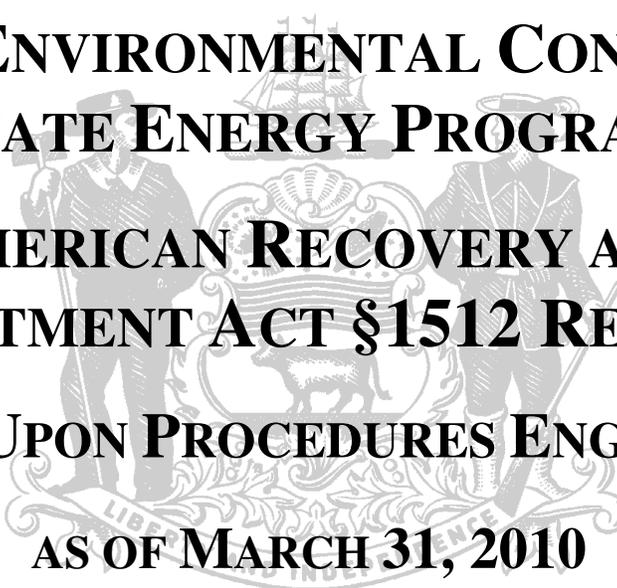


**STATE OF DELAWARE**  
**OFFICE OF AUDITOR OF ACCOUNTS**

**DEPARTMENT OF NATURAL RESOURCES  
AND ENVIRONMENTAL CONTROL  
STATE ENERGY PROGRAM  
AMERICAN RECOVERY AND  
REINVESTMENT ACT §1512 REPORTING  
AGREED-UPON PROCEDURES ENGAGEMENT  
AS OF MARCH 31, 2010**

The seal of the State of Delaware is centered behind the text. It features two figures, a Native American and a European, standing on either side of a shield. The shield is supported by a dog. Above the shield is a ship. The seal is surrounded by a decorative border with the words 'LIBERTY' and 'INDEPENDENCE' visible.

**FIELDWORK END DATE: MAY 21, 2010**  
**REPORT ISSUANCE DATE: AUGUST 13, 2010**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901  
TELEPHONE 302-739-4241  
FACSIMILE 302-739-2723  
[www.state.de.us/auditor/index.htm](http://www.state.de.us/auditor/index.htm)

---

# TABLE OF CONTENTS

---

---

Independent Accountant's Report	1
Findings and Recommendations	4
Distribution of Report	8



STATE OF DELAWARE  
**OFFICE OF AUDITOR OF ACCOUNTS**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

**PHONE: 302-739-4241**  
**FAX: 302-739-4217**

Independent Accountant's Report  
on Applying Agreed-Upon Procedures

The Governor's Stimulus Solutions Group  
Attn: The Honorable Matthew Denn  
Lieutenant Governor  
820 N. French Street, 10<sup>th</sup> Floor  
Wilmington, DE 19801

The Honorable Collin O'Mara  
Secretary  
Department of Natural Resources and  
Environmental Control  
Office of the Secretary  
89 Kings Highway  
Dover, DE 19901

We have performed the procedures enumerated below, which were agreed to by the Governor's Stimulus Solutions Group (Stimulus Group) and the Department of Natural Resources and Environmental Control (DNREC), State Energy Office (SEO). The procedures were performed solely to assist the specified parties in evaluating the *American Recovery and Reinvestment Act of 2009* (ARRA) §1512 Report (§1512 Report) for the State Energy Program, CFDA<sup>1</sup> 81.041<sup>2</sup> as of March 31, 2010. The award for the State Energy Program totaled \$24,231,000 with reported federal expenditures at March 31, 2010 of \$726,030. Management is responsible for SEO's compliance with applicable Federal and State requirements.

The State Energy Program provides financial and technical assistance to State governments to create and implement a variety of energy efficiency and conservation projects in order to provide leadership to maximize the benefits of energy efficiency and renewable energy through communications and outreach activities, technology deployment, and accessing new partnerships and resources across the geographic panorama of the United States and its territories. The program's objectives are: (1) To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities; (2) To reduce the total energy use of the eligible entities; and (3) To improve energy efficiency in the transportation, building, and other sectors. Grants are to be used by States for the development, implementation, or modification of State plans submitted to and approved by the federal Department of Energy. The State Energy Program was selected through a comprehensive statewide process that was based on risk indicators and quantitative factors.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

---

<sup>1</sup> Code of Federal Domestic Assistance

<sup>2</sup> SAI S9031803 (State Application Identifier)

Our procedures were as follows:

1. Examine the §1512 Report and supporting documents to ensure the data was properly and adequately reviewed by management prior to submitting it to the federal agency, the information reported was accurate, and the report was submitted timely.

