219

January 25, 2011

TO: April F. Heinze, Director
Department of General Services

FROM: James L. Pelletier
Chief of Audits

**FINAL REPORT: AMERICAN RECOVERY AND REINVESTMENT ACT COMPLIANCE AUDIT
OF THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT**

Enclosed is our report on the American Recovery and Reinvestment Act (ARRA) Compliance Audit of the Energy Efficiency and Conservation Block Grant. We have reviewed your responses to our recommendations and have attached them to the audit report. The actions taken, in general, are responsive to the recommendations in the report.

Thank you for the courteousness and cooperation extended to the Office of Audits & Advisory Services during the course of the audit.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:LEF:aps

Enclosure

- c: Mikel D. Haas, Deputy Chief Administrative Officer, Community Services Group
Sarah E. Aghassi, Deputy Chief Administrative Officer, Land Use and Environment Group
Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Jack Miller, Director, Environmental Health
Brian Albright, Director, Parks and Recreation
Eric Gibson, Director, Planning and Land Use
Kaye Hobson, Group Finance Director, Community Services Group
Kathleen A. Flannery, Group Finance Director, Land Use and Environment Group

INTRODUCTION

Audit Objective As part of our effort to provide reasonable assurance that the County of San Diego (the County) is in compliance with the American Recovery and Reinvestment Act of 2009 (ARRA or the Act), the Office of Audits & Advisory Services (OAAS) conducted an audit of the Energy Efficiency and Conservation Block Grant (EECBG) programs subsidized with ARRA funds.

The objectives of the audit were to establish whether ARRA funds were properly managed and accounted for, determine whether data related to the grant were properly captured and reported as mandated by the Act, and determine whether adequate internal controls for the administration of ARRA funds had been established.

Background The Act was signed into law on February 17, 2009. The purposes of the Act are to preserve and create jobs, promote economic recovery, assist those most affected by the recession, provide investments to increase economic efficiency through technological advances in science and health, and invest in transportation, environmental protection, and other infrastructure.

The Act appropriated \$3.2 billion nationwide for the EECBG program to be distributed by the U.S. Department of Energy (DOE) to states, eligible counties, cities, and Indian tribes nationwide. The State of California received \$351.5 million from which \$302 million was made available for large cities and counties to be allocated directly by DOE on a per capita basis. The funds can be used for the development of local energy plans, energy assessments, as well as programs and other activities that result in long-term energy savings, provide jobs, and transform energy markets. ARRA and DOE require a high level of accountability and transparency in the reporting of expenses, job creation, and program performance.

In December 2009, DOE awarded the County \$5.1 million of EECBG monies to fund 15 energy efficiency and renewable energy projects. The completion of these projects is scheduled to continue through December 2012. These projects are managed by four County departments: Department of General Services (DGS), Department of Parks & Recreation (DPR), Department of Environmental Health (DEH), and Department of Planning and Land Use (DPLU). While each department involved has its own project and fiscal manager, DGS was designated as the lead department responsible for managing all aspects related to the grant. As such, DGS dedicated one staff member as the Grant Administrator to coordinate and provide overall financial and performance reporting to the Office of Management and Budget (OMB) and DOE.

The 15 projects funded by the EECBG grant and the corresponding budget information are listed in Table 1.

Table 1. EECBG Projects

#	Project or Activity	Lead Department	Current Budget
1	Building Systems Control Automation	DGS	\$600,000
2	2008 Building Energy Efficiency Standards Implementation	DPLU	\$79,993
3	Existing Home and Business Audit Program	DPLU	\$300,000
4	Expedited Green Building, Energy Efficiency, and Renewable Energy Products Permit Processing	DPLU	\$800,007
5	Photovoltaic (PV) Incentive Program	DPLU	\$700,000
6	Psychiatric Hospital Lighting Retrofit	DGS	\$60,000
7	Fluorescent Lamp Recycling	DEH	\$160,000
8	Crime Laboratory Solar Electric System	DGS	\$600,000
9	Advanced Technology Energy Efficient Equipment - Various County Central Chiller Plants	DGS	\$156,000
10	California Green Building Standards Code Development	DPLU	\$80,000
11	Advanced Technology Energy Efficiency Equipment - El Cajon & Rancho San Diego Libraries, County Adoptions	DGS	\$400,000
12	Green Business Program	DEH	\$100,000
13	Photovoltaic Projects at Parks	DPR	\$500,000
14	Building Controls - SE San Diego / El Cajon / Escondido / Oceanside Family Resource Centers	DGS	\$354,200
15	Climate Action Plan Preparation	DPLU	\$250,000
TOTAL			\$5,140,200

