OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

SPECIAL REPORT

DOE-OIG-22-40

August 2022

PROSPECTIVE CONSIDERATIONS FOR PROJECTS AWARDED THROUGH FINANCIAL ASSISTANCE AWARDS

Department of Energy
Washington, DC 20585

August 12, 2022

MEMORANDUM FOR THE SECRETARY

SUBJECT: Special Report on Prospective Considerations for Projects Awarded Through Financial Assistance Awards

The Infrastructure Investment and Jobs Act (IIJA) was signed into law on November 15, 2021. Under the IIJA, Department of Energy program offices—the Office of Energy Efficiency and Renewable Energy, the Office of Fossil Energy and Carbon Management, and the Office of Electricity—received almost $26 billion in funding for clean energy and innovative technology projects that will be distributed through financial assistance awards in the form of grants and cooperative agreements.[1] This includes projects for technologies in areas such as renewable energy, energy efficiency, sustainable transportation, carbon capture and storage, and resilient distribution systems.

When we met on February 3, 2022, I committed to sharing with Department leadership any historic reports that may serve to improve internal controls to help prevent fraud, waste, and abuse as the Department launches its many IIJA projects. While the $26 billion in IIJA funding for clean energy and innovative technology projects was the impetus for this report, the Office of Inspector General notes that the *CHIPS and Science Act of 2022* is expected to increase the Department's budget more than $30 billion over baseline plans for infrastructure improvements at the 17 National Laboratories, research and development programs, artificial intelligence, advanced manufacturing, and other priorities. It is not clear at this time whether any of these funds may be awarded through financial assistance agreements. Additionally, the *Inflation Reduction Act of 2022*, if enacted, is expected to authorize $25 billion in new spending authority for the Department's energy security programs, some of which will be distributed through financial assistance instruments.

Given the significant amount of IIJA funding and potential new appropriations for clean energy and innovative technology projects, it is imperative that Department leadership recognize the immense risks associated with these new programs and take assertive steps to mitigate the risks. As such, the Office of Inspector General has identified six major risk areas based on prior audits, inspections, and investigations[2] that warrant immediate attention and consideration from Department leadership to prevent similar problems from recurring. Specifically:

---

[1] This does not include IIJA funding for programs under the Weatherization and Intergovernmental Programs Office.

[2] This body of work includes audit and inspection reports issued from January 2012 through October 2021 and investigative outcomes included in Semiannual Reports to Congress issued from September 2013 through May 2022. For the purpose of this review, we did not include reports related to financial assistance awards issued under the Weatherization and Intergovernmental Programs Office.

- Recipient Fraud: We examined 27 completed investigations resulting in investigative outcomes, including 20 criminal convictions, 65 persons suspended or debarred from receiving financial assistance awards, and over $38 million recovered. The majority of these cases involved the submission of false claims, false statements, and misrepresentations made by either a Principal Investigator[3] or company executive of a financial assistance recipient. The facts and circumstances in these cases demonstrate the need for more rigorous oversight over financial assistance recipients.

- Insufficient Federal Staffing: Prior audit and inspection reports identify that insufficient Federal staffing adversely affected the Department's ability to administer financial assistance awards. Issued reports show that key oversight functions such as invoice reviews were not performed due to limited staffing and heavy workloads of project oversight officials. These reports demonstrate the need for sufficient staffing to ensure key Federal oversight functions are performed and the Government is adequately protected.

- Inadequate Oversight of Projects: In prior reports, we observed inadequate financial monitoring of recipient costs and cost share contributions which increased the risk that questionable or unallowable costs could be charged to the Department, reducing the amount of funds available to complete projects. Additionally, we identified instances when the Department had not ensured that project deliverables such as annual independent audits or final project reports had been completed as required. Furthermore, reports reveal instances when the Department had not taken actions to address external audit findings related to financial weaknesses at the recipient level. Finally, audit and investigative work identified weaknesses in the Department's coordination with other programs and Federal agencies to manage overlap and avoid duplication of research efforts. These reports demonstrate a need for more stringent monitoring of projects awarded under financial assistance agreements.