We traced the amounts reported to appropriate supporting documentation and verified the amounts were accurate. The March 31, 2010, §1512 Report was due by April 16, 2010. The SEO submitted the report timely on April 9, 2010. However, the DNREC, State Energy Office management did not adequately review the March 31, 2010, §1512 Report and errors were discovered on the Sub-Recipient tab. The sub award amount reported was \$608,195.85 instead of the actual amount of \$870,000. Funds disbursed were reported to be \$309,787.91 instead of \$608,195.85, resulting in an understatement of expenditures of \$298,407.94. The SEO could not determine the origin of the \$309,787.91. See ***Finding and Recommendation #1*** and ***#2*** of this report for further details.

2. Ensure the calculation of the estimate of the number of jobs created and retained by the project is in compliance with the Council of Economic Advisers Memorandum dated May 2009.

According to the Federal OMB Memorandum M-10-08 issued on December 18, 2009, the jobs estimate is calculated by dividing the number of hours worked by the number of full-time hours in the quarter. Only jobs funded by the ARRA program are to be counted. We examined the calculation of the estimate of the number of jobs created and retained and determined it to be in compliance with Federal OMB Memorandum M-10-08. The SEO properly calculated and reported 1.5 jobs created and retained.

3. Ensure the information provided for subcontracts or subgrants include the data elements required to comply with the *Federal Funding Accountability and Transparency Act of 2006*.

We verified the information reported for sub-recipients to supporting documentation. The SEO properly reported the data elements for the sub grant as required to comply with the *Federal Funding Accountability and Transparency Act of 2006*; however, the SEO did not properly report the *Amount of Sub Award* or the *Total Sub Award Funds Disbursed* on the §1512 Report. See ***Finding and Recommendation #2*** of this report for further details. The SEO has awarded a contract for sustainable energy services totaling \$2,217,292. Of this amount, \$870,000 will be paid from ARRA funds. The sub-recipient is to provide energy efficiency and conservation service delivery and monitoring for residential and non-residential sectors. This includes management of the appliance rebate fund and the commercial/industrial lighting rebate fund.

4. Select and test a sample of ARRA expenditures to ensure the funds were spent for the reported purpose, in accordance with State and Federal procurement laws, and were a reasonable and appropriate use of taxpayer money.

We tested and were able to determine eligibility of program expenditures totaling \$651,652 by examining supporting documentation. These expenditures consisted of \$300,000 for the establishment and replenishment of the appliance rebate fund, \$225,000 for the establishment and replenishment of the commercial/industrial lighting rebate fund, \$83,196 for commercial/industrial lighting program services, and \$43,456 in rent expenditures for the State Energy Office building. Additionally, payroll expenditures totaling \$74,378 were charged to the

program. We tested September and November 2009 payroll charges in the amount of \$14,490, of which \$10,865 (75%) was charged to the program. These expenditures were not properly supported by time and effort reporting certifications as required by Federal OMB circular A-87. See *Finding and Recommendation #3* of this report for further details.

We were not engaged to and did not conduct an examination with the objective of expressing an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts  
Office of Auditor of Accounts

May 21, 2010

---

# FINDINGS AND RECOMMENDATIONS

---

---

## **Procedure #1**

Examine the §1512 Report and supporting documents to ensure the data was properly and adequately reviewed by management prior to submitting it to the federal agency, the information reported was accurate, and the report was submitted timely.

## **Finding #1 – Lack of Management Review**

### ***Criteria***

The State of Delaware Office of Management and Budget/Division of Accounting (OMB/DOA) *ARRA of 2009 Internal Controls Guideline* dated November 24, 2009, states, “Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely.”

### ***Condition***

The DNREC, State Energy Office’s, supporting documents for the §1512 Report did not have evidence of management review and approval. Although the Prime Recipient amounts were reported correctly, the Sub Recipient amounts contained errors as described below in ***Finding and Recommendation #2***. Proper management review of the supporting documentation to the §1512 Report may have discovered these errors before it was submitted.

### ***Cause***

The DNREC, State Energy Office does not have a process to review the §1512 Report before submitting it to FederalReporting.gov.

### ***Effect***

Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate and may leave errors undiscovered.

### ***Recommendation***

The DNREC, State Energy Office should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government.

### ***Auditee Response***

The Department has corrected this finding. Beginning with the July 2010 Section 1512 report, the State Energy Coordinator reviewed and approved the information submitted to Federalreporting.gov. This procedure is currently in place for all future Section 1512 reports. In addition, DNREC, Delaware Energy Office (DEO) is finalizing an expanded management review process for data quality purposes.

---

# FINDINGS AND RECOMMENDATIONS

---

## Procedure #3

Ensure the information provided for subcontracts or subgrants include the data elements required to comply with the *Federal Funding Accountability and Transparency Act of 2006*.