Audit Scope & Limitations

While grant activities continue through December 2012, audit work focused on grant activities conducted from October 1, 2009 to June 30, 2010.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed OMB ARRA guidance, Office of the Inspector General (OIG) ARRA directives, and related regulations from the DOE and State of California to identify and understand specific ARRA requirements and expectations;
- Examined Government Accountability Office (GAO) reports that discussed significant risks related to ARRA;
- Interviewed the Grant Administrator and other staff responsible for grant fiscal administration and project management;
- Examined County policies and procedures governing the administration of grants;
- Reviewed processes for grant administration, monitoring, and reporting of grant activities; and

- Conducted specific audit procedures such as inspection of documents, reconciliation of records, verification of key transactions, and inquiries regarding fraud prevention controls.

AUDIT RESULTS

Summary

OAAS' audit work determined that, within the scope of the audit, the County was generally compliant with ARRA and DOE grant requirements. However, OAAS identified the following findings:

Finding I:

Accuracy of Quarterly Reports Could Be Improved

OAAS identified issues with certain data reported to OMB and DOE during the first two quarters of 2010 (Q1 and Q2).

Under Section 1512 of the Act, grant recipients must report on the use of ARRA funds to OMB no later than the 10th day after the end of each calendar quarter. Some of the key elements that recipients must include in the report are: amount of award, total amount of expenditures incurred to date, payments to vendors (cumulative), a list of projects funded by the award, completion status, and the number of jobs created or retained.

OAAS reviewed the information included in the reports submitted to OMB and DOE for Q1 and Q2 and reconciled this information to accounting records and other source documents. OAAS noted that the report submitted to OMB at the end of Q1 included quarterly expenditures incurred from January 1 to March 25, 2010 (DGS and DEH) and from January 1 to March 11, 2010 (DPLU), while the jobs created by all departments were based on hours incurred from January 1 to March 31, 2010. In addition, specific data integrity issues were identified and are summarized in Table 2.

Table 2. OMB and DOE Quarterly Reports Data Variances

	Cumulative Data Reported to OMB	Cumulative Data Reported to DOE	Accounting Records ¹	Variance
Expenditures	\$ 411,677	\$ 542,107 ²		\$ 129,438
Jobs Created	5.9	N/A	3.9	2
Vendor Pmts.	\$ 894	N/A	\$ 37,458	(\$ 36,564)

The following factors contributed to the data discrepancies noted:

Calculation Errors – OAAS noted that during Q2, cumulative expenditures reported to DOE were overstated (by \$129,438) due to double counting expenditures reported during Q1. Calculation errors

¹ Source documents used during the reconciliation include Oracle Award and Expenditure Reports and original data submitted by individual departments.

² While the incorrect cumulative amount of \$542,107 was reported to DOE at the end of Q2, the reimbursement received from DOE was based on the quarterly amount reported of \$411,677.

also contributed to overstating the number of jobs created (by 2) as reported to OMB for Q1.

Lack of Understanding Regarding Vendor Reporting Requirements – According to DGS staff, a process to capture vendor payments information was not defined until Q2. Therefore, no vendor payments were reported during Q1. Further, staff indicated that guidance regarding vendor payments was interpreted as payments made to vendors during the current quarter (excluding payments processed during past quarters). However, vendor payments reported to OMB in the quarterly reports should be a cumulative amount for the award.³

Vendor Payment Report Limitations – During Q2, DGS staff utilized an ad-hoc vendor payment report created to identify ARRA vendor payments. However, the report did not capture all vendor payments processed related to the ARRA EECBG projects. Specifically, the data captured was limited to transactions classified under “supplies invoices”; when vendor payments can also be classified under other categories such as “miscellaneous transactions”.