- Circumvention of Project Controls: We identified prior reports demonstrating instances when the Department bypassed project controls such as performance milestones, budget phases, and cost share requirements[4] put in place to mitigate technical and financial risks. Additionally, these reports identify instances when the Department had not effectively implemented ongoing invoice review controls it put in place to manage project risks. Further, these reports identify instances when the Department selected projects despite significant financial or technical issues identified during the merit review process,[5] issues that ultimately impacted the success of the projects. These actions circumvented project

[3] A Principal Investigator is the researcher, scientist, or other individual designated by a recipient to direct the research and development aspects of a project.
[4] Cost sharing or matching is that portion of the project or program costs that are not paid by the funding agency. Cost sharing includes all contributions including cash and in-kind that a recipient makes to an award.
[5] The purpose of a merit review is to provide an independent assessment of the technical or scientific merit of an eligible and responsive application for financial assistance. Merit reviews are performed by persons who have knowledge and expertise in the technical or scientific fields identified or presented in applications submitted to the Department.

controls implemented to protect the Government and taxpayers and increased the Department's financial exposure. These reports emphasize the importance of adhering to project controls to mitigate risk.

- Inadequate Internal Controls: Prior audit reports reveal inadequate internal controls related to administering and monitoring of financial assistance awards. In particular, we identified a lack of comprehensive policies and procedures defining the level of invoice review or documentation needed prior to reimbursement. In addition, these reports reveal inadequate controls related to areas such as record-keeping practices, consideration of findings from prior audits of recipient accounting systems, and reviews of recipient-level procurement practices. These reports emphasize the importance of a comprehensive internal control system to ensure that the Government and taxpayers are protected from reimbursing questionable or unallowable recipient costs.

- Lack of Recipient-Level Controls: Prior audit reports show that the Department had not ensured that recipient procurement practices were adequate to fully protect the Government's interests and complied with applicable policies, procedures, and best practices. We identified instances when the Department had not ensured recipients had effective accounting controls and financial systems in place to adequately segregate and accumulate costs. Additionally, these reports identify examples where the Department had not ensured that recipient subcontractor or vendor selections for goods and services represented the best value to the Government or recipient subcontractor costs were adequately supported. Further, we identified instances when the Department had not ensured that recipients fully understood Federal financial assistance requirements which resulted in questionable or unallowable costs being charged to projects. These reports indicate a need for more rigorous monitoring of recipient-level activities.

As the Department's programs move forward with IIJA projects and other potential appropriations awarded through financial assistance instruments, we have identified several prospective considerations to help prevent fraud, waste, and abuse. As a top priority, we suggest that Department programs identify and set aside sufficient resources for Federal staffing, develop comprehensive policies and procedures, and build strong internal controls to ensure the Government and taxpayers are protected.

Teri L. Donaldson
Inspector General

cc: Deputy Secretary
Chief of Staff

SUMMARY OF ISSUES ON FINANCIAL ASSISTANCE AWARDS

After reviewing prior reports and casework related to the Department of Energy's management of financial assistance awards for clean energy and innovative technology projects, the Office of Inspector General identified six broad areas that warrant additional attention from senior Department leadership as it moves forward with financial assistance awards for *Infrastructure Investment and Jobs Act* funded projects and other potential appropriations. These areas include:

- Recipient Fraud
- Insufficient Federal Staffing
- Inadequate Oversight of Projects
- Circumvention of Project Controls
- Inadequate Internal Controls
- Lack of Recipient-Level Controls

As a result of the previous Office of Inspector General efforts, we have identified prospective considerations that Department leadership should consider to enhance internal controls to prevent fraud, waste, and abuse.

RECIPIENT FRAUD

We examined 27 completed investigations resulting in investigative outcomes, including 20 criminal convictions, 65 persons suspended or debarred from receiving financial assistance awards, and over $38 million recovered. The majority of these cases involved the submission of false claims, false statements, and misrepresentations made by either a Principal Investigator (PI) or company executive of a financial assistance recipient. The facts and circumstances in these cases demonstrate the need for more rigorous oversight over financial assistance recipients. For example:

- A Department grantee and his wife, co-owners of a company that had received more than $5 million from the Department, fabricated letters of support and investment, provided false information in grant proposals regarding business operations, and submitted falsified reports and emails regarding how funds were spent. Both pleaded guilty to the scheme; the husband was sentenced to 33 months of imprisonment, and the wife was sentenced to home detention. The couple paid $5.5 million in restitution, and both persons and several companies they operated were debarred for 5 years.

- A PI on a Department grant falsified test results and submitted the false outcomes to the Department in progress reports on a $2.5 million advanced scientific project. The PI was charged with one count of Mail Fraud, pleaded guilty, and was sentenced to 18 months in prison. The PI paid $2.5 million in restitution and was debarred for 10 years, and the Department separately recovered $750,000 in awarded funds.

