

## PUBLIC TESTIMONY SUMMARY

### I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

#### Department of Commerce State Energy Program American Recovery and Reinvestment Act of 2009 (June 13, 2011)

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As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits  
on June 23, 2011

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**Title: Department of Commerce State Energy Program  
American Recovery and Reinvestment Act of 2009**

**Audit Scope and Objectives:**

This audit is related to a portion of funds Washington received through the federal American Recovery and Reinvestment Act of 2009. The audit report notes that the President and Congress directed recipients of stimulus funds to award and spend the money as quickly as possible to maximize the Act's economic impact.

SAO reports that it audited the largest segment of the State Energy Program – the Energy Efficiency and Renewable Energy Loan and Grant Program – because it received more than half of the new program funds and, like all stimulus recipients, faced tight timelines and strict accountability requirements for awarding the money. Based on its risk assessment, SAO indicates it concluded there was a relatively higher risk this program would not achieve the Recovery Act goals.

SAO states that it conducted the audit to answer the following question:

- Has Commerce established and followed sound processes to award state energy grants and loans, monitor recipients' use of funds, and determine if specific program outcomes are achieved?

**SAO Findings:**

**Issue 1: Program administrators followed many of the sound practices we identified. However, in an effort to meet tight federal deadlines, they did not follow some important practices in awarding the funds.**

- Office staff did not establish specific written policies and procedures for awarding program funds, as required.
- Office staff significantly narrowed the scope of work from the original proposals to the final contracts.
- Office staff did not document pre-award risk assessments or conduct reference checks that might have identified potential problems with proposed projects and prevented an award from later being withdrawn.
- Nothing prohibited Office staff from awarding funds to some projects on a sole-source basis, but doing so made the process less open and transparent.
- Although we were able to identify most of the processes program staff followed in soliciting bids and awarding funds, they did not fully document their actions.

**Issue 2: The State Energy Office did not require or receive all the information it will need to ensure it can appropriately monitor and oversee these projects.**

- The contracts we reviewed did not specify all the information Office staff will need to effectively monitor contractors' performance.
- Office staff made payments on several contracts based on limited information.
- The Office had not conducted formal post-award risk assessments to determine the level of monitoring needed for projects of differing risks.
- Contracts were not monitored to ensure jobs and hiring decisions were reported to Washington's WorkSource system.

**Issue 3: Commerce did not meet a goal to loan two-thirds of the Recovery Act funds provided to the Loan and Grant Program, which will reduce by \$8.5 million, the amount of funds available for future energy projects.**

**SAO Recommendations:**

**Recommendations to address Issue 1:**

1. We recommend the Office establish specific written policies and procedures to guide the Loan and Grant Program in the future to ensure employees understand management's expectations for business processes, record-keeping, personnel responsibilities and day-to-day operations and decision-making.
2. We recommend Office contracts include a scope of work similar to the scope of work included in related applications and used as the basis for competitive scoring to ensure a fair and transparent award process.
3. We recommend the Office document pre-award risk assessments and conduct reference checks on future contracts to ensure the best applications receive awards.
4. We recommend the Office clearly document the processes it uses to award funding and the basis for all key award decisions to ensure adequate evidence is maintained to show funds are awarded fairly and objectively.

**Recommendations to address Issue 2:**

1. We recommend Office contracts include clear standards for measuring the award recipients' performance to ensure final project outcomes are known and award recipients are held accountable for expected job creation/retention and energy savings.
2. We recommend Office personnel thoroughly review all invoices to ensure payments for deliverables are clearly linked to contract tasks.
3. We recommend the Office place a greater focus on assessing risks to ensure limited resources are used efficiently during the monitoring phase.

(No recommendations for Issue 3)

<b>Agency Responses in Audit Report?</b>	Yes, beginning on page 22.
<b>Legislative Action Requested?</b>	No

**Agencies Testifying:**

The Department of Commerce (Tony Usibelli, Assistant Director, Energy Policy Division)

**Summary of Testimony from Audited Agencies:**

The purpose of the Recovery Act was to rapidly aid the economy by creating and saving jobs through investments in areas such as infrastructure and energy. As the audit confirmed, the State Energy Program met the federal requirement to quickly obligate all of these funds by September 30, 2010. Commerce received an award from the U.S. Department of Energy for getting funds into our local economy quickly and responsibly. Commerce also met legislative intent to invest in high-quality, newer technology projects.

Given the extremely tight timelines, changing federal guidance, and strict accountability requirements, we are also pleased this audit found this program followed the majority of practices for competitive loan and grant programs as identified by the State Auditor. We recognize there is always room for improvement. Several actions to strengthen practices have already been completed. Although it is unlikely this program will have to manage a similar influx of funds in the near future, Commerce staff will evaluate where better-documented policies and procedures are warranted and implement as necessary.

**Other Parties Testifying:**

(No other parties signed up to testify)

**Summary of Testimony from Other Parties:**

(No other parties signed up to testify)