While most the issues noted above were being corrected at the completion of the audit fieldwork, the absence of controls to prevent and detect such errors represents a risk of future non-compliance with ARRA and DOE reporting requirements.

Recommendation: OAAS recommends that DGS coordinates with DPLU, DEH, and DPR to implement the following:

1. Ensure that data corrections are made and properly reported to OMB and DOE;
2. Strengthen the internal review process of report data before final submission. For instance, establish reconciliation and/or cross-validation procedures to identify and eliminate potential clerical errors;
3. Request a modification of the existing vendor report configuration to ensure that it captures all vendor payment related information; and
4. Establish consistent reporting timeframes for all departments to ensure that complete and accurate data is captured.

Finding II: Lack of Clarity Regarding Allowable Labor Costs

DOE has not clarified grant requirements in the area of allowable labor costs. Specifically, OAAS noted the following:

³ OMB Guidance states that “Total amount of payments to Vendors less than \$25,000/award” and “Total amount of Sub Award less than \$25,000/award” have a quarterly threshold (below \$25,000) for inclusion in the data element, but the amount reported is cumulative for the award.

- The narrative portion of the grant agreement states that indirect costs are not eligible for reimbursement;
- Earlier versions of the award budget portion of the grant agreement allocate funding for fringe benefit costs only to certain projects, but this funding is not included for the remaining projects;
- Resulting from the County's efforts to receive clear guidance, DOE email correspondence authorized the County to be reimbursed for fringe benefit and indirect costs included in the labor cost proposals submitted; and
- Subsequently, an updated award budget was issued that does not reflect all labor cost categories previously approved by DOE email correspondence.

While the responsibility to provide adequate guidance falls on DOE, the County could be held accountable for future costs disallowances resulting from the ambiguity regarding reimbursable costs.

Recommendation: DGS should coordinate with DPLU, DEH, and DPR and continue their efforts to seek clarity from DOE representatives regarding reimbursable labor costs. Specifically, the County should:

1. Contact DOE to confirm that all fringe benefit and indirect costs previously approved by DOE but not included in the updated budget are reimbursable items; and
2. Establish a review process for future budget amendments to ensure that prior budget agreements with DOE are accurately reflected in the revised budget documents.

Finding III: **DGS Labor Rate Charged During FY 2010-11 Not Consistent with Approved Labor Rate**

A review of labor expenditures for EECBG ARRA projects found that the fully burdened rate charged for a DGS Project Manager class was \$131.68 per hour while the approved rate was \$135.77.⁴

DGS established new labor rates at the beginning of FY 2010-11. These rates were reviewed, approved, and entered by Auditor and Controller (A&C) staff. The Project Manager rate was recorded in the Oracle system incorrectly and the error was not subsequently detected. As a result, labor recorded by this class was undercharged by \$4.09 per hour.

According to DGS staff, there is no review process in place on their part to ensure that approved rates are indexed correctly in the Oracle system.

⁴ This rate refers to DGS Org no. 87945, Class No. 003575.

To achieve full cost recovery for services provided to agencies or other departments to the extent possible, the approved labor rate should be used.

Recommendation: DGS should do the following:

1. Process a labor adjustment for all EECBG ARRA projects affected by the incorrect labor rate; and
2. Validate their labor rate adjustments by establishing a review process to ensure that approved labor rates are entered into Oracle correctly.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the officers and staff of the Departments of General Services, Environmental Health, Parks and Recreation, and Planning and Land Use throughout this audit.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

APRIL F. HEINZE, P.E.
Director
(858) 694-2527
FAX (858) 694-8929

FACILITIES OPERATIONS
FLEET MANAGEMENT
MAIL SERVICES
PROJECT MANAGEMENT
REAL ESTATE SERVICES

DEPARTMENT OF GENERAL SERVICES
5580 OVERLAND AVE., STE. 410, SAN DIEGO, CA 92123

January 14, 2011

RECEIVED

TO: James L. Pelletier
Chief of Audits

FROM: April F. Heinze, P.E., Director
Department of General Services

JAN 19 2011

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) COMPLIANCE AUDIT OF THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (EECBG)

The Department of General Services (DGS), Department of Planning and Land Use (DPLU), Department of Environmental Health (DEH), and Department of Parks and Recreation (DPR) would like to thank the Office of Audits and Advisory Services (OAAS) for its audit of our ARRA EECBG records and methodology. We take a great deal of pride in administering this grant for the County of San Diego and sincerely appreciate your staff's recommendations on how to better implement these projects and continue to ensure grant compliance.

