



RICK SCOTT
GOVERNOR

STATE OF FLORIDA
Office of the Governor

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June 30, 2011

Honorable Rick Scott
Governor of Florida
The Capitol
Tallahassee, FL 32399

Dear Governor Scott:

In June 2010, the Office of the Chief Inspector General released Audit Report Number 2010-12 entitled "Audit of the Programs Funded Through the American Recovery and Reinvestment Act of 2009." The report provided details of our audit findings and recommendations for improvements for the applicable programs administered by the Florida Energy Office. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors.

Professional Auditing Standards provide that "the chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management" and "ensure that management actions have been effectively implemented." In accordance with this requirement, we have obtained and reviewed information from the Florida Energy Office (Office) staff on the status of implementation of our recommendations. The results of our review, which are documented on the enclosed report, disclosed that, although actions have been taken to address each of the audit findings, corrective actions for one finding have not been fully implemented.

Pursuant to Chapter 2011-142, Laws of Florida, the Energy Office is being transferred to the Department of Agriculture and Consumer Services (Department), effective July 1, 2011. The results of this review will be forwarded to the Department's Office of Inspector General for additional follow-up as they deem appropriate.

I am available at your convenience to discuss this matter further.

Sincerely,

Melinda M. Miguel
Chief Inspector General

Enclosure

cc: Jane Flowers, Audit Manager, Office of the Auditor General
Kathy Dubose, Coordinator, Joint Legislative Auditing Committee
Ron Russo, Inspector General, Department of Agriculture and Consumer Services
Alexander Mack, Interim Director, Florida Energy Office

**Executive Office of the Governor, Office of the Chief Inspector General
Follow-up Review for Chief Inspector General Report Number 2010-12
Audit of the Programs Funded Through the American Recovery and
Reinvestment Act of 2009
Report Dated June 2010**

Finding No. 1:

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.

Recommendation:

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 complete 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

Management's Response:

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.

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.

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Description of all corrective action implemented, partially implemented, and scheduled but not implemented:

Corrective Actions as of December 2010:

The Legislature approved additional funding for the Solar Energy Systems Incentive Program. The Energy Office developed a process for verifying that rebates to be paid met the statutory requirements. The process involved emailing requests to the appropriate utility companies asking them to confirm that they have interconnection agreements with individuals or businesses requesting rebates for the installation of photovoltaic systems. No action would be taken to confirm there were interconnection agreements for rebates already paid.

Regarding building permits, staff began developing a database identifying all county and city permitting departments in the State. After the database is compiled, staff will determine the most efficient manner to confirm that solar systems were installed in accordance with the Florida Building Code.

Corrective Actions as of June 2011:

Requests for confirmation of interconnection agreements have been sent to all applicable utility companies for all unpaid rebate claims submitted to the Energy Office via mail. Responses have been received from the utility companies for the majority of those rebate claims. There are approximately 400 additional rebate claims which were submitted through the online system. The requests for confirmation related to those rebate claims will be sent out after all claim applications have been printed from the online system. (There is a glitch in the system that is requiring additional programming to accomplish this task.)

Staff determined that the requirements for obtaining building permits for the installation of solar systems vary widely across the numerous permitting departments throughout the state. Significant resources, including staff time, would be required to verify that solar systems were installed in accordance with the Florida Building Code. In trying to find a more efficient way to document compliance with the law, staff noted that on the rebate claim application, the licensed contractor who installed the system was required to certify that "the system is in compliance with all applicable local building codes." Staff believed that reliance on that certification was sufficient to document compliance with the statutory provisions. As a result, staff determined that it was not necessary to take any additional actions to verify compliance with applicable building codes.

Corrective Action Status (completed, partially completed, not started yet)	Planned Completion Date (if not completed)	Responsible Staff
Partially Completed as of June 30, 2011 Auditor: Kim Mills	Completion date not determinable	Energy Office: Alexander Mack

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Finding No. 2:

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.

Recommendation:

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.

Management's Response:

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 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. 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.

Description of all corrective action implemented, partially implemented, and scheduled but not implemented:

Corrective Actions as of December 2010:

Staff in the Energy Office and EOG's Finance and Accounting Unit are working together to develop a process for approving online rebate claims. That process will segregate incompatible duties to the extent possible.

Corrective Actions as of June 2011:

The online system has been disabled except to allow printing of rebate applications. Staff performing the initial approval of hard copy applications is different from the staff performing the secondary approval. Complete segregation is still not feasible but the Office has attempted to minimize risk by assigning different staff to perform the functions described in the updated approval process to the greatest extent possible.

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Finding No. 2 (continued)

Corrective Action Status (completed, partially completed, not started yet)	Planned Completion Date (if not completed)	Responsible Staff
Completed to the extent possible as of June 30, 2011 Auditor: Kim Mills	NA	Energy Office: Alexander Mack

Auditor Comments:

Pursuant to Chapter 2011-142, Laws of Florida, the Energy Office is being transferred to the Department of Agriculture and Consumer Services. We will provide these follow up results to the Department's Office of Inspector General for additional follow-up as they deem appropriate.