## Finding #2 – Incorrect Sub-Recipient Totals

### *Criteria*

The *Delaware OMB §1512 Reporting Instruction Manual* states: “Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. A significant reporting error is defined as instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question. **The Prime Recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.**”

The *Delaware OMB §1512 Reporting Instruction Manual* also states “Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems -- material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.”

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Controls Guideline dated November 24, 2009, states, “Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely.”

### *Condition*

The DNREC, State Energy Office’s §1512 Report contained errors in the sub-recipient tab for *Amount of Sub Award* and for *Total Sub Award Funds Disbursed*. The sub award amount reported was \$608,195.85 instead of the actual amount of \$870,000. Funds disbursed were reported to be \$309,787.91 instead of \$608,195.85, resulting in an understatement of expenditures of \$298,407.94. The SEO could not determine the origin of the \$309,787.91. Proper management review of the supporting documentation to the §1512 Report may have discovered these errors before it was submitted.

### *Cause*

Totals were not entered into the correct cells on the §1512 Report due to confusion on the part of DNREC, State Energy Office personnel. In addition, there was no procedure in place for adequate management review of the supporting documentation and §1512 Report before it was submitted to FederalReporting.gov.

---

# FINDINGS AND RECOMMENDATIONS

---

## ***Effect***

The March 31, 2010, §1512 Report submitted by the DNREC, State Energy Office contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.

## ***Recommendation***

The DNREC, State Energy Office should retain all documentation (DFMS reports, tracking spreadsheets, etc.) to support the information reported on the §1512 Report and implement a management review process to ensure that the §1512 Report is free of errors before submission.

## ***Auditee Response***

The Department has corrected this finding. Beginning with the July 2010 Section 1512 report, the State Energy Coordinator will verify the data that is submitted to [FederalReporting.gov](http://FederalReporting.gov).

## **Procedure #4**

Select and test a sample of ARRA expenditures to ensure the funds were spent for the reported purpose, in accordance with State and Federal procurement laws, and were a reasonable and appropriate use of taxpayer money.

## **Finding #3 – Lack of Time and Effort Reports**

### ***Criteria***

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

---

# FINDINGS AND RECOMMENDATIONS

---

## ***Condition***

The DNREC, State Energy Office did not require time and effort reporting certifications for federally funded programs as required in OMB Circular A-87. The State Energy Office used a pre-determined distribution percentage of 75% for the payroll of two employees to be charged to the State Energy Program. The AOA tested a total of \$14,490 in payroll transactions, of which \$10,865 (75%) was charged to the program without time and effort certifications. However, total payroll charged to this ARRA program since its inception on February 17, 2009, through March 31, 2010, is \$74,378.20. None of these expenditures are properly supported by time and effort reports.

## ***Cause***

The DNREC, State Energy Office personnel were unaware of the time and effort reports requirement.

## ***Effect***

Salary and related costs allocated to the State Energy Program are not appropriately supported by time and effort reports and are not in compliance with OMB Circular A-87.

## ***Recommendation:***

The DNREC, State Energy Office should complete and retain time and effort reporting certifications as required by Federal OMB.

## ***Auditee Response***

The State Energy Coordinator has arranged with the DNREC Information Technology group for DNREC DEO to be included in the Department's Time-Keeping System (TKS) which goes live in October 2010. This will allow for automated time and effort reporting for the Delaware Energy Office staff. The system will be installed in October in the DNREC DEO and training for staff scheduled. This program will allow DNREC DEO to appropriately allocate salary and related costs to the State Energy Program and will enable compliance with OMB Circular A-87. Time allocations previous to August 2010 will be certified by employees using an after-the fact prototype sent to us by your office. The same document, with slight alterations, will also be used for current time periods until the TKS is installed in DNREC DEO and training occurs.

---

# DISTRIBUTION OF REPORT

---

---

This report is intended solely for the information and use of the Stimulus Group and the SEO and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the Office of the State Treasurer.

Copies of this report have been distributed to the following public officials:

The Honorable Jack A. Markell, Governor, State of Delaware  
The Honorable Matthew Denn, Lieutenant Governor, State of Delaware  
The Honorable Russell T. Larson, Controller General, Office of the Controller General  
The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General  
The Honorable Ann S. Visalli, Director, Office of Management and Budget  
The Honorable Thomas J. Cook, Secretary, Department of Finance  
Ms. Valerie Watson, Acting Director, Division of Accounting, Department of Finance  
Ms. Dawn Haw-Young, Manager of Financial Reporting and Internal Control, Division of Accounting,  
Department of Finance  
The Honorable Velda Jones-Potter, Treasurer, Office of the State Treasurer  
Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget

Officials of Audited Entity

The Honorable Collin O'Mara, Secretary, Department of Natural Resources and Environmental Control  
Mr. Charles Smisson, Jr., State Energy Coordinator