



United States Department of Agriculture
Office of Inspector General





Rural Energy for America Program

Audit Report 34001-0001-21

What Were OIG's Objectives

Our objective was to assess RBS' internal controls over approving and servicing REAP loans and grants. Specifically, our objective was to determine whether loan and grant recipients and projects met eligibility requirements and whether appropriate project performance measures were established and achieved.

What OIG Reviewed

We reviewed REAP awards from fiscal years (FY) 2009–2014. We examined the award data and records, conducted interviews with relevant officials, and reviewed documentation on policies and procedures for REAP execution.

What OIG Recommends

We recommend implementing procedures and controls for entering REAP data into GLS, cross-checking for any duplicate payments in the system, and issuing guidance to ensure that State Director priority points are justifiable based on documentation in the recipient award file.

OIG reviewed RBS' internal controls to determine if the approval and servicing of REAP loans and grants were justified and appropriate.

What OIG Found

The Rural Business-Cooperative Service (RBS), an agency within the U.S. Department of Agriculture's (USDA) Rural Development, is responsible for administering the Rural Energy for America Program (REAP). We reviewed the Renewable Energy Systems (RES) and Energy Efficiency Improvements (EEI) Guaranteed Loan and Grant Program, which provides grants and loans to agricultural producers and small rural businesses for renewable energy development and energy efficiency improvement projects.

Our review found that RBS needs to strengthen its internal controls for approving and servicing REAP loans and grants. First, the REAP award and project performance data maintained in the Guaranteed Loan System (GLS) were unreliable. Specifically, we found: (1) REAP recipients did not always submit project performance reports, as required; (2) the amount of energy produced or saved by the funded projects was not accurately reported; and (3) the REAP information maintained in GLS was incomplete or inaccurate.

Additionally, we found that RBS did not check for duplicate funding of REAP projects with other USDA agencies. As a result, 1 of the 30 award recipients in our sample received duplicate funding of just over \$2,900. Finally, we found that RBS officials had not documented the justification and approval of priority points awarded by a State Director. We found that RBS officials had awarded priority points to 1 of the 30 REAP awards in our sample.

Overall, we concluded that RBS needs to strengthen its internal controls over GLS data integrity and grant award determinations.

RBS officials concurred with our findings and recommendations, and we accepted management decision on all 10 recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: August 8, 2016

AUDIT
NUMBER: 34001-0001-21

TO: Samuel Ridders
Administrator
Rural Business-Cooperative Service

ATTN: John Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Energy for America Program

This report presents the results of the subject audit. Your written response to the official draft report, dated May 23, 2016, is included in its entirety at the end of this report. Your responses and the Office of Inspector General (OIG) position are incorporated into the relevant sections of the report. Based on your written responses, we are accepting your management decision for all 10 recommendations.

Please note that the regulation requires final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

Table of Contents

| | |
|--|-----------|
| Background and Objective..... | 1 |
| Section 1: Rural Energy for America Program | 4 |
| Finding 1: RBS Needs to Take Steps to Ensure the Accuracy and Reliability of REAP Data in GLS | 4 |
| Recommendation 1 | 9 |
| Recommendation 2 | 10 |
| Recommendation 3 | 10 |
| Recommendation 4 | 11 |
| Recommendation 5 | 11 |
| Recommendation 6 | 12 |
| Section 2: Grant Award Determinations Were Not Fully Supported | 13 |
| Finding 2: RBS Lacked Controls to Identify and Prevent Duplicate Funding | 13 |
| Recommendation 7 | 15 |
| Recommendation 8 | 16 |
| Recommendation 9 | 16 |
| Finding 3: Justification for Priority Points Was Not Documented..... | 17 |
| Recommendation 10 | 18 |
| Scope and Methodology..... | 19 |
| Abbreviations | 22 |
| Exhibit A: Summary of Monetary Results..... | 23 |
| Exhibit B: Sampling Methodology | 24 |
| Agency's Response | 29 |

Background and Objective

Background

In 2001, the President established a task force that developed a National Energy Policy in order to increase domestic supplies of energy, encourage efficiency and conservation, invest in the nation's energy infrastructure, and develop alternative and renewable sources of energy.¹ The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) established the Renewable Energy System (RES) and Energy Efficiency Improvement (EEI) Program under Section 9006, Title IX, for making grants, loan guarantees, and direct loans to farmers, ranchers, and rural small businesses for RES and EEI projects.²

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), amended Section 9006, Title IX, of the 2002 Farm Bill, by renumbering and renaming Section 9006 as Section 9007, "Rural Energy for America Program" (REAP).³ The Rural Business-Cooperative Service (RBS), an agency within the United States Department of Agriculture's (USDA) Rural Development, is responsible for administering REAP. The 2008 Farm Bill continued to provide financial assistance in the form of grants and loan guarantees to agricultural producers and rural small businesses for the development and construction of RES and EEI projects. In addition, the 2008 Farm Bill authorized grants for energy audits, renewable energy development assistance, and feasibility studies. The American Taxpayer Relief Act of 2012 authorized the extension of agricultural programs, including REAP, for fiscal year (FY) 2013.⁴ The Agricultural Act of 2014 (2014 Farm Bill) extended REAP through FY 2018 and amended Section 9007, Title IX, of the 2002 Farm Bill, eliminating financial assistance for feasibility studies and adding a 3-tiered application process that reflects the size of the proposed projects.⁵

The Rural Energy for America Program

Under the 2008 Farm Bill, REAP was comprised of three components: the Energy Audit and Renewable Energy Development Assistance Grant Program, the Feasibility Studies Grant Program, and the RES and EEI Guaranteed Loan and Grant Program. The Energy Audit and Renewable Energy Development Assistance Grant Program provides grants to entities that will assist agricultural producers and small rural businesses by conducting energy audits, providing information on renewable energy development assistance, and improving energy efficiency. Eligible entities include a unit of State, tribal, or local government; a land-grant college or university or other institute of higher education; a rural electric cooperative or public power entity; and any other similar entity, as determined by the Secretary of Agriculture. The

¹ National Energy Policy Development Group, *Reliable, Affordable, and Environmentally Sound Energy for America's Future* (May 2001).

² Farm Security and Rural Investment Act of 2002, Pub. L. No. 107-171, § 9006, 116 Stat. 482.

³ Food, Conservation, and Energy Act of 2008, Pub. L. 110-246, § 9007, 122 Stat. 2077.

⁴ American Taxpayer Relief Act of 2012, Pub. L. 112-240, § 701, 126 Stat. 2362.

⁵ Agricultural Act of 2014, Pub. L. 113-79, § 9007, 128 Stat. 930.

Feasibility Studies Grant Program assists eligible applicants in completing a feasibility study for an eligible RES or EEI project that may qualify for a REAP grant and/or loan guarantee.

The RES and EEI Guaranteed Loan and Grant Program provides financial assistance, in the form of guaranteed loans and grants, to agricultural producers and rural small businesses for the purchase and installation of RES and EEI projects in rural areas. The applicants for this program may qualify to receive a grant, guaranteed loan, or a combination of both. An applicant can submit only one type of funding application for each RES or EEI project per Federal FY. REAP funds can be used for RES projects that include wind, solar, renewable biomass, geothermal or hydroelectric sources, or hydrogen derived from renewable biomass or water using wind, solar, ocean, geothermal, or hydroelectric energy sources. EEI projects typically involve facility, building, equipment, or process improvements that significantly reduce energy consumption.

The following are REAP-established eligibility criteria for RES and EEI grant and/or loan guarantees:⁶

- The applicant must be an agricultural producer or rural small business;
- The project must be for the purchase of an RES or to make EEI;
- The project must be for a pre-commercial or commercially available technology that is replicable;
- The project must have technical merit;
- The facility for which the project is being proposed must be located in a rural area if applicant is a rural small business, or in a rural or non-rural area if the applicant is an agricultural producer;
- The applicant must have a business in the State where the application is filed;
- The applicant must be the owner of the project and control the revenues and expenses of the project;
- The project has demonstrated technical feasibility;
- No RES or EEI, or portion thereof, can be used for any residential purpose.