- A company that received funds under the Small Business Innovation Research (SBIR) Program from multiple Federal agencies, including the Department, was found to have submitted duplicative proposals, resulting in overlapping funding. The company also listed key personnel on proposals that did not actually work for the company. This case resulted in the guilty plea of the company owner and his various enterprises and a 5-year debarment for each company and individual, as well as $1.8 million in criminal and civil restitution.

- A university professor who received multiple SBIR awards from the Department and other Federal agencies was found to have previously obtained funding for some of the same substantive research from government agencies in the People's Republic of China. The professor also made multiple inappropriate sub-awards to his university laboratory. The professor was found guilty at a Federal bench trial, sentenced to time served and 2 years of supervised release, and both the professor and his company were debarred for 10 years.

INSUFFICENT FEDERAL STAFFING

Prior audit and inspection reports identify that insufficient Federal staffing adversely affected the Department's ability to administer financial assistance awards. Issued reports show that key oversight functions such as invoice reviews were not performed due to limited staffing and heavy workloads of project oversight officials. These reports demonstrate the need for sufficient staffing to ensure key Federal oversight functions are performed and the Government is adequately protected. For example:

- In our October 2021 report[6] on oversight of financial assistance awards at the Golden Field Office, we found that a Contracting Officer had not modified a recipient's award to properly reflect indirect rate changes as required and approved invoices with indirect rates that were higher than those included in the original award. The report notes that not all modifications were processed due to limited staffing resources.

- Our May 2016 report[7] on cooperative agreements for small modular reactors identifies over $480,000 in unallowable costs, including rent payments, relocation, travel, and labor costs, that the Department reimbursed to award recipients. The report notes that invoice reviews should have caught the questionable costs identified; however, limited staffing and high workloads contributed to the errors being overlooked.

- In our March 2016 report[8] on financial assistance awards for solar projects, we found that a recipient claimed more than $7 million in project costs that were insufficiently supported or duplicative. Of the $7 million, the Department reimbursed the

[6] Inspection Report on *Financial Assistance Allegations at the Golden Field Office* (DOE-OIG-22-02, October 2021).
[7] Audit Report on *The Department of Energy's Small Modular Reactor Licensing Technical Support Program* (OAI-M-16-11, May 2016).
[8] Audit Report on *Management of the Solar Energy Technologies Office's Technology to Market Program* (OAI-M-16-08, March 2016).

recipient over $1.3 million with the remainder being credited toward the recipient's required cost share. According to the report, the lack of adequate oversight was due, in part, to the Technical Project Officer's very heavy workload of more than 100 awards.

- Our March 2013 report[9] on industrial carbon capture and storage projects shows that the Department reimbursed financial assistance recipients approximately $16.8 million without obtaining or reviewing adequate supporting documentation. The report notes that Contract Specialists responsible for approving reimbursement requests expressed concerns with being overwhelmed by their workload and not having time to sufficiently review costs for every project.

INADEQUATE OVERSIGHT OF PROJECTS

We identified audit and inspection reports as well as investigative casework demonstrating inadequate oversight of projects. In particular, prior audit and inspection reports show instances of insufficient financial monitoring of recipient costs and cost share contributions which increased the risk that questionable or unallowable costs could be charged to the Department. Additionally, these reports identify instances when the Department had not ensured that project deliverables such as annual independent audits or final project reports had been completed as required. Furthermore, these reports reveal instances when the Department had not taken actions to address external audit findings related to financial weaknesses at the recipient level. Finally, audit and investigative work identified weaknesses in the Department's coordination with other programs and Federal agencies to manage overlap and avoid duplication of research efforts. The reports and investigative casework demonstrate a need for more stringent monitoring of projects awarded under financial assistance agreements.

Monitoring of Recipient Costs

In prior reports, we observed insufficient financial monitoring of recipient costs which increased the risk that questionable or unallowable costs could be charged to the Department, reducing the amount of funds available to complete projects. We issued audit reports demonstrating instances when the Department approved and reimbursed recipients for unsupported, unreasonable, or unallowable costs. In addition, reports identify examples where the Department allowed recipients to claim cost share contributions without adequate documentation or contributions that were prohibited under Federal requirements. For example:

- In our February 2018 report[10] on oversight of the Texas Clean Energy Project, we found that the Department approved over $38 million in expenditures without obtaining or reviewing adequate detail. This included approximately $16.9 million in subcontractor costs supported by invoices that did not include details on the nature of services provided; over $8.2 million in subcontractor costs supported by invoices that were not in U.S. currency and did not contain details regarding the actual exchange rate in effect at the

