

EXECUTIVE OFFICE OF THE GOVERNOR



OFFICE OF THE CHIEF INSPECTOR GENERAL



**AUDIT OF THE PROGRAMS FUNDED THROUGH THE AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009**

**FOR THE PERIOD JULY 1, 2009 THROUGH DECEMBER 31, 2009
AND SELECTED TRANSACTIONS THROUGH MARCH 31, 2010**

AUDIT REPORT NUMBER 2010-12

JUNE 25, 2010



CHARLIE CRIST
GOVERNOR

STATE OF FLORIDA

Office of the Governor

THE CAPITOL
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June 25, 2010

The Honorable Charlie Crist
Governor of Florida
The Capitol
Tallahassee, FL 32399-0001

Dear Governor Crist:

Enclosed is Audit Report No. 2010-12 detailing the findings from the Audit of Programs Funded Through the American Recovery and Reinvestment Act of 2009 for the period July 1, 2009 through December 31, 2009 and selected transactions through March 31, 2010. The Florida Energy Office's response to the audit findings and recommendations is included in this report.

I am available to discuss this report with you at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melinda M. Miguel".

Melinda M. Miguel
Chief Inspector General

Enclosure

cc: Shane Strum, Chief of Staff
Robert Vickers, Director, Florida Energy Office
David Martin, Auditor General

**AUDIT OF PROGRAMS FUNDED THROUGH THE
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009
FOR THE PERIOD JULY 1, 2009 THROUGH DECEMBER 31, 2009
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INTRODUCTION

In 2008, the Florida Legislature established and Governor Charlie Crist signed into law the creation of the Florida Energy and Climate Commission.¹ The Commission is housed within the Executive Office of the Governor and is the primary organization for state energy and climate change programs and policies.

Prior to the formation of the Florida Energy and Climate Commission, the Florida Energy Office (Energy Office), housed within the Florida Department of Environmental Protection, was the state's primary center for energy policy. In addition to developing and implementing Florida's energy plan, the Energy Office coordinated all federal energy programs delegated to the state, including energy supply, demand, conservation and allocation. In 2008, the Energy Office staff and resources were transferred to the Executive Office of the Governor, within the Florida Energy and Climate Commission.

In February 2009, the American Recovery and Reinvestment Act (ARRA) was implemented as a means of stimulating the nation's economy. Florida is using ARRA funds to continue its commitment to increase energy efficiency, expand renewable energy production, and shrink energy impacts on the environment. Funding is provided through the U.S. Department of Energy, which provides grants to states to support their energy priorities. One of the ARRA projects approved by the U.S. Department of Energy is the State Energy Program Formula Grants – ARRA² with an award totaling \$126,089,000. Of that amount, the Energy Office was authorized to use \$14,408,000 to fund the existing Florida Solar Energy Systems Incentives Program created in Section 377.806, Florida Statutes.

¹ The Commission is comprised of nine members appointed by the Governor, Commissioner of Agriculture and Consumer Services, and Chief Financial Officer. The Commission holds a variety of responsibilities, including administering financial incentive programs, completing annual assessments of Florida's Energy and Climate Change Action Plan, and providing recommendations to the Governor and the Legislature. The Commission works with other state entities to develop state energy and climate policies and programs.

² The U.S. Department of Energy's State Energy Program provides financial and technical assistance to state governments. Financial assistance is provided in the form of grants that are used by the states for the development, implementation, or modification of state plans submitted to and approved by the Department. A wide variety of activities are eligible for use of the grant funds including establishing financial incentive programs for energy efficiency improvements (e.g. rebate programs).

The Solar Energy Systems Incentives Program was established in 2006 to provide financial incentives for the purchase and installation of solar energy systems. Any resident or business of the state who purchased and installs a new solar energy system of 2 kilowatts or larger for a solar photovoltaic system, a solar energy system that provides at least 50 percent of a building's hot water consumption for a solar thermal system, or a solar thermal pool heater, from July 1, 2006 through June 30, 2010, is eligible for a rebate on a portion of the purchase price of that solar energy system. The Statute outlines the eligibility requirements for rebates as follows:

- A solar photovoltaic system qualifies for a rebate if: (1) the system is installed by a state-licensed master electrician, electrical contractor, or solar contractor; (2) the system complies with state interconnection standards as provided by the Florida Public Service Commission; and (3) the system complies with all applicable building codes as defined by the Florida Building Code.
- A solar thermal system qualifies for a rebate if the system is installed by a state-licensed solar or plumbing contractor or a roofing contractor installing standing seam hybrid thermal roofs and the system complies with all applicable building codes as defined by the Florida Building Code.
- A solar thermal pool heater qualifies for a rebate if the system is installed by a state-licensed solar or plumbing contractor and the system complies with all applicable building codes as defined by the Florida Building Code.