The amount of grant funds that will be made available to an eligible RES or EEI project will not exceed 25 percent of the total eligible project costs. The applicant is responsible for securing the remaining total eligible project costs not covered by the grant funds, which cannot include other Federal grant funds received. The maximum amount of grant assistance to one individual or entity is \$750,000 per Federal FY. For an RES grant application, the minimum grant request is \$2,500, and the maximum grant request is \$500,000. For an EEI grant application, the minimum grant request is \$1,500, and the maximum grant request is \$250,000.

The amount of loan that will be made to an eligible RES or EEI project will not exceed 75 percent of the total eligible project costs. The minimum amount of a guaranteed loan made to a borrower is \$5,000, less any program grant amounts, and the maximum is \$25 million. The

⁶ If an applicant has an outstanding judgment obtained by the United States in a Federal Court (other than in the United States Tax Court), is delinquent in the payment of Federal income taxes, or is delinquent on a Federal debt, the applicant is not eligible. Also, if an applicant is debarred from receiving Federal assistance, the applicant is not eligible.

percentage of guarantee, up to the maximum allowed, will be negotiated between RBS and the lender. The maximum percent guarantee is 85 percent for loans of \$600,000 or less, 80 percent for loans greater than \$600,000 up to and including \$5 million, 70 percent for loans greater than \$5 million up to and including \$10 million, and 60 percent for loans greater than \$10 million.

In addition to receiving a grant or a guaranteed loan, applicants may apply for and receive a combined grant and guaranteed loan for the same project. Such applicants are subject to the same requirements that apply to grant-only and guaranteed loan-only applicants. The amount of any combined grant and guaranteed loan cannot exceed 75 percent of total eligible project costs, with the grant portion not exceeding 25 percent. The combined funding application must be for at least \$5,000, with the grant portion of the funding request being at least \$1,500.

After REAP projects are completed, recipients are required to file a performance report commencing the first full calendar year following the year in which project construction was completed and continuing 3 years for RES projects and 2 years for EEI projects.⁷ Performance reports will include the number of jobs created or saved, when applicable, and the amount of energy produced or saved by the project.

Objectives

Our overall objective was to assess RBS' internal controls over approving and servicing REAP loans and grants. Specifically, our objective was to determine whether loan and grant recipients⁸ and projects met eligibility requirements and appropriate project performance measures were established and achieved.

⁷ REAP grant recipients must submit performance reports directly to RBS, while REAP loan guarantee recipients must submit performance reports to the lender and the lender must provide the reports directly to RBS.

⁸ The use of the term "recipient" in this report means either grant recipient or grant and loan guarantee recipient. When referring specifically to a recipient of a grant or loan guarantee, the term used is "grant recipient" or "loan guarantee recipient."

Section 1: Rural Energy for America Program

Finding 1: RBS Needs to Take Steps to Ensure the Accuracy and Reliability of REAP Data in GLS

We found that the Guaranteed Loan System (GLS) data for all 30 REAP awards⁹ in our sample were unreliable.¹⁰ Although RBS officials were aware the data in GLS contained many inaccuracies, they had not initiated a broad effort to validate that data by ensuring that REAP recipients submitted their performance reports and accurately calculated energy they saved or produced. Additionally, RBS employees entered award information incorrectly, and the system lacked appropriate edit checks to help ensure the data were valid. As a result, GLS data has limited reliability to internal and external policymakers and stakeholders. In RBS' *REAP: A Report to Congress on Implementation and Outcomes*,¹¹ the agency presented unverifiable information from this system; moreover, the information RBS reported to Congress regarding energy outcomes was inaccurate.

Rural Development established its system of internal control based on United States Government Accountability Office (GAO) standards¹² and Office of Management and Budget (OMB) requirements.¹³ RD Instruction 2006-M defines its system of internal control,¹⁴ details the procedures to implement it, and describes its reporting requirements. Further, the 2008 Farm Bill required that RBS report to Congress information regarding REAP's implementation.

We found, however, that the 30 REAP awards in our sample had information in GLS that was erroneous, incomplete, or unverifiable. We attribute these errors to: (1) recipients not submitting information when they were required to do so, (2) projects with incorrect energy data, and (3) RBS not correctly entering the data in its system.

⁹ The use of the term "award" in this report means either grant or grant and loan guarantee combination (22 grants and 8 grant and guaranteed loan combinations).

¹⁰ We selected a statistical simple random sample of 96 projects from a universe of 7,224 REAP projects funded for FYs 2009–2014. After reviewing the first 30 projects and finding large error rates, we decided to stop the sample review because we had the assurance and statistical precision to report what we found.

¹¹ *A Report to Congress on Implementation and Outcomes* (August 2012).

¹² GAO's *Standards for Internal Control in the Federal Government* (November 1999) define internal control as an integral component of an organization's management that provides reasonable assurance on the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

¹³ OMB Circular No. A-123, *Management's Responsibility for Internal Control* (December 2004), establishes management responsibility for implementing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

¹⁴ The term "internal control" used in GAO's *Standards for Internal Control* is synonymous with the term "management control" used in OMB's Circular No. A-123.

REAP Recipients Did Not Always Submit Required Performance Reports

We identified 10 recipients who did not submit required yearly performance reports.¹⁵ We concluded that RBS lacked an effective means of ensuring recipients submit their reports. Based on our sample, we estimate that 2,494 (36 percent) of 6,983 recipients required to submit performance reports for FYs 2009–2014 did not have the required yearly performance reports on file.¹⁶

As part of performance tracking and reporting, REAP regulations require RES project recipients¹⁷ to file performance reports on the quantity of energy produced, commencing with the first full calendar year following the year in which project construction was completed and continuing for 3 years.¹⁸ EEI project recipients are required to report the actual amount of energy saved due to the EEI, commencing with the first full calendar year following the year the project was completed and continuing for 2 years.¹⁹ RBS State officials update GLS with the recipient-reported amount of energy produced or saved. However, in the 10 cases in our sample, the State officials were unable to update performance information into the system because the recipients did not comply with the reporting requirement.

RBS national officials informed us there was little they could do to compel recipients to submit these reports. They explained that, in a previous case, RBS referred the matter to the Office of the General Counsel (OGC) for termination of the award agreement and recovery of the award funds disbursed as well as to levy fines and penalties. However, OGC declined the case due to the small amount of funds involved. RBS did not obtain further guidance on what other remedies were available to ensure compliance with the reporting requirements. Based on that case, RBS officials stated they have little recourse to enforce compliance with the reporting requirement.

With regard to grants, REAP regulations provide that failure to follow grant requirements, which would include submitting required performance reports, “may result in termination of the grant and adoption of other available remedies”.²⁰ While the regulations do not specify what the “other available remedies” may be, based on these regulations, we determined that RBS has options to help ensure grant recipients comply

¹⁵ Of the 30 sample awards, only 28 recipients were required to file yearly performance reports. The remaining 2 recipients were not required to file these reports because their projects were not completed.

¹⁶ We were 95 percent confident that the true value estimated is between 1,175 projects (17 percent) and 3,813 projects (55 percent).

¹⁷ REAP grant recipients must submit performance reports directly to RBS, while REAP loan guarantee recipients must submit performance reports to the lender and the lender must provide the reports directly to RBS.

¹⁸ 7 C.F.R. § 4280.116 (incorporating Form RD 4280-2, Grant Agreement, that specifies the requirements) and 7 C.F.R. § 4280.149 (2005 version applying to loan guarantees and grants awarded between 2009-2010); 7 C.F.R. § 4280.120 (incorporating Form RD 4280-2, Grant Agreement, that specifies the requirements) and 7 C.F.R. § 4280.149 (2011 version applying to loan guarantees and grants awarded between 2011-2014).

¹⁹ *Id.*

²⁰ 7 C.F.R. § 4280.120 (2011).

with its reporting requirements. We recommend that RBS consult with OGC to determine what “other available remedies” RBS may use to ensure recipient compliance. Some possible options that RBS and OGC may want to consider include flagging recipients in GLS who do not fully comply with reporting requirements, modifying program eligibility requirements for future REAP loans and grants to include full compliance with previous REAP reporting requirements, or withholding a portion of the amount funded until a recipient fulfills all provisions of its award agreement.