[9] Audit Report on *The Department of Energy's Industrial Carbon Capture and Storage Program Funded by the American Recovery and Reinvestment Act* (OAS-RA-13-15, March 2013).
[10] Audit Report on *The Office of Fossil Energy's Oversight of the Texas Clean Energy Project Under the Clean Coal Power Initiative* (DOE-OIG-18-17, February 2018).

time of payment; and approximately $2.9 million in subcontractor and consultant costs charged to the project that were unsubstantiated. Additionally, we identified concerns with certain amounts reported by the recipient as part of its cost share. In particular, we determined that the recipient overstated the value of cost share associated with a land purchase by $384,000. The recipient had claimed its cost share in the amount of $480,000 for the value of the land; however, the Department had reimbursed the recipient 80 percent or $384,000 for the purchase of land for the project, and the recipient had not deducted the Federal reimbursement from the total value of the land it claimed for cost share.

- Our September 2013 report[11] on financial assistance awards for hydrogen and fuel cell projects identifies over $6.6 million in questionable costs for recipients included in the review. In particular, we found that the Department reimbursed $5.3 million in unsupported and unallowable costs for unsupported subcontractor or partner costs, potentially unallowable and unsupported travel and meal costs, and other expenses that were not supported by detailed invoices. Additionally, the report shows that the Department was unaware that one recipient included unallowable costs of approximately $700,000 in its indirect cost rate calculation, a practice that resulted in higher than allowable reimbursements estimated at over $64,000.

- In our March 2013 report[12] on industrial carbon capture and storage projects, we found that the Department reimbursed financial assistance recipients approximately $16.8 million without obtaining or reviewing adequate supporting documentation. This included approximately $10.7 million in reimbursement requests that lacked supporting evidence such as vendor invoices or recipients for equipment purchases, over $1 million in unallowable pre-award costs, and over $770,000 in unjustified employee bonuses. The report also identifies that the recipient was able to withdraw over $777,000 more than the amount authorized by the Department due to a lack of monitoring.

- In our January 2013 report[13] on the Department's Smart Grid Demonstration Program, we found that reimbursements totaling about $12.3 million were approved despite a lack of supporting documentation necessary to verify costs were incurred and reasonable. The report notes that contrary to award terms and conditions, two recipients included in the audit were reimbursed for claims based on estimated rather than actual costs, resulting in overpayments of approximately $9.9 million. In addition, the report shows that although Federal regulations specifically prohibit using Federal funds and previous recipient contributions toward meeting cost share requirements, the Department approved a recipient's plan to use about $28 million in expected proceeds from the sale of an energy storage unit, manufactured in part with Federal funds and previous recipient contributions to meet its overall $32.7 million cost share requirement.

---

[11] Audit Report on *The Department of Energy's Hydrogen and Fuel Cells Program* (OAS-RA-13-31, September 2013).
[12] See supra Note 9.
[13] Audit Report on *The Department of Energy's $700 Million Smart Grid Demonstration Program Funded through the American Recovery and Reinvestment Act of 2009* (OAS-RA-13-08, January 2013).

Project Deliverables

Prior audit reports identify instances when the Department had not ensured that project deliverables such as annual independent audits or final project reports had been completed as required. For example:

- In our April 2017 report[14] on financial assistance awards for small businesses, we found that the Department had not ensured recipients were meeting all terms and conditions of their awards. In particular, recipients included in the review had not obtained required annual audits for multiple years. These audits are intended to determine whether the recipient has an internal control structure that provides reasonable assurance that the recipient is managing its award or awards in compliance with Federal laws and regulations as well as the terms and conditions of the award. Additionally, the report notes that the Department had not consistently ensured that final expenditure reports were submitted by recipients within the required timeframe, or that final expenditure reports were received within 90 days of the completion of the award term, as required by Federal regulations. The final expenditure report is used to confirm that the total incurred costs are commensurate with work performed under the award, and it is necessary to close out the award in a timely manner.

- Our September 2013 report[15] on financial assistance awards for hydrogen and fuel cell projects shows that the Department had not always ensured that recipients arranged for annual independent audits of internal controls to be conducted as required by the Department's financial assistance regulations. As noted, the audits are designed to determine whether the recipient had an internal control structure in place that provided reasonable assurance of compliance with Federal laws and regulations and the terms of the award. The report concludes that these audits would have helped increase the confidence that the Federal projects were managed in strict compliance with laws and regulations, as well as the terms and conditions of the awards.

- In our October 2016 report[16] on the Geothermal Technologies Office, we found that the Department had not always obtained deliverables required in financial assistance award terms. Recipients included in the audit had not submitted a final report or technical data in accordance with award terms. The report concludes that without the technical information from crucial final deliverables and research data submissions, the Department could not fully demonstrate performance had been achieved as expected or if program objectives and goals had been met. Further, valuable research and development supported with Federal funding were not made publicly available to maximize the leveraging of Department investments. As a result, taxpayer dollars may be wasted in the future by unknowingly duplicating research and development.