Rule 27N-1.500, Florida Administrative Code, titled Solar Energy Systems Incentives Program, provides guidelines for applying for the rebate and instructs the Energy Office to issue each rebate after they determine that all required information has been provided for each application to make the application complete, provided funds are available to do so. Rebates are paid through a rebate request process on a first-come, first-serve basis. The program had been state-funded since its inception, but in 2008, an overwhelming response to the program exhausted the state appropriation and created a backlog of rebate requests. In August 2009, use of ARRA funds was authorized to continue the program and alleviate the backlog.

As of March 30, 2010, \$14,208,000³ of the \$14,408,000 allotted funds has been spent and, due to the continued overwhelming response to the program, there still remains a backlog of rebate requests.

A bill to provide funding and extend the Florida Solar Energy Systems Incentives Program was not passed in the 2010 legislative session; therefore, the program will terminate effective June 30, 2010.

³Payment of the final \$200,000 is pending completion of an expanded review of 2 rebate applications to determine compliance with Statute.

OVERALL CONCLUSION

The Energy Office has been prompt in disbursing the ARRA funds provided to alleviate the backlog of applications for solar energy system rebates. However, our review disclosed that enhancements to internal controls are needed if the Solar Energy Systems Incentives Program is re-activated or a similar program is established.

ACKNOWLEDGEMENTS

The Office of the Chief Inspector General would like to extend our appreciation to the management and staff of the Executive Office of the Governor for the assistance and cooperation extended to us during this audit.

SCOPE, OBJECTIVE AND METHODOLOGY

In accordance with the 2009-2010 annual work plan approved by Governor Charlie Crist for the Chief Inspector General's Office, we have conducted this audit of the Energy Office's administration process related to the programs funded through ARRA. This audit covers ARRA expenditures made during the period July 1, 2009 through December 31, 2009 and selected transactions through March 31, 2010. Our objectives were to determine if ARRA funds were properly accounted for, spent and reported.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and the *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

We reviewed federal guidelines applicable to the expenditure and reporting of ARRA funds, award agreements between the U.S. Department of Energy and the Energy Office, and applicable Florida statutes and rules. We interviewed relevant staff from the Governor's Energy Office, Finance and Accounting Section and Legal Office. We also reviewed data reported in the Federal Reporting System for quarters ending September 30, 2009 and December 31, 2009, and examined documentation related to expenditure of funds authorized for the Solar Energy Systems Incentives Program.

FINDINGS

The Energy Office has been prompt in disbursing the ARRA funds provided to alleviate the backlog of applications for solar energy system rebates. However, based on our review, we found that enhancements to internal controls were needed. We noted:

- Our review disclosed that Energy Office staff did not require residents or businesses applying for a rebate to provide documentation evidencing compliance with applicable building codes as defined by the Florida Building Code or the state interconnection standards as provided by the Florida Public Service Commission. Energy Office staff indicated that, on occasion, they would request documentation if it was determined to be necessary to complete their review of the application but usually did not perform any other procedures to verify compliance. Without verification of compliance with the law, rebates may have been given for systems not in full compliance with statutory requirements.
- Although Energy Office staff verbally reported that it is Office policy that employees perform only one of the multiple steps in the process of receiving, recording and reviewing applications, approving payments, and mailing warrants, the policy is not in writing. Internal controls were not sufficiently in place to ensure that staff were not able to perform multiple rebate processing duties. Segregation of duties is a key control which increases the likelihood of timely detection of errors and irregularities that may occur.