DGS and our partnering departments concur with the overall audit determination that the County is generally compliant with ARRA and Department of Energy (DOE) grant requirements. Below you will find our formal response to the findings identified in your audit.

Finding I: Accuracy of Quarterly Reports Could Be Improved

OAAS Recommendations: DGS should coordinate with DPLU, DEH, and DPR to implement the following:

1. Ensure that the data corrections are made and properly reported to the Office of Management and Budget (OMB) and DOE;
2. Strengthen the internal review process of report data before final submission. For instance, establish reconciliation and/or cross-validation procedures to identify and eliminate potential clerical errors;
3. Request a modification of the existing vendor report configuration to ensure that it captures all vendor payment related information; and
4. Establish consistent reporting timeframes for all departments to ensure that complete and accurate data is captured.

James L. Pelletier
January 14, 2011
Page | 2

Action Plan:

1. All data corrections were made and reported to DOE and OMB by November 22, 2010.
2. Additional oversight and cross-validation were added to the existing internal review process to eliminate potential errors prior to final submission.
3. County staff has requested a modification of the existing vendor report configuration in order to capture all vendor data.
4. Prior to the start of this audit this issue was identified by County staff and consistent reporting timeframes were established for all departments.

Planned Completion Date: All OAAS recommendations have been implemented.

Contact Information for Implementation: Deena Raver, Grant Administrator, (858) 495-5922

Finding II: Lack of Clarity Regarding Allowable Labor Cost

OAAS Recommendations: DGS should coordinate with DPLU, DEH, and DPR and continue their efforts to seek clarity from DOE representatives regarding reimbursable labor costs. Specifically, the County should:

1. Contact DOE to confirm that all fringe benefit and indirect costs previously approved by DOE but not included in the updated budget are reimbursable items; and
2. Establish a review process for future budget amendments to ensure that prior budget agreements with DOE are accurately reflected in the revised budget documents.

Action Plan:

1. County staff contacted DOE to confirm that all fringe benefit and indirect costs previously approved by DOE but not included in the updated budget are reimbursable items. DOE agreed that a modification of the grant budget would be prudent to formally document DOE's approval of these fringe benefit and indirect costs. County staff submitted an updated grant budget and requested a modification to the grant agreement. The DOE has indicated that this modification request will be approved.
2. Grant Administrator and Project Leads will review future grant modifications to ensure that prior budget agreements with DOE are accurately reflected in the revised budget documents.

Planned Completion Date: All OAAS recommendations have been implemented.

Contact Information for Implementation: Deena Raver, Grant Administrator, (858) 495-5922

Finding III: DGS Labor Rate Charged During FY 2010-2011 not Consistent with Approved Labor Rate

James L. Pelletier
January 14, 2011
Page | 3

OAAS Recommendations: DGS should do the following:

1. Process a labor adjustment for all EECBG ARRA projects affected by the incorrect labor rate; and
2. Validate their labor rate adjustments by establishing a review process to ensure that approved labor rates are entered into Oracle correctly.

Action Plan:

1. DGS processed a labor adjustment for all affected EECBG ARRA projects, and corrected rates have been indexed as of November 5, 2010.
2. DGS established procedures to validate and ensure approved labor rates are entered into Oracle, our financial system of record, correctly.

Planned Completion Date: All OAAS recommendations have been implemented.

Contact Information for Implementation: Deena Raver, Grant Administrator, (858) 495-5922

If you have any questions, please feel free to call me at (858) 694-2527.


APRIL F. HEINZE, Director
Department of General Services