We also found that RBS had no tracking system, or other similar mechanism, that would have identified instances where recipients had failed to provide annual performance reports. For the 10 cases, in our sample, in which REAP recipients did not provide the required performance reports for their awards, State officials had followed up to remind 1 grant recipient directly. The State officials took no action on the remaining 9 projects, and on 5 of those 9, they mistakenly believed the recipients fulfilled the reporting requirement. RBS national officials noted that training has been provided to the State officials on the filing of performance reports. We concluded that GLS should be updated with tracking controls, such as a required report due date and follow-up date fields, to track the required yearly performance reports recipients should submit, the date State officials took action on the past due reports, and the outcome of such actions. These types of fields could be used for generating reports of recipients that have not submitted required performance reports. RBS could then use such information to follow up with recipients who do not comply with the reporting requirement.

REAP Projects with Inaccurate Energy Data

We identified 20 REAP projects with inaccurate reported amounts of produced or saved energy.^{21,22} This occurred because RBS guidance explained what should be reported, but did not outline the processes recipients must carry out in order to accurately calculate the production or savings. RBS national officials stated that they did not outline the specific processes because every project is different and one template could not be used to accommodate all of the differences. Based on the results of our file reviews, we estimate that 4,338 of 5,423 project’s yearly performance reports, or 80 percent, did not have accurate energy produced or saved data in GLS.²³

RBS’ primary metrics to measure REAP performance is the amount of energy produced or energy saved by funding energy projects. RBS captures data on these primary metrics in GLS. As part of performance measurement tracking and reporting, RES project recipients are required to report on the actual quantity of energy produced in British

²¹ Of the 30 sample awards, only 25 recipients filed performance reports. Of the remaining 5 recipients, 2 were not required to file yearly performance reports and 3 did not file a report.

²² For those 20 projects, 18 were EEI projects in which the recipients did not accurately calculate the amount of saved energy. The remaining two were RES projects in which one grant and loan guarantee recipient reported actual quantity of energy produced, but RBS entered the incorrect amount in GLS. The other grant recipient reported energy replaced, not energy produced.

²³ We are 95 percent confident that the true value estimated is between 3,427 projects (63 percent) and 5,250 projects (97 percent).

thermal units, kilowatt-hours, or similar energy equivalents. RBS requires EEI project recipients to calculate and report the actual amount of energy saved due to the EEI.²⁴ Thus, it is critical that recipients accurately report the quantity of energy produced or saved by REAP projects.

The most common error we found was in reporting the quantity of energy saved by REAP projects. Since the recipients did not accurately calculate the energy savings, the reported totals were incorrect. For example, some recipients who received REAP funds to install a new energy efficient grain dryer reported the energy the grain dryer used instead of reporting the energy saved by installing the new dryer. To determine energy savings, the recipients should have subtracted the energy used by the new grain dryer from the energy used by the original grain dryer if it had dried the same volume of grain.

RBS has taken steps to address issues with project outcome accuracy. On December 29, 2014, RBS published a final rule²⁵ that provided guidance on how to compute EEI energy savings. In addition, RBS updated a performance report template for calculating energy savings and provided training to State offices on how to use it. However, based on our recalculations of energy produced or saved for 20 recipients during our review, OIG believes these changes were not enough to provide recipients and State officials with clear guidance for calculating accurate energy savings on EEI projects, as some of those calculations can be quite complicated and involve difficult conversions. For example, the rule does not provide examples of how to compute energy savings and does not instruct recipients to compare actual energy use of the new grain dryer to the estimated energy use of the original grain dryer when drying the same amount of bushels. The rule also does not instruct recipients on how to convert energy use (e.g., gallons of propane or diesel) to kilowatt hour or British thermal units for reporting energy savings. We believe RBS can remedy this deficiency by providing recipients with performance report templates for calculating energy savings, providing examples for the most common types of EEI projects, and providing training for recipients on how to calculate energy savings. RBS officials agreed that they need to do more to educate recipients on how to accurately compute energy savings.

GLS Contained Inaccurate or Incomplete REAP Award Data

We reviewed the award files used to evaluate applications for REAP and determined that RBS officials had not accurately and completely entered information into GLS for all 30 of the FYs 2009–2014 files in our sample. We found:

- 12 awards (40 percent) had erroneous or missing project scores, and 14 awards (47 percent) had erroneous or missing technical merit scores;

²⁴ 7 C.F.R. § 4280.116 (incorporating Form RD 4280-2, Grant Agreement, that specifies the requirements) and 7 C.F.R. § 4280.149 (2005 version applying to loan guarantees and grants awarded between 2009-2010); 7 C.F.R. § 4280.120 (incorporating Form RD 4280-2, Grant Agreement, that specifies the requirements) and 7 C.F.R. § 4280.149 (2011 version applying to loan guarantees and grants awarded between 2011-2014).

²⁵ Rural Energy for America Program, 79 Federal Register 78220, (December 29, 2014).

- 4 awards (13 percent) had erroneous project cost data, including 2 awards where project costs were under budget and the grant award amounts were not adjusted to ensure they did not exceed 25 percent of the total eligible project costs;
- 5 awards (17 percent) had estimated energy produced or saved amounts incorrectly input into GLS;
- 30 awards (100 percent) had inaccurate or missing simple payback data.²⁶

We concluded that RBS officials had not configured GLS in a manner that would ensure the entry of reliable REAP data. RBS officials created some fields in GLS, such as simple payback, after they had implemented the program. We found blank data fields in GLS for many of the awards in our sample. We also found instances where data fields contained inappropriate data (e.g., whole numbers when decimals were appropriate) that were either rounded up or down. Further, we found that RBS officials could enter numbers in some data fields that were larger than allowed by REAP. We concluded that these data fields would benefit from the application of edit checks. Based on our results, we estimate that more than 90 percent of the 7,224 REAP projects in the GLS data universe for FYs 2009–2014 contained errors.²⁷

The problem of inaccurate data has been a long-standing one for RBS. Rural Development's Financial Management Division's (FMD) FY 2013 nationwide State internal review report²⁸ reported a recurring program weakness with GLS data not being updated, maintained, and accurate for REAP for FYs 2009–2012. In FY 2013, FMD reviewed GLS data from 44 States. It found that six States had not updated or maintained data for program loans, and that eight States had not updated or had inaccurate data for their grants.

When we discussed the problem with RBS officials, they stated that, in 2014, they identified over 15,000 lines of REAP data that needed to be examined and validated in GLS. Since RBS recognized an issue with the accuracy of GLS data, RBS national officials began running weekly reports prior to the obligation of REAP award funds to identify and correct data errors.²⁹ RBS national officials stated that they were in the process of developing a data review program that utilizes regional energy coordinators to oversee data quality and integrity. RBS also began using a commercially available software product for data analysis and reporting. Regional energy coordinators, as part of their job duties, will use system generated reports to identify data integrity issues, engage State officials in correcting identified issues, and provide any needed training. We concluded that RBS' approach was reasonable, and RBS should continue to periodically

²⁶ Simple payback is a return on investment ratio calculated as: (1) For RES projects, simple payback equals total project costs divided by (average net income plus interest expense plus depreciation expense (for the project)) and, (2) For EEI projects, simple payback equals total project costs divided by dollar value of energy saved.

²⁷ We are 95 percent confident that more than 90 percent of the REAP awards in the GLS universe have data integrity errors.

²⁸ FY 2013 Nationwide State Internal Review Summary Report of Administrative and Program Weakness Trends (August 12, 2014).

²⁹ Once a REAP application is approved for funding, the amount of the grant and/or loan guarantee awarded is set aside (obligated) until the funds are distributed to the recipient at a later date.

monitor REAP data in GLS to identify incomplete or erroneous data and correct any identified issues. This control should include the use of systematic data analysis to identify data anomalies such as a project score higher than the total allowable points and missing data fields in GLS.