[14] Audit Report on *Followup on the Small Business Innovation Research and Small Business Technology Transfer Programs* (OAI-M-17-06, April 2017).
[15] See supra Note 11.
[16] Audit Report on *Followup on the Geothermal Technologies Office* (OAI-M-17-01, October 2016).

External Audit Findings

Issued audit reports reveal instances when the Department had not taken actions to address external audit findings related to financial weaknesses at the recipient level. For example:

- In our October 2019 report[17] on the Office of Indian Energy Policy and Programs, we found that no additional controls were added to new awards based on issues identified from prior external audit findings. The report notes that award recipients included in the review had prior audit findings related to financial weaknesses, such as a lack of supporting documentation for costs claimed. However, no additional controls had been put in place to address these weaknesses on new awards for the same award recipients. The report concludes that had additional controls been established, the Department could have mitigated the risk of questionable and unallowable costs being charged to the projects.

- Our December 2015 report[18] on cooperative agreement recipients under the Regional Carbon Sequestration Partnerships Initiative shows that the Department had not always considered Office of Management and Budget Circular A-133 audit findings and recommendations, nor had it taken timely action on the Defense Contract Audit Agency's audits. According to the report, Department officials indicated that recent audit information was reviewed prior to any budget continuations or other major actions. However, the report notes that these budget actions frequently occurred several years after the audits were conducted. The report concludes that had the Department followed up on the findings and recommendations from these prior audit reports, it is likely that the questioned costs identified in our review would not have occurred or would have been detected in a more timely manner.

Coordination with Other Programs and Federal Agencies

Prior audits and investigations identified weaknesses in the Department's coordination with other programs and Federal agencies to manage overlap and avoid duplication of research efforts. For example:

- Our January 2013 audit report[19] on the Department's Smart Grid Demonstration Program identifies weaknesses in coordination efforts with another Department program. Specifically, the report shows that the Department awarded a recipient $14 million for a project even though the recipient had received $2 million under the Advanced Research Projects Agency – Energy Program for similar work. The report notes that the recipient, unknown to the Department until our audit, had reported the same accomplishments under both awards. According to the report, even though both program offices were aware the recipient had received funding for potentially overlapping projects, they had not coordinated their oversight activities.

---

[17] Audit Report on *Office of Indian Energy Policy and Programs* (DOE-OIG-20-03, October 2019).
[18] Audit Report on *The Office of Fossil Energy's Regional Carbon Sequestration Partnerships Initiative* (OAI-M-16-03, December 2015).
[19] See supra Note 13.

In addition, our review of investigative outcomes included in Semiannual Reports to Congress identified instances when financial assistance recipients fraudulently received awards from multiple Federal agencies for duplicate research. For example:

- In one instance, the Department debarred a former PI, their spouse, and their business, and issued an administrative demand letter to a grant recipient for $674,999 in unallowable costs. The investigation determined the former PI received several duplicate SBIR Program grants from multiple Federal agencies.

- In another instance, an investigation determined an executive officer used various companies to apply for and receive SBIR Program grants from multiple agencies for essentially the same work, and concealed the existence of the awards and the relationships between the related companies from the awarding agencies. Additionally, the investigation determined that during the SBIR Program application process the executive and companies misrepresented to the awarding agencies the existence and use of company facilities, equipment, and the location of operations.

CIRCUMVENTION OF PROJECT CONTROLS

We identified prior audit reports demonstrating instances when the Department bypassed project controls such as performance milestones, budget phases, and cost share requirements put in place to mitigate technical and financial risks. Additionally, these reports identify instances when the Department had not effectively implemented ongoing invoice review controls it put in place to manage project risks. Further, these reports identify instances when the Department selected projects despite significant financial or technical issues identified during the merit review process, issues that ultimately impacted the success of the projects. These actions circumvented project controls implemented to protect the Government and taxpayers and increased the Department's financial exposure. These reports emphasize the importance of adhering to project controls to mitigate risk. For example:

- Our April 2016 report[20] on the Department's continued support of the Texas Clean Energy Project shows that the Department circumvented controls put in place to mitigate its financial exposure. As a risk mitigation measure, the Department had established ceilings for its expenditures during each of the four project phases to limit its financial exposure to set amounts until the project reached certain milestones. However, we found that the Department increased its early-phase budget allocations by shifting allocations from subsequent phases and decreased recipient cost share contributions below the percentage defined in the original cooperative agreement to provide continued support when the project was unable to meet milestones. These actions resulted in the Department exceeding its original Phase 1 commitment by over $100 million without assurances that the project would succeed.