RECOMMENDATIONS

The Energy Office should take steps to verify that rebates were paid for systems that comply with applicable building codes as defined by the Florida Building Code and, as applicable, the state interconnection standards as provided by the Florida Public Service Commission. We recommend that staff select a representative sample of rebates paid and obtain documentation from the resident or business to verify that applicable requirements of law were met. Appropriate documentation might include completed building permits, certificates of completion or interconnection agreements. The results of the records review should be forwarded to the Office of the Chief Inspector General for analysis and a determination as to whether additional steps need to be taken to verify proper expenditure of ARRA funds.

If the Solar Energy System Incentives Program is re-activated and the remaining backlog of rebates is processed or if another rebate program is established in the future, we recommend the following improvements in the rebate process:

- To ensure that rebates are paid in accordance with the requirements of Section 377.806(2), Florida Statutes, enhancements should be made to the application requirements in Rule 27N-1.500, Florida Administrative Code and program directives to require the submission of documentation necessary to verify that solar energy systems for which rebates are requested comply with applicable building codes as defined by the Florida Building Code and the state interconnection standards as provided by the Florida Public Service Commission.

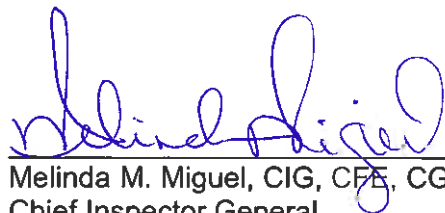
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- To the extent possible, the Energy Office should continue to take steps to ensure there is an adequate segregation of duties for processing rebates. The segregation should ensure no one employee has the capability of performing multiple steps in processing rebate payments. At a minimum, staff responsible for providing supervisory review should not have the capability to perform any other steps relating to processing rebate payments.

Audit Completed by:



Kim B. Mills, CPA, CIG, CGFM
Director of Auditing

Audit Approved by:



Melinda M. Miguel, CIG, CFE, CGFM, CFSA, PMP
Chief Inspector General



CHARLIE CRIST
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June 10, 2010

Ms. Kim B. Mills, Director of Auditing
Office of the Chief Inspector General
Office of the Governor
The Capitol
Tallahassee, FL 32399-0001

Subject: Audit of Programs Funded Through the American Recovery and Reinvestment
Act of 2009 (ARRA)
Response to Preliminary Findings and Recommendations

Dear Ms. Mills:

Thank you for the opportunity to review and respond to the preliminary findings and recommendations provided as a result of the Inspector General's audit of the ARRA funded programs administered through the Florida Energy Office. The preliminary report identified two (2) potential weaknesses specifically within the administration of the Solar Energy System Incentives Program. The following improvements have been made to the rebate program in an effort to address the findings and recommendations outlined in the report.

First, the Energy Office has enhanced internal controls relating to the review and approval of applications for solar rebates. These activities will help ensure that the systems meet all applicable codes, regulations and laws. A written policy has been developed and implemented that outlines the process and procedure for staff to review and approve rebates consistently.

Second, the Energy Office is working with the Office of the Chief Inspector General (OIG) to develop a sampling methodology in order to verify and document that rebates paid meet applicable regulatory requirements and certifications, including but not limited to applicable building codes as defined by the Florida Building Code Commission and state interconnection standards as provided by the Florida Public Service Commission. Once the methodology has been established and utilized, the sample results will be submitted to the OIG to determine if additional steps need to be implemented regarding the audit of these expenditures.

The Florida Energy Office has historically, and continues to have a small staff which requires some individuals to perform multiple duties, specifically regarding the administration of the Solar Energy Rebate Program. However, the recent addition of staff has enabled the office to segregate duties, strengthen internal controls and significantly minimize the opportunities for fraud, waste and/or abuse of the funds. In addition, staff responsible for providing supervisory review of the rebate program is separate from the function of those performing the review of the rebate applications.

Ms. Kim Mills

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The Energy Office is committed to its role of ensuring that the goals of the State Energy Program (SEP) and ARRA will be met and accomplished efficiently, effectively and in compliance with all applicable laws and regulations. If you have any questions or need additional information regarding this response, please do not hesitate to contact me at (850) 487-3800.

Sincerely,



Robert Vickers, Executive Director
Governor's Energy Office

RV/gs

cc: Alexander Mack, Program Administrator
Shane Strum, Chief of Staff
Dawn Hanson, Director of Administration