When RBS reported in FY 2012 to Congress on REAP’s implementation, as required by the 2008 Farm Bill, the agency stated that it funded 5,734 REAP projects involving almost \$192 million in grants and over \$164.5 million in loan guarantees. However, RBS had not maintained documentation detailing or summarizing the method used to extract REAP data and we could not verify the report information against the current data in GLS. Of the 30 awards in our sample, only 1 was presented in the report, and RBS had incorrectly reported the grant award amount. RBS officials explained that the data they reported to Congress were based on a “snapshot in time” of the REAP portfolio as maintained in GLS. As time passed, the data changed, and RBS could not duplicate the information reported to Congress. RBS officials agreed that this situation was not ideal, and that, in the future, the agency should maintain documents detailing or summarizing the method used to extract REAP data for reporting purposes to ensure report data are verifiable.

In addition to reporting to Congress the number of projects funded and the amounts awarded, RBS included the amount of projected and actual energy generated and saved by those projects. Given the problems we found with how recipients are reporting energy outcomes we did not verify the accuracy of that data; however, we determined that the amount of projected and actual energy generated and saved as reported to Congress was unreliable.

Overall, we concluded that RBS officials needed to increase their efforts to validate the data in GLS and ensure that the system can provide accurate information regarding the program’s successes. Specifically, RBS officials need to address three types of problems. First, RBS must enforce its requirement for recipients to submit data, and it must provide guidance so that the information it is receiving is correct. Then, it must take steps—such as implementing edit checks—to ensure that the agency itself is entering valid data. After such actions, RBS should review the data in GLS to obtain assurance that inaccuracies do not impair the integrity of the system and any related business decisions.

Recommendation 1

Consult with the Office of the General Counsel (OGC) to determine and develop guidance on what “other available remedies” the Rural Business-Cooperative Service (RBS) may use to ensure recipient compliance with reporting requirements. Some possible options that RBS and OGC may want to consider include flagging recipients in the Guaranteed Loan System (GLS) who do not fully comply with reporting requirements, modifying program eligibility requirements for future Rural Energy for America Program (REAP) loans and grants to include full compliance with previous REAP award requirements, or withholding a portion of the project funds until a recipient fulfills all provisions of the grant agreement.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will consult with OGC to determine and develop guidance on what “other available remedies” it may use to ensure recipient compliance with reporting requirements. The estimated completion date is December 31, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Develop and implement controls, such as using GLS to track the required yearly performance reports recipients submit. GLS can be used for generating a report of recipients who have not submitted annual performance reports for follow-up action by RBS.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop standard operating procedures (SOPs) for REAP and update the GLS manual to use GLS to track receipt of annual performance reports from recipients. The estimated completion date is December 31, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Develop and implement performance report templates for the most common types of Energy Efficiency Improvement (EEI) projects RBS approves in order to assist recipients when calculating energy savings and provide examples for the most common types of EEI projects. The templates should allow user input of required data needed to accurately compute energy savings.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop and implement performance report templates for the most common types of EEI projects where the data can be extracted and compiled by the recipients. The estimated completion date is March 31, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Provide training to recipients on implementing the newly created performance report templates for use in calculating and reporting the yearly energy savings by completed EEI projects.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop and implement performance report templates for the most common types of EEI projects and where the data can be extracted and compiled by the recipients in a template. Recipients will be provided training by State or field office staff in a one-on-one setting after award of the grant and prior to final disbursement of grant funds. The estimated completion date is April 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Strengthen input controls by establishing data entry edit checks, such as required data types (e.g., whole numbers, decimals, numerical ranges), to ensure REAP data are entered accurately and consistently into GLS. Input controls should designate all required data entry fields to ensure user input of required REAP data.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS is converting GLS to a new data system and limiting enhancement to the existing GLS data system. The RBS Energy Division will develop SOPs for REAP and update the GLS manual on data entry protocols to provide the State and field office staff a standard process for entering data to increase the accuracy of data for REAP projects. In subsequent correspondence, RBS estimated completion by March 31, 2017.

OIG Position

We accept management decision on this recommendation.

Recommendation 6

Develop and implement controls, such as documenting the methodology used to extract data for use in reporting, to ensure that REAP data extracted from GLS for reporting purposes includes an audit trail in order to verify that the reported information is accurate and complete.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop and implement controls, such as documenting the methodology used to extract data used in reporting program information. We refer to these protocols as an audit trail, which provides the reviewer of the reports information on the report used to pull information from GLS, date range of the report as well as sorting and filtering mechanisms used to get the end data. The estimated completion date is March 31, 2017.

OIG Position

We accept management decision for this recommendation.

Section 2: Grant Award Determinations Were Not Fully Supported

Finding 2: RBS Lacked Controls to Identify and Prevent Duplicate Funding

One of the 30 REAP award recipients in our sample received duplicate funding from the Farm Service Agency's (FSA) Farm Storage Facility Loan Program (FSFLP). Further, we found no evidence that RBS had cross-checked any of the 30 REAP projects in our sample for duplicate funding with other USDA agencies, or on websites that reported funding from other Federal agencies. RBS' controls designed to identify and prevent duplicate funding for renewable energy projects were inadequate. Specifically, RBS national officials did not ensure that State officials responsible for checking for duplication prior to loan or grant approval were aware and understood the agency's requirements. We estimate that RBS officials had not cross-checked 6,502 REAP projects during the period from FYs 2009–2014 (90 percent of the 7,224 projects funded during the period).³⁰ As a result, RBS put agency assets at risk for potentially making improper payments for duplicate activities.

GAO's internal control standards state that agencies should design internal controls to provide reasonable assurance regarding prevention of or prompt detection of unauthorized disposition of an agency's assets.³¹ Rural Development and RBS officials, in response to three OIG audit reports, took the following actions to strengthen internal controls to detect and prevent duplication in its grant and loan programs:^{32, 33, 34}

- In December 2008, the Under Secretary for Rural Development issued a memorandum that notified all USDA agencies administering energy programs to perform a cross-check with each other for any pending energy project loans, grants, or loan guarantees for potential award duplication. Additionally, the Under Secretary required each USDA agency with renewable energy program responsibilities to cross check pending renewable energy loans, grants, or loans on Federal spending websites;
- In August 2009, RBS revised RD Instruction 1940-L to instruct State offices to utilize GLS and check Federal spending websites to ensure applicants have not previously received or applied for funding for the same energy projects from different agency programs and to place evidence of the reviews in the case file. In addition, the loan or grant application should identify other sources of funding for the proposed project;
- In February 2014, RBS agreed to issue an unnumbered letter to the State offices discussing the need to implement controls to consistently look for and prevent duplication

³⁰ We are 95 percent confident that 90 percent or more of the projects had no evidence in the files that RBS checked for duplication prior to approval.

³¹ GAO/AIMD-00-21-3-1, *Standards for Internal Control in the Federal Government* (November 1999).

³² Audit Report 50601-0013-CH, *Implementation of Renewable Energy Programs in USDA*, August 2008.

³³ Audit Report 34601-0005-CH, *Implementation of Renewable Energy Program in Rural Business-Cooperative Service*, July 2008.

³⁴ Audit Report 34601-0001-31, *Rural Development: Rural Business-Cooperative Service Grant Program - Duplication*, March 2014.

among similar grants or loans and establish written procedures that field offices will be required to follow. However, RBS national officials had not issued that guidance at the time of our audit, and do not plan to do so until FY 2017, after new regulations are published for its grant programs.