[20] Special Report on *The Department of Energy's Continued Support of the Texas Clean Energy Project Under the Clean Coal Power Initiative* (OIG-SR-16-02, April 2016).

- Our June 2014 report[21] on the Advanced Manufacturing Office's management of financial assistance awards shows that although recipients were placed on the reimbursement method of payment to allow for determinations of the allowability and reasonableness of costs prior to payment, the Department approved and reimbursed approximately $17 million without detailed support to substantiate costs claimed. The report notes that even though the Department placed recipients on the reimbursement method to enhance controls and alleviate risk, the terms and conditions for the awards only required recipients to submit high-level summary tables that listed costs claimed by budget categories. Without requesting or reviewing adequate documentation for project costs, the Department could not accurately determine the allowability and reasonableness of costs charged to the Department prior to reimbursement.

- In our March 2013 report[22] on industrial carbon capture and storage projects, we found that the Department awarded three recipients over $90 million in funding even though the merit review process identified significant financial and technical issues. The report notes that the Department awarded more than $48 million to one recipient whose financial condition precluded it from obtaining a satisfactory merit review score. Rather than addressing the underlying issues, the Department accepted increased risk and lowered the recipient's required cost share. At the time of our review in 2013, the recipient had been unable to meet the reduced required cost share contribution, increasing the risk that the project's goals may not be realized. The report concludes that 2 years after award, the three recipients had only spent about $7 million and experienced delays finalizing agreements due to problems meeting financial commitments and overcoming technical issues impacting the scope of work for the projects. The challenges precisely paralleled the initial concerns raised during the merit review process.

INADEQUATE INTERNAL CONTROLS

Prior audit reports reveal inadequate internal controls related to administering and monitoring of financial assistance awards. In particular, we identified a lack of comprehensive policies and procedures defining the level of invoice review or documentation needed prior to reimbursement. These reports also reveal inadequate controls related to areas such as record-keeping practices, consideration of findings from prior audits of recipient accounting systems, and reviews of recipient-level procurement practices. These reports emphasize the importance of a comprehensive internal control system to ensure that the Government and taxpayers are protected from reimbursing questionable or unallowable recipient costs. For example:

- In our October 2019 report[23] on the Office of Indian Energy Policy and Programs, we found that there were no formal policies or procedures that defined the appropriate level of supporting documentation necessary to substantiate project costs and that ensured only approved labor and indirect rates were reimbursed. The report notes that at the time of the review, the program had not developed criteria or defined a standard level of

[21] Audit Report on *Selected Aspects of the Office of Energy Efficiency and Renewable Energy's Advanced Manufacturing Office* (OAS-RA-14-04, June 2014).
[22] See supra Note 9.
[23] See supra Note 17.

documentation needed to ensure an efficient and consistent review of project costs. In addition, the report shows that the program did not have a process in place for officials to consistently review labor and indirect rates claimed versus those approved at the time of the award. Instead, rates were reviewed by each of the Project Officers on an informal basis.

- Our June 2014 report[24] on the Department's Water Power Program shows that the program had not established a process to identify for-profit recipients that met the threshold for completing required compliance audits, which resulted in the audits not being performed. By not enforcing audit compliance, the program could not be assured that recipients had internal controls in place to ensure compliance with Federal regulations and the terms and conditions of their awards. In addition, the report shows that the program did not have a process in place to modify the payment terms and conditions of previously negotiated awards when accounting system weaknesses were subsequently identified after a more recent award was made. As a result, the program assumed a higher risk of unallowable costs being submitted by a recipient.

- In our June 2014 report[25] on the Advanced Manufacturing Office's management of financial assistance awards, we found that the Department had not developed criteria or defined a standard level of documentation needed to ensure an efficient or consistent review of project costs. The report identifies that for recipients included in the review that had been placed on the reimbursement method of payment, program officials requested varying levels of supporting documentation to substantiate project costs and, in some cases, only received summary spreadsheets listing budget cost categories. The report notes that the extent of backup documentation required to substantiate reimbursement requests is determined jointly by the Project Officer and Contract Specialist at the onset of each award, and their decisions were not typically documented. In addition, we found that the program lacked internal controls to ensure policies and procedures, which require analysis and significant decisions be adequately documented and maintained, were followed.

