

# Montana State Legislature

2011 Session

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A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

09P-06

EXHIBIT 3  
DATE Jan 26, 2011  
HB 951

PERFORMANCE AUDIT

# *State Building Energy Conservation Program*

*Department of  
Environmental Quality*

NOVEMBER 2009

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Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

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

Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, journalism, accounting, economics, sociology, finance, political science, english, anthropology, computer science, education, international relations/security, and chemistry.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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# LEGISLATIVE AUDIT DIVISION

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November 2009

The Legislative Audit Committee  
of the Montana State Legislature;

This is our performance audit of the State Building Energy Conservation Program. This report includes recommendations for the program, including clarifying the collection of estimated energy cost savings from participating agencies, and improving management controls for the program. A written response from the Department of Environmental Quality is included at the end of the report.

We wish to express our appreciation to Department of Environmental Quality and Department of Administration officials and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tori Hunthausen".

Tori Hunthausen, CPA  
Legislative Auditor

# TABLE OF CONTENTS

Figures and Tables.....ii

Appointed and Administrative Officials.....iii

Report Summary .....S-1

**CHAPTER I – INTRODUCTION.....1**

    Introduction.....1

    Audit Objectives.....1

    Audit Scope and Methodologies .....1

    Potential Areas for Future Audit Work .....2

    Report Contents.....2

**CHAPTER II – PROGRAM BACKGROUND.....3**

    Introduction.....3

    Energy Improvements for State-Owned Buildings .....3

        The State Building Energy Conservation Program.....3

        The Long Range Building Program .....3

    SBCEP Project Funding and Energy Cost Savings .....4

        SBCEP Agency Repayments .....5

    SBCEP Receives an Additional \$22 Million from 2009 Legislature .....5

**CHAPTER III – ESTIMATED ENERGY COST SAVINGS COLLECTION .....7**

    Introduction.....7

    Collection of Energy Cost Savings Based on the Life of an Improvement.....7

        SBCEP Will Collect \$1.2 Million After Bond Retirement .....7

    SBCEP Cites Statutory Authority for Collections Based on Life of the Improvement .....8

    The Limits of Collection Authority .....9

    Existing Statute Silent Regarding the Collection of Estimated Energy Cost Savings Beyond Bond Retirement.....9

    Compliance With State Law Regarding the Transfer of Energy Savings to LRBP .....10

**CHAPTER IV – IMPROVING SBCEP MANAGEMENT CONTROLS .....11**

    Introduction.....11

    Limited Management Controls Exist for the SBCEP .....11

        Is the SBCEP Working as Legislature Intended?.....11

    SBCEP Relies On the Long Range Building Program.....12

    State Policy Directs Agencies to Establish Management Controls .....13

    Similar Programs in Other States Have Established Management Controls.....13

**DEPARTMENT RESPONSE .....A-1**

    Department of Environmental Quality .....A-3

# FIGURES AND TABLES

## Tables

Table 1	Historical Funding for SBECF .....	4
Table 2	SBECF Collection of Energy Cost Savings After Debt Service Retired.....	8

## APPOINTED AND ADMINISTRATIVE OFFICIALS

**Department of  
Environmental  
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Tom Livers, Deputy Director

George Mathieus, Administrator, Planning, Prevention and Assistance Division

Louise Moore, Chief, Energy and Pollution Prevention Bureau

Georgia Brensdaal, Supervisor, Public Buildings and Renewable Energy

## REPORT SUMMARY

### The State Building Energy Conservation Program

The Department of Environmental Quality's authority to collect approximately \$1.2 million in additional energy cost savings should be clarified and management controls should be developed.

### Audit Findings

In Montana, the State Building Energy Conservation Program (SBECP) was designed to reduce energy costs in state facilities. From 1993 to 2006, the SBECP issued General Obligation bonds to finance energy improvement projects, using estimated energy cost savings to service bond debt. Due to statutory ambiguity, the program collected estimated energy cost savings beyond the retirement of these bonds. By fiscal year 2017, the program will collect approximately \$1.2 million beyond bond debt from participating agencies. And while state law directs participating agencies to transfer these additional energy cost savings to the Long Range Building Program (LRBP), the SBECP has directly collected these savings from participating agencies and only transferred portions to the LRBP. For example, the SBECP collected \$56,500 after bond retirement in fiscal year 2005; however, the SBECP only transferred approximately \$36,000 to the LRBP that year.

Audit work indicated the program has historically operated on an informal basis, with limited program oversight, no policies or procedures, and a lack of a structured filing system, which has resulted in limited information supporting how program decisions are made. These limited management controls impacted our ability to determine if the program is working as the legislature intended. The SBECP has relied on the activities of the LRBP to implement SBECP activities, including the identification, selection, and implementation of SBECP projects. Audit work identified coordination issues between the SBECP and LRBP, including the process for transferring funds to the LRBP. The focus of the SBECP has been on the day-to-day activities of the program, rather than on a coordinated set of policies and procedures to ensure the SBECP functions in compliance with applicable laws and in accordance with management directives. The department should develop stronger controls, including formalizing SBECP and LRBP interactions.