In response to the Under Secretary for Rural Development's December 2008 memorandum that notified USDA agencies to perform a cross-check for duplication, RBS identified two agencies, the FSA and the Natural Resources Conservation Service (NRCS), that have programs that could potentially duplicate REAP awards. In calendar year 2010, Rural Development executed a memorandum of understanding (MOU) with NRCS to share lists of recipients for cross-checking between agency programs to identify potential duplication prior to the approval of REAP grants or loans. However, the agency had not executed a similar MOU with FSA.³⁵ RBS national officials drafted unnumbered letters to NRCS and FSA officials explaining how to conduct cross checks, but those guidance letters were not issued or distributed to its State offices. FSA did issue a notice informing its State and county offices of FSFLP procedures to follow when borrowers received, or would receive, a grant and/or loan from any other Federal agency for the same equipment for which he or she received or would receive FSFLP funds. The notice also stated that FSA and Rural Development were developing a MOU to share information on FSFLP and REAP recipients to avoid duplicating benefits.³⁶ In our view, Rural Development needs to execute an MOU with FSA and RBS needs to develop and issue guidance for its staff to follow on how to implement the MOU requirements. These actions would create a control environment where RBS could ensure that its programs do not provide duplicate funding to applicants who receive funding from NRCS and FSA for the same purpose.

As part of our audit work, we reviewed the award files for our sample to determine if RBS officials had performed and documented a check of GLS and Federal spending websites, such as USAspending.gov, to ensure applicants had not previously received or applied for funding for renewable energy projects from different agency programs for the same purpose. We found that RBS did not have evidence that it checked either GLS or USAspending.gov for 19 of the 30 awards in our sample. Further, we found evidence that agency officials had checked GLS, but not USAspending.gov, for 10 awards, and had checked USAspending.gov, but not GLS, for 1 grant award.

Although RBS national officials provided guidance to the State offices for cross-checking funding, they did not ensure that State offices were following the guidance. We questioned RBS national officials regarding the State offices' lack of compliance with RD Instruction 1940-L. We found that officials at one State office were unaware of the requirements, while others did not understand the requirements. RBS national officials acknowledged that RD Instruction 1940-L requirements were not included in any training or guidance documents to the State offices, and agreed this is an issue that they need to address. The RBS national officials noted, however, that RD Instruction 1940-L applies to all RBS programs and, as such, State offices should be following these guidelines.

³⁵ Rural Development also drafted a similar MOU with FSA to cross-check funding requests between the FSFLP and Conservation Loan Program and REAP, but did not execute the MOU. Due to the retirement of the officials working on this endeavor, the MOU was not finalized and RBS did not resume efforts to do so.

³⁶ FSA Notice FSFL-70, FSFL's and Grants/Loans From Other Government Agencies (March 29, 2010).

An RBS national official stated that REAP Grant Processing and File Index Checklist is a document that has been used for a number of years. RBS highly encourages its staff to use the checklist for processing all files, place a working copy in each file, and update it accordingly. It is not, however, a regulatory requirement. The RBS national official stated that “Check USAspending for duplicate funding” was added to the checklist based on discussions with OIG during the audit. Subsequently, RBS officials provided training on the updated processing checklist.

To identify instances of duplication between REAP and other USDA programs, we requested that FSA and NRCS national officials check the recipients from our sample of 30 projects with their program participant information. In response, the FSA officials confirmed that one REAP recipient from our sample had also received funding from their FSFLP. The applicant had applied for REAP funds to install a new grain dryer and applied for FSA FSFLP funds for the same purpose. The applicant did disclose in the FSFLP application process that he was applying for a REAP grant. However, the REAP award had not been finalized prior to FSFLP loan closing, and the applicant subsequently did not disclose to FSA the final REAP grant amount. Based on the information we provided to FSA on the recipient’s REAP grant, FSA took immediate action to recover the duplicate FSFLP payment of \$2,906 from the REAP recipient. FSA provided OIG with documentation to support the collection of \$2,906.

In order for RBS to prevent duplication of funds between programs, management must design and implement controls to reduce the risk that recipients of REAP funding also received funding from other Federal agencies. Specifically, Rural Development should finalize its MOU with FSA, and RBS national officials should develop and issue guidance for agency staff to follow on how to implement the MOU requirements. The guidance should include how to document that they have cross-checked applications with NRCS and FSA as part of the applicant review process.

Recommendation 7

During our audit, the Farm Service Agency (FSA) recovered \$2,906 from the recipient for duplicate payments funded by the Farm Storage Facility Loan Program (FSFLP). RBS needs to obtain from FSA and provide to the Office of the Chief Financial Officer evidence of the amount collected.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will contact the respective RBS State office who will in turn work with the respective FSA State office to get this documentation and provide to the Office of the Chief Financial Officer. The estimated completion date is September 30, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Execute a Memorandum of Understanding (MOU) with FSA to cross-check any pending REAP awards with that agency's programs.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will work with the National Office FSA staff to draft an MOU for execution and presentation to FSA. The estimated completion date is June 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Develop and issue guidance to State officials on how to implement the MOU requirements. The guidance should include how to document that they have cross-checked pending awards with the Natural Resources Conservation Service (NRCS) and FSA officials as part of the award and payment process.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop and implement the MOU with FSA. In addition, a verification protocol will be established that Rural Development State offices can use to provide FSA with grantee/borrower names, project types, and dollar amounts of REAP awards. The estimated completion date is June 30, 2017.

OIG Position

We accept management decision for this recommendation

Finding 3: Justification for Priority Points Was Not Documented

One REAP grant award in our sample had a questionable priority score. RBS State officials had increased the overall score of the project by adding priority points that resulted in its funding. However, they were unable to provide documentation to justify that the project met the program's requirements to receive additional priority points, and the State director had not approved the project to receive the additional priority points. We concluded that RBS' program guidance did not clearly state the type of evidence necessary to justify the awarding of State director priority points. Since this project was selected for REAP funding without necessary evidence to support the project's priority points, RBS has reduced assurance that the selected project demonstrated the appropriate priority based on the project's overall score.

RD instructions state that agency officials will evaluate each application and make a determination as to whether the applicant and project are eligible based on REAP regulations. Agency officials will score each eligible application using points according to certain evaluation criteria. Further, RD instructions allow agency officials to award up to 10 priority points to an application if the application is for an under-represented technology, for flexible fuel pumps, or if selecting the application would help the agency achieve geographic diversity. These points are intended to provide priority from a State perspective. The instructions explicitly state that documentation should be provided to substantiate the score.³⁷

As part of our audit work, we reviewed the recipient's score sheets for the 30 projects in our sample. We identified one project that was awarded State director priority points. The score sheet included a statement that the priority points were awarded for lighting improvements, an under-utilized energy efficiency improvement technology in the State. There was documentation in the file to support that the REAP funds were used for lighting improvements. However, there was no documentation in the file to support the statement that the improvements were for an under-utilized technology in the State. Additionally, there was no evidence that the State director approved the awarding of these points for this project. After reviewing REAP guidance for awarding State director priority points, we found that guidance explaining the type of documentation required to substantiate the designation of an under-represented technology and the approval of State director priority points awarded to a project did not exist. RBS national officials stated that they expect some type of memorandum or letter from the State director outlining the requirements for awarding priority points to REAP projects to be placed in the award file.

Rural Development's FMD FY 2013 nationwide state internal review report³⁸ identified a recurring program weakness in how officials in three States had provided priority points. They had not included documentation that justified the awarded points or demonstrated that the State director had approved them. Since State director priority points increase a project's overall

³⁷ 7 C.F.R. § 4280.112 and 4280.129 (2005 version applying to loan guarantees and grants awarded between 2009-2010) and 7 C.F.R. § 4280.117 and 4280.129 (2011 version applying to loan guarantees and grants awarded between 2011-2014).

³⁸ FY 2013 Nationwide State Internal Review Summary Report of Administrative and Program Weakness Trends (August 12, 2014).

score, and projects with higher scores receive first consideration for funding, we believe State director priority point determinations must be based upon evidence to justify the awarding of these points. We recommend that RBS issue guidance to State offices on the type of evidence necessary to justify the awarding of State director priority points and their approval by the State director.

Recommendation 10

Develop and issue guidance to ensure documentation is placed in the file to justify State director priority points assessed on the score sheets and State director approval of the additional priority points awarded.

Agency Response

In its June 29, 2016, response, RBS concurred with this recommendation. The RBS Energy Division will develop a guide that States can use to document how State Directors award administrative points for their States. This guidance will be published as an instruction for State offices to use when assigning points. The estimated completion date is May 31, 2017.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit covered RBS' oversight of REAP loans and grants awarded from FYs 2009–2014. We commenced fieldwork in August 2014 at the RBS national office in Washington, D.C. We conducted fieldwork at the RBS national office and at the RBS Iowa State office. We completed our fieldwork in March 2016.