- Our March 2013 report[26] on industrial carbon capture and storage projects shows that policies and procedures related to managing the projects were either not developed or not fully implemented. In particular, the report notes that the Department had not developed formal policies and procedures requiring officials to evaluate or seek resolution of apparent related-party transactions or potential conflicts of interest. In addition, we found that the Department had not established policies requiring a review of procurement practices to ensure selections made by recipients were appropriate and in accordance with relevant policies and procedures.

---

[24] Audit Report on *The Department of Energy's Water Power Program* (OAS-M-14-07, June 2014).
[25] See supra Note 21.
[26] See supra Note 9.

- In our May 2012 report[27] on the Clean Cities Alternative Fuel Vehicle Grant Program, we found that the Department had not developed formal policies and procedures requiring officials to review funded projects for potential conflicts of interest and to ensure that recipients met Federal procurement requirements pertaining to the reasonableness of costs. While the Department's guidance on financial assistance awards required a "consideration" of the relationships among partnerships or consortiums during the award process, the guidance did not contain formal procedures that required Federal project managers to review relationships and transactions that may create conflicts of interest.

LACK OF RECIPIENT-LEVEL CONTROLS

Prior audit reports show that the Department had not ensured that recipient procurement practices were adequate to fully protect the Government's interests and complied with applicable policies, procedures, and best practices. We identified instances when the Department had not ensured recipients had effective accounting controls and financial systems in place to adequately segregate and accumulate costs. Additionally, reports identify examples where the Department had not ensured that recipient subcontractor or vendor selections for goods and services represented the best value to the Government or recipient subcontractor costs were adequately supported. Further, we identified instances when the Department had not ensured that recipients fully understood Federal financial assistance requirements which resulted in questionable or unallowable costs being charged to projects. These reports indicate a need for more rigorous monitoring of recipient-level activities. For example:

- In our February 2013 report[28] on the Department's Solid-State Lighting Program, we noted that financial assistance recipients reviewed had not developed adequate policies, procedures, and practices for appropriately segregating and accumulating direct and indirect costs, which increased the risk that indirect costs could be double-billed. In addition, none of the recipients we reviewed had developed adequate policies and procedures for identifying and segregating unallowable costs, increasing the risk that such costs could be inappropriately billed to the Department. Further, recipients we reviewed had not developed and implemented adequate timekeeping policies and procedures which are critical to ensuring that costs are properly allocated to Federal financial assistance awards.

- In our March 2013 report[29] on industrial carbon capture and storage projects, we found that procurement practices for recipients reviewed did not adequately ensure that subcontractor or vendor selections made by recipients represented the best value to the Government and were in accordance with relevant policies and procedures. Specifically, recipients that we reviewed had not always documented their selections or sole source justifications, especially for instances in which the selections did not represent arm's-

[27] Audit Report on *The Department of Energy's Clean Cities Alternative Fuel Vehicle Grant Program Funded under the American Recovery and Reinvestment Act* (OAS-RA-12-12, May 2012).
[28] Audit Report on *The Department of Energy's Solid-State Lighting Program* (OAS-RA-L-13-03, February 2013).
[29] See supra Note 9.

length transactions. In total, we identified over $4.1 million in recipient procurements that involved potential conflicts of interest. In each case, the recipients had provided information about the relationships to the Department that went undetected.

- In our December 2015 report[30] on cooperative agreement recipients under the Regional Carbon Sequestration Partnerships Initiative, we found that the Department had not ensured that a recipient fully reviewed invoices for its subcontractor to verify that costs were adequately documented. The report identifies over $5.1 million in unsupported and questionable costs and cost share amounts claimed by the subcontractor that were approved by the recipient and passed on to the Department.

- Our November 2018 report[31] on financial assistance awards under the Wind Program shows that a recipient had not conducted annual reconciliations of its provisional billing rates with actual indirect and fringe costs incurred throughout the period of performance because it was not clear they were required to perform reconciliations. The report notes that while the award terms did not provide specific guidance on reconciliations, Department officials sent guidance to the recipient regarding the requirement. However, the program officials had not ensured the recipient understood the requirement or enforced it as program officials were unaware the reconciliations had not been performed during the period of performance. When a reconciliation of the costs was performed, it was discovered that the recipient's indirect and fringe costs had been overstated by $3.2 million.

PROSPECTIVE CONSIDERATIONS

As the Department's programs move forward with clean energy and innovative technology projects funded under the *Infrastructure Investment and Jobs Act* or other appropriations, this report offers prospective considerations that Department leadership should consider to improve internal controls to prevent fraud, waste, and abuse. Considerations include:

- Provide more rigorous oversight over recipient PIs and company executives.

- Allocate sufficient resources to enable the Department to conduct appropriate oversight of newly appropriated funds.

- Ensure Federal oversight staff is mindful of its stewardship responsibilities as the influx of funds is distributed to clean energy and innovative technology projects. Under the Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), the Department, not the Office of Inspector General, is ultimately responsible for ensuring that recipient costs are reasonable and allowable in accordance with applicable regulations.

---

[30] See supra Note 18.
[31] Audit Report on *Management of Selected Financial Assistance Agreements under the Wind Program* (DOE-OIG-19-05, November 2018).

- Ensure that project controls put in place to protect the Government and taxpayers are enforced.

- Reinforce the implementation of award terms to ensure the submission of required deliverables.

- Develop a comprehensive set of policies and procedures for overseeing all aspects of financial assistance awards that include defining a standard level of documentation needed to ensure an efficient and consistent review of project costs and oversight activities related to recipient procurement practices.

- Provide training for recipients on financial assistance requirements to ensure recipients are aware of their programmatic and statutory responsibilities as beneficiaries of Federal funding.

Office of Inspector General

- *Financial Assistance Allegations at the Golden Field Office* (DOE-OIG-22-02, October 2021)
- *Office of Indian Energy Policy and Programs* (DOE-OIG-20-03, October 2019)
- *Management of Selected Financial Assistance Agreements under the Wind Program* (DOE-OIG-19-05, November 2018)
- *The Office of Fossil Energy's Oversight of the Texas Clean Energy Project Under the Clean Coal Power Initiative* (DOE-OIG-18-17, February 2018)
- *Followup on the Small Business Innovation Research and Small Business Technology Transfer Programs* (OAI-M-17-06, April 2017)
- *Followup on the Geothermal Technologies Office* (OAI-M-17-01, October 2016)
- *The Department of Energy's Small Modular Reactor Licensing Technical Support Program* (OAI-M-16-11, May 2016)
- *The Department of Energy's Continued Support of the Texas Clean Energy Project Under the Clean Coal Power Initiative* (OIG-SR-16-02, April 2016)
- *Management of the Solar Energy Technologies Office's Technology to Market Program* (OAI-M-16-08, March 2016)
- *The Office of Fossil Energy's Regional Carbon Sequestration Partnerships Initiative* (OAI-M-16-03, December 2015)
- *Management of Selected Advanced Research Projects Agency-Energy Projects* (OAS-M-14-08, August 2014)
- *The Department of Energy's Water Power Program* (OAS-M-14-07, June 2014)
- *Selected Activities of the Office of Energy Efficiency and Renewable Energy's Advanced Manufacturing Office* (OAS-RA-14-04, June 2014)
- *Recent Events Related to Ecotality, Inc.* (OAS-RA-14-01, October 2013)
- *The Department of Energy's Hydrogen and Fuel Cells Program* (OAS-RA-13-31, September 2013)

- *Follow-up Audit of the Department of Energy's Financial Assistance for Integrated Biorefinery Projects* (DOE/IG-0893, September 2013)
- *The Department of Energy Vehicle Technologies Program's $135 Million in Funding to Ecotality, Inc.* (OAS-RA-13-29, July 2013)
- *Department of Energy's Interconnection Transmission Planning Program Funded through the American Recovery and Reinvestment Act of 2009* (OAS-RA-13-26, June 2013)
- *The Hydrogen Energy California Project* (OAS-RA-13-22, June 2013)
- *The Department of Energy's Industrial Carbon Capture and Storage Program Funded by the American Recovery and Reinvestment Act* (OAS-RA-13-15, March 2013)
- *The Department of Energy's Solid-State Lighting Program* (OAS-RA-L-13-03, February 2013)
- *The Department of Energy's Management of the Award of a $150 Million Recovery Act Grant to LG Chem Michigan Inc.* (OAS-RA-13-10, February 2013)
- *The Department of Energy's $700 Million Smart Grid Demonstration Program Funded through the American Recovery and Reinvestment Act of 2009* (OAS-RA-13-08, January 2013)
- *The Department of Energy's Small Business Innovation Research and Small Business Technology Transfer Programs* (DOE/IG-0876, November 2012)
- *The Department of Energy's Clean Cities Alternative Fuel Vehicle Grant Program Funded under the American Recovery and Reinvestment Act* (OAS-RA-12-12, May 2012)
- *The Department's Management of the Smart Grid Investment Grant Program* (OAS-RA-12-04, January 2012)

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at 202–586–1818. For media-related inquiries, please call 202–586–7406.