We obtained from Rural Development's information technology staff in St. Louis, Missouri, a list of all REAP EEI and RES loans and grants, (FY 2003 through August 2014). To validate the accuracy of RBS' data, we extracted from the GLS data warehouse all REAP EEI and RES awards for the same period and compared the Rural Development and OIG data. Based on our comparison, we found no difference in the extraction of REAP EEI and RES loans and grants. We then extracted from the GLS data warehouse all REAP EEI and RES awards from FYs 2003–2014 and filtered the data based on the scope of our review, FYs 2009–2014. After reviewing the filtered data, we determined the list contained duplicate records. We found that a REAP project had duplicate records if the applicant applied for a combination loan and grant funding for the project. We removed all duplicate records to ensure the list contained only one record per project funded by REAP. Once duplicates were removed, the total universe of REAP projects funded from FYs 2009–2014 was 7,224 records totaling over \$289,766,126.

From this audit universe, we randomly selected 96 projects totaling over \$5,561,014 for review. Due to the amount of travel costs associated with reviewing 96 REAP project files throughout the U.S., we decided to review the first 30 projects, totaling over \$2,853,408. Fifteen States with four or fewer projects in the State sent the 20 sample files to the RBS national office for review. The audit team reviewed the remaining 10 files at the Iowa State RBS office.

Once the fieldwork began, the audit team found high error rates in a few criteria central to our audit objective. For some criteria, the auditors found 30 errors in the first 30 projects on our sample list. Given these high error rates, we decided to stop the sample review at 30 projects because we had the assurance and statistical precision per our internal guidelines to report our findings.

Throughout the audit, we worked with RBS officials to ensure that issues identified during REAP file reviews were valid and that we correctly understood the agency's policies and procedures as they pertained to the issues identified.

To accomplish our objectives, we performed the following procedures:

At the RBS national office, we:

- Interviewed RBS' management to identify the agency's controls over the administration of REAP.
- Attended a REAP training session provided by RBS for the State office energy coordinators that administer REAP at the regional level.

- Obtained and reviewed documentation of statutes, regulations, rules, policy, and guidance information that were used to administer REAP.
- Consulted with RBS regional energy coordinators to confirm our understanding of REAP requirements and obtained clarifications as needed.
- Provided RBS senior management with ongoing briefings and summaries of work performed.
- Obtained and reviewed eight REAP award files to familiarize ourselves with REAP and develop and test a pro forma template for use in reviewing the REAP projects randomly selected to be included in our audit.³⁹
- Obtained and reviewed REAP award files for applicant eligibility, program eligibility, use of program funds, and performance measures for 20 of the 30 REAP projects in our sample.

At the Iowa State RBS office, we:

- Interviewed State office senior management officials.
- Obtained and reviewed REAP award files for applicant eligibility, program eligibility, use of program funds, and performance measures for 10 of the 30 REAP projects in our sample.
- Determined the policies and procedures the State office used to administer REAP.
- Consulted with the State office regional energy coordinator to confirm our understanding of REAP requirements and obtained clarifications as needed.
- Provided State office senior management with ongoing briefings and summaries of issues uncovered as a result of the 10 REAP file reviews.

For the 30 REAP awards reviewed from our random sample, we:

- Obtained and reviewed the file documents to verify applicant eligibility, project eligibility, use of program funds, and performance measures established and reported.
- Verified that REAP awards were checked for duplication with other USDA programs that fund similar types of projects.
- Verified that GLS was updated with the correct and complete data corresponding to file documents.
- Consulted with RBS regional energy coordinators to confirm our understanding of REAP requirements and obtain explanations on any issues uncovered by the file reviews.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

³⁹ During the survey phase of this audit, we reviewed three grant award files at the Texas State RBS office and five loan and combination loan/grant award files at the RBS national office.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

| | |
|-------------|---|
| CFR..... | Code of Federal Regulations |
| EEI | Energy Efficiency Improvement |
| FMD | Financial Management Division |
| FSA | Farm Service Agency |
| FSFLP | Farm Storage Facility Loan Program |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| GLS | Guaranteed Loan System |
| MOU | Memorandum of Understanding |
| NRCS | Natural Resources Conservation Service |
| OGC | Office of the General Counsel |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| RBS | Rural Business-Cooperative Service |
| REAP | Rural Energy for America Program |
| RES | Renewable Energy System |
| USDA..... | United States Department of Agriculture |

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

| Finding | Recommendation | Description | Amount | Category |
|----------------|-----------------------|--|---------------|--|
| 2 | 7 | FSA FSFLP duplicate payment made to RBS REAP recipient | \$2,906 | Questioned Costs, Recovery Recommended |

Exhibit B: Sampling Methodology

Sample Objective

The sample was designed to support OIG Audit 34001-0001-21. The audit objective was to assess the RBS management controls over the approving and servicing of REAP loans and grants. Specifically, our objective was to determine whether loan and grant recipients and projects met eligibility requirements and appropriate project performance measures were established and achieved. To help support this objective, we used a statistical sample of randomly selected projects for review.

Audit Universe

The universe consisted of obligated REAP projects from FYs 2009–2014. The universe data was obtained by OIG’s Data Analysis and Special Projects Division and was validated with Rural Development’s information technology staff. From a total of 10,208 data records, duplicate borrower records were removed. A total of 7,224 projects remained as our population.

Sample Design

We have no historical information regarding an expected error rate for the management controls we were auditing. The sample design was based on our internal reporting requirements and the time and resources available to our audit team. To remain objective in our selection, and achieve universe representation with a feasible amount of resources for our audit work, we chose to use simple random sample of projects for review.

- Universe size $N = 7,224$ projects
- Sample size $n = 96$ projects

The sample size is based on:

- 95 percent confidence level for reporting
- +/-10 percent precision on estimates in an attribute testing scenario
- 50 percent expected error rate—most conservative measure

In order to randomly generate 96 files to review, OIG identified all projects obligated and closed between FYs 2009–2014 and removed duplicates. We pulled the universe data from the GLS data warehouse. OIG then used the *Rand* function in MS Excel to generate a random number assigned to each REAP project in the universe. Once a random number was assigned to the project data, the data were sorted in ascending order based on that number. We selected the first 96 projects for review.

Results

Once field work began, the audit team found large error rates in a few criteria central to our audit objective. In some criteria, the auditors found 30 errors in the first 30 projects on our sample list. Given these high error rates, we decided to stop the sample review at 30 projects because we had the assurance and statistical precision, per our internal guidelines, to report what we found. Therefore, the sample size we utilized consisted of the first 30 randomly selected projects from a universe of 7,224 projects nationwide. Projections presented below are based on this smaller sample size and are made to this universe.

A couple of the criteria tested applied only to some projects in our audit universe. In those cases, we made projections to the corresponding subdomains only. The next paragraphs explain these exceptions and projections made to subdomains.

Our audit team confirmed that once a REAP project is completed, award recipients are required to file 2 yearly performance reports for EEI projects and 3 for RES projects. The first report is due the first full calendar year after the year in which the project is completed. REAP projects are required to be completed no later than 2 years after signing the grant agreement. Based on this requirement, not all projects in our universe would have been required to file reports at the time of our review (e.g. FYs 2013 and 2014 projects not yet completed). Therefore, for this criterion, we made a projection to a subdomain of our universe—only the projects that would have been required to follow this requirement at the time of sample draw. The total universe size of the subdomain was 6,983 projects, and our sample size, after dropping projects to which this criterion was not relevant, was 28 projects. The final projection presented below is based on this smaller sample size, and is made to the subdomain universe of 6,983 projects.

We worked with one additional subdomain to obtain projections only relevant to a part of the universe to which a requirement applied to. Our audit team checked whether projects that had filed performance reports listed the correct amount of energy produced or saved in GLS, based on energy computations. The total number of this subdomain of projects that had filed reports was 5,423. Our sample size (after excluding projects that did not have these reports on file) was 25 projects.

In our sample review, the audit team found:⁴⁰

- 30 projects out of 30 had a GLS data integrity error. Based on this finding, we are 95 percent confident that 90 percent or more of the projects in the audit universe have GLS data integrity errors.
- 30 projects out of 30 had no evidence in the files that RBS checked for duplication or overlap prior to loan/grant approval. Based on this finding, we are 95 percent confident that 90 percent or more of the projects in the audit universe have this error.
- 5 projects out of 30 had a GLS data error related to created or saved energy. Based on this sample result, we estimate that for 1,204 projects in our universe (17 percent), there was a GLS data error related to created or saved energy. We are 95 percent confident the true value ranges between 184 (3 percent) and 2,225 (31 percent) projects.
- 16 projects out of 30 had GLS data errors related to saved jobs. Based on this sample result, we estimate that for 3,853 projects in our universe (53 percent), there was a GLS data error related to jobs saved. We are 95 percent confident the true value ranges between 2,487 (34 percent) and 5,219 (72 percent) projects.

⁴⁰ All percentages used in this exhibit are rounded to the nearest whole number.

- 10 projects in our sample of 28 (taken from a subdomain universe relevant to this criterion) did not have required yearly performance reports on file. Based on this finding, we estimate that 2,494 projects in our subdomain of 6,983 projects (36 percent) do not have the required yearly performance reports on file. We are 95 percent confident the true value estimated here is between 1,175 (17 percent) and 3,813 (55 percent) projects.
- 6 projects in our sample of 25 (taken from a subdomain universe relevant to this criterion) did not accurately update GLS with the performance measures reported on the post project completion performance reports submitted by the applicant. Based on our sample, we estimate that for 1,302 projects in our subdomain universe of 5,423 projects (24 percent), the state office did not accurately update GLS with the performance measures reported on the post project completion performance reports submitted by the applicant. We are 95 percent confident the true value is between 328 (6 percent) and 2,275 (42 percent) projects.
- 14 projects out of the 25 where the post project completion performance reports were submitted by the recipient did not correctly calculate the amount of energy generated or saved. Based on our sample, we estimate that for 3,037 projects in our subdomain universe of 5,423 projects (56 percent), the post project completion performance reports submitted by the recipient did not correctly calculate the amount of energy generated or saved. We are 95 percent confident the true value ranges between 1,905 (35 percent) and 4,168 (77 percent) projects.
- 20 projects out of 25 did not have accurate energy produced/saved data on GLS because of incorrect energy production/savings computations, data input error, or both. Based on this finding, we estimate that 4,338 projects in our subdomain universe of 5,423 projects (80 percent) do not have accurate energy produced/saved data on GLS because of incorrect energy production/savings computations, or erroneous data input, or both. We are 95 percent confident the true value estimated is between 3,427 (63 percent) and 5,250 (97 percent) projects.

The table below presents a summary of these findings.

| Criteria Tested | Estimate | Standard Error | 95 percent Confidence Interval | | Coefficient of Variation | Margin of Error | Universe count | Actual Found |
|---|----------|----------------|--------------------------------|-------|--------------------------|-----------------|----------------|--------------|
| | | | Lower | Upper | | | | |
| GLS data error related to created or saved energy | 1,204 | 499 | 184 | 2,225 | 0.414 | 1,020 | 7,224 | 5 |
| as a percent of the universe | 17 | 7 | 3 | 31 | | 14 | | |
| GLS data error related to saved jobs | 3,853 | 668 | 2,487 | 5,219 | 0.173 | 1,366 | | 16 |
| as a percent of the universe | 53 | 9 | 34 | 72 | | 19 | | |
| Projects that did not have required yearly performance reports on file | 2,494 | 643 | 1,175 | 3,813 | 0.258 | 1,319 | 6,983 | 10 |
| as a percent of the subdomain universe | 36 | 9 | 17 | 55 | | 19 | | |
| State Office did not accurately update GLS with the performance measures reported on the post project completion performance reports submitted by the applicant | 1,302 | 472 | 328 | 2,275 | 0.362 | 973 | 5,423 | 6 |
| as a percent of the universe | 24 | 9 | 6 | 42 | | 18 | | |
| The post project completion performance report(s) submitted by the recipient did not correctly calculate the amount of energy generated or saved | 3,037 | 548 | 1,905 | 4,168 | 0.181 | 1,131 | | 14 |
| as a percent of the universe | 56 | 10 | 35 | 77 | | 21 | | |
| Awards that do not have accurate energy produced/saved data on GLS because of incorrect energy production/savings computations, data input error, or both | 4,338 | 442 | 3,427 | 5,250 | 0.102 | 912 | 20 | |
| as a percent of the subdomain universe | 80 | 8 | 63 | 97 | | 17 | | |

**USDA'S
RURAL BUSINESS-COOPERATIVE SERVICE
RESPONSE TO AUDIT REPORT**



Rural Development
Chief Financial Officer
Office of the Financial
Management Division
1400 Independence
Ave SW
Washington, DC
20250
Voice 202.692.0080
Fax 202.692.0088

DATE: June 30, 2016

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: John L. Dunsmuir /s/ JOHN L. DUNSMUIR
Director, Financial Management Division
Rural Development

SUBJECT: Rural Energy for America Program
Renewable Energy Systems and Energy Efficiency Improvement
Audit Number: 34001-0001-21
(Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10)

Please find attached Rural Development's Agency Response to the Official Draft report, dated May 23, 2016, entitled "***Rural Energy for America Program***" - **Audit Number: 34001-0001-21**. Rural Development concurs with Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10).

If you have any questions I can be reached at (202) 692-0082 or John.Dunsmuir@wdc.usda.gov.

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Samuel H. Ridders /S/ SAMUEL H. RIKKERS
Administrator
Rural Business–Cooperative Service 06/29/2016

SUBJECT: Audit Number: 34001-0001-21
Rural Energy for America Program
Renewable Energy Systems and Energy Efficiency Improvement

This memorandum contains the corrective action plans and estimated completion dates for each recommendation for the above reference Office of Inspector General (OIG) audit, based on the Official Draft Report provided to the Agency on June 1, 2016.

What OIG Found:

The Rural Business-Cooperative Service (RBS), an Agency within the U.S. Department of Agriculture’s Rural Development mission area, is responsible for administering the Rural Energy for America Program (REAP). OIG reviewed the Renewable Energy Systems (RES) and Energy Efficiency Improvements (EEI) Guaranteed Loan and Grant Program, which provides grants and loans to agricultural producers and small rural businesses for renewable energy development and energy efficiency improvement projects.

OIG determined that RBS needs to strengthen its internal controls for approving and servicing REAP loans and grants. First, OIG indicated that the REAP award and project performance data maintained in the Guaranteed Loan System (GLS) was unreliable. Specifically, OIG found that REAP recipients did not always submit project performance reports, as required; the amount of energy produced or saved by the funded projects was not accurately reported; and the REAP information maintained in GLS was incomplete or inaccurate.

Additionally, OIG found that RBS did not check for duplicate funding of REAP projects with other USDA agencies. As a result, 1 of the 30 award recipients in the sample received duplicate funding of just over \$2,900. Finally, OIG found that RBS officials had not documented the justification and approval of priority points awarded by a State Director. OIG found that RBS officials had awarded priority points to 1 of the 30 REAP awards in the sample.

Overall, OIG concluded that RBS needs to strengthen its internal controls over GLS data integrity and grant award determinations.

Recommendation #1:

Consult with the Office of the General Counsel (OGC) to determine and develop guidance on what “other available remedies” may use to ensure recipient compliance with reporting requirements. Some possible options that RBS and OGC may want to consider include flagging recipients who do not fully comply with reporting requirements, modifying program eligibility requirements for future loans and grants to include full compliance with previous REAP award requirements, or withholding a portion of the project funds until a recipient fulfills all provisions of the grant agreement.

Action Plan for Recommendation #1:

The RBS Energy Division will consult with OGC to determine and develop guidance on what “other available remedies” may use to ensure recipient compliance with reporting requirements.

Date Action will be completed for Recommendation #1:

Consult with OGC on what “other available remedies” may use to ensure recipient compliance with reporting requirements which will be completed by December 31, 2016.

Depending on action recommended by OGC, changes to the Program and grant agreement may require regulatory adjustments and publishing in the Federal Register. This would require at least 2 years to draft and publish a rule change (a completion date of July 2018).

The Agency is converting GLS to a new data system and limiting enhancement to the existing GLS data system. Modifying GLS to flag the borrower screens in GLS will require investments to upgrade the system. If updates to the GLS system are approved, the updates may take up to 5 years or more, pending available funding for system upgrades, (a completion date of July 2021 or later).

Recommendation #2:

Develop and implement controls, such as using GLS to track the required yearly performance reports recipients submit. GLS can be used for generating a report of recipients who have not submitted annual performance reports for follow-up action by RBS.

Action Plan for Recommendation #2:

The RBS Energy Division will develop standard operating procedures (SOP) for REAP and update the GLS manual to use GLS to track receipt of annual performance reports from recipients. Once SOPs and the GLS manual are completed, training will be conducted for State Office and field staff on the proper use of Routine Servicing Actions in GLS that can be used to establish and track annual performance reports.

We plan to conduct this training on several levels: (1) an in-person training by region for the Program Directors, Energy Coordinators, and the staff person responsible for entering and monitoring data in GLS; (2) after the in-person meetings have been conducted, Webinars will be conducted nationally for other State staff who could not attend the in-person meetings and as a refresher for staff who did attend the meetings. If funds are not available for in-person trainings, a series of Webinars will be developed to provide to State and field office staff.

Date Action will be completed for Recommendation #2:

Creating SOPs for REAP and updating the GLS manual will be completed by December 31, 2016. If funding allows, we propose to conduct the in-person trainings early in fiscal year (FY) 2017 and will be completed by March 31, 2017. The Webinars will be conducted and concluded by the end of FY 2017.

Recommendation #3:

Develop and implement performance report templates for the most common types of projects RBS approves in order to assist recipients when calculating energy savings and provide examples for the most common types of EEI projects. The templates should allow user input of required data needed to accurately compute energy savings.

Action Plan for Recommendation #3:

The RBS Energy Division will develop and implement performance report templates for the most common types of EEI projects where the data can be extracted and compiled by the recipients.

Date Action will be completed for Recommendation #3:

The RBS Energy Division will develop and implement performance report templates for most common types of EEI projects, where a template is commensurate to project scope and complexity. This template will be made available to recipients by March 31, 2017.

Recommendation #4:

Provide training to recipients on implementing the newly created performance report templates for use in calculating and reporting the yearly energy savings by completed EEI projects.

Action Plan for Recommendation #4:

The RBS Energy Division will develop and implement performance report templates for the most common types of EEI projects and where the data can be extracted and compiled by the recipients in a template. Recipients will be provided guidance by State or field office staff in a one-on-one setting after award of the grant and prior to final disbursement of grant funds.

Date Action will be completed for Recommendation #4:

Recipients will be trained by State or field office staff in a one-on-one setting after award of the grant and prior to disbursement of grant funds and will start after the templates are developed in April 2017.

Recommendation #5:

Strengthen input controls by establishing data entry edit checks, such as required data types (e.g., whole numbers, decimals, numerical ranges), to ensure REAP data are entered accurately and consistently into GLS. Input controls should designate all required data entry fields to ensure user input of required REAP data.

Action Plan for Recommendation #5:

The Agency is converting GLS to a new data system and limiting enhancement to the existing GLS data system. The RBS Energy Division will develop SOPs for REAP and update the GLS manual on data entry protocols to provide the State and field office staff a standard process for entering data to increase the accuracy of data for REAP projects. Once the SOPs and GLS manual are completed, training will be conducted for State and field office staff on how to use the data entry protocols when entering data and when reviewing data from GLS reports. If funding allows, we plan to conduct this training on several levels: (1) an in-person training by region for Program Directors, Energy Coordinators, and the staff person responsible for entering and monitoring data in GLS and (2) after the in-person meetings have been conducted, Webinars will be provided nationally for other State staff who could not attend the in-person meetings and as a refresher for staff. If funds are not available for in person trainings, a series of Webinars will be developed to provide to State and field office staff.

Date Action will be completed for Recommendation #5:

Creating SOPs for REAP and updating the GLS manual on data entry protocols will be completed by December 31, 2017. If funding allows, we propose to conduct the in-person training and Webinars early in FY 2018. If updates to the GLS system are approved, the updates to the GLS system may take up to 5 years or more, pending available funding for system upgrades (a completion date of July of 2021 or later).

Recommendation #6:

Develop and implement controls, such as documenting the methodology used to extract data for use in reporting, to ensure that REAP data extracted from GLS for reporting purposes includes an audit trail in order to verify that the reported information is accurate and complete.

Action Plan for Recommendation #6:

The RBS Energy Division will develop and implement controls, such as documenting the methodology used to extract data used in report. We refer to these protocols as an audit trail, which provides the reviewer of the reports information on the report used to pull information from GLS, date range of the report, as well as sorting and filtering mechanisms used to get the end data.

Date Action will be completed for Recommendation #6:

The RBS Energy Division will start developing these protocols immediately and will be implemented by March 31, 2017.

Recommendation #7:

During our audit, the Farm Service Agency (FSA) recovered \$2,906 from the recipient for duplicate payments funded by the Farm Storage Facility Loan Program (FSFLP). RBS needs to obtain from FSA and provide to the Office of the Chief Financial Officer (OCFO) evidence of the amount collected.

Action Plan for Recommendation #7:

The RBS Energy Division will contact the South Dakota State Office who will in turn work with the FSA State Office to get this documentation to close this finding.

Date Action will be completed for Recommendation #7:

The RBS Energy Division will provide this information to OCFO by September 30, 2016.

Recommendation #8:

Execute a Memorandum of Understanding (MOU) with FSA to cross-check any pending REAP awards with that Agency's programs.

Action Plan for Recommendation #8:

The RBS Energy Division will work with the National Office FSA staff to draft an MOU for execution and presentation to FSA by June 30, 2017.

Date Action will be completed for Recommendation #8:

The RBS Energy Division will draft an MOU for execution and presentation to FSA by June 30, 2017.

Recommendation #9:

Develop and issue guidance to State officials on how to implement the MOU requirements. The guidance should include how to document that they have cross-checked pending awards with the Natural Resources Conservation Service and FSA officials as part of the award and payment process.

Action Plan for Recommendation #9:

The RBS Energy Division will develop and implement the MOU with FSA. In addition, a verification protocol will be established that State Rural Development Office can use to provide FSA with grantee/borrower names, project types, and dollar amounts of REAP awards. If funding allows, we plan to conduct this training on several levels: (1) an in-person training by region for Program Directors and Energy Coordinators and (2) Webinars conducted nationally for other State staff.

Date Action will be completed for Recommendation #9:

The RBS Energy Division will draft an MOU for execution and presentation to FSA by June 30, 2017. Training on the duplication of assistance verification protocol will take place after the MOU is signed and prior to the end of FY 2017.

Recommendation #10:

Develop and issue guidance to ensure documentation is placed in the file to justify State Director priority points assessed on the score sheets and State Director approval of the additional priority points awarded.

Action Plan for Recommendation #10:

The RBS Energy Division will develop a guide that States can use to document how State Directors award administrative points for their States. This guidance will be published as Instruction for State Offices to use when assigning points.

Date Action will be completed for Recommendation #10:

The RBS Energy Division will have to clear updated instructional language, which will take over 9 months. The date for completion of this Recommendation is May 31, 2017.

To learn more about OIG, visit our website at www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse

File complaint online: <http://www.usda.gov/oig/hotline.htm>

Click on Submit a Complaint

Telephone: 800-424-9121

Fax: 202-690-2474

Bribes or Gratuities

202-720-7257 (24 hours a day)



The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex (including gender identity and expression), marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW., Stop 9410, Washington, D.C. 20250-9410, or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.