In 2009, the legislature appropriated approximately \$22 million in funds leveraged from the American Recovery and Investment Act. These funds will be utilized to establish a revolving loan fund to finance future SBECP projects. This move is a significant departure from the bonds that have historically financed projects, mainly in terms of

the amount of funding administered by the SBECP. These additional funds further illustrate the value in developing formal management controls to guide its ongoing activities.

### **Audit Recommendations**

Audit recommendations address the need for the department to:

- ◆ Seek legislation to clarify the retirement or continuation of the collection of estimated energy cost savings beyond the retirement of bond payments
- ◆ Comply with state law regarding the transfer of funds to LRBP
- ◆ Develop management controls for the SBECP, including formalizing its interaction with LRBP

# Chapter I – Introduction

## Introduction

Energy efficiency—and conservation by extension—is about realizing the same amount of work or benefit with less energy. Recognizing that government is a large consumer of energy, many states have chosen to lead by example, targeting the reduction of energy consumption as a significant goal. While energy reduction can be realized through many activities such as fleet management, procurement practices, and employee practices, reducing facility energy use can provide some of the most considerable reductions in energy consumption. Building renovations which incorporate energy efficient equipment can use significantly less energy. For example, a modern double-paned window loses around ten times less heat in the winter than an older single-paned window. In Montana, the State Building Energy Conservation Program (SBECP) was designed to reduce energy costs in state facilities by identifying and funding cost-effective energy efficiency improvement projects. The program is located within the Department of Environmental Quality (DEQ). Based on the high level of interest in energy stewardship on the part of government, the Legislative Audit Committee identified a performance audit of the SBECP as a priority.

## Audit Objectives

We developed two objectives for examining the SBECP:

- ◆ Determine whether the SBECP is meeting statutory criteria which guide program activities.
- ◆ Identify management controls for SBECP operations.

## Audit Scope and Methodologies

Audit scope focused on the activities of the SBECP relative to energy improvements on existing state-owned buildings, including whether the SBECP is meeting criteria outlined in statute to guide the program. In addition, audit assessment work identified limited management controls for the program. During audit planning, we noted the SBECP and Long Range Building Program (LRBP) are complementary programs which work closely together on energy improvement work for state-owned buildings. The LRBP also informally provides several management controls for the SBECP. As part of our audit, we reviewed the management of SBECP activities provided by SBECP and LRBP. We limited our examination to the General Obligation (GO) bonding for the program. To accomplish our audit objectives, we completed the following methodologies:

- ◆ Reviewed applicable laws and statutorily required reports to the Governor which summarize SBECP activities

- ♦ Examined SBECF project files, which document operations and activities
- ♦ Interviewed SBECF and LRBP staff
- ♦ Evaluated bonding and billing processes
- ♦ Interviewed staff from agencies which have utilized the SBECF
- ♦ Evaluated SBECF training activities to train facility maintenance staff in energy saving techniques and maintaining energy improvements
- ♦ Assessed the role of the Governor's 20x10 Initiative to reduce state government executive branch facility energy requirements relative to the SBECF
- ♦ Examined similar energy conservation programs for government in other states
- ♦ Assessed the management controls for SBECF activities

### **Potential Areas for Future Audit Work**

During the course of audit work, we determined there were a couple of issues related to the SBECF which would merit attention for future audit work. Those issues included:

- ♦ **Independent Energy Improvements.** Audit assessment work indicated state agencies perform energy improvements on state-owned buildings independent of the SBECF. Future audit work could examine the criteria which guide energy improvement work across state government, including an evaluation of whether there should be a centralized process for identifying, implementing, and reporting energy improvements for state government buildings and facilities.
- ♦ **State Government Utility Data.** Utility data is not readily available in order to track energy costs and consumption for state government buildings and facilities. As part of the Governor's 20x10 Initiative, DEQ has purchased a software application to manage utility data which will track progress towards meeting the initiative. In addition, this software will aid the SBECF in project identification and monitoring activities. Future audit work could assess the design, implementation, and utility of the software.

### **Report Contents**

The remainder of this report includes a background chapter followed by chapters detailing our findings, conclusions and recommendations, in the following areas:

- ♦ Chapter III presents information regarding the collection of estimated energy cost savings from participating agencies.
- ♦ Chapter IV presents information on improving the management controls for the SBECF.

The LRBP is also involved in energy conservation work for state-owned buildings. As emphasis on energy efficiency in state-owned buildings has increased over time, the

### The Long Range Building Program

Established in 1989, the SBECF was developed to improve state facilities and equipment under the State Buildings Energy Conservation Act. Initially, the program was placed within the Department of Natural Resources and Conservation. In the mid 1990's, as part of a reorganization of state government, the SBECF was moved to the Department of Environmental Quality's (DEQ) Planning, Prevention and Assistance (PPA) Division. The SBECF provides funding and technical expertise for energy improvements on state-owned buildings and was designed to reduce energy costs in state facilities by identifying and funding cost-effective energy efficiency improvement projects. The program is for renovations or retrofits on existing state-owned buildings. Examples of energy efficiency improvements include: replacing old boilers, upgrading lights, increasing ventilation system efficiency, insulating buildings, and providing more effective temperature controls. State agencies pay the program back with the estimated energy cost savings generated from installing an energy efficiency improvement. According to the SBECF's most recent report to the governor in the fall of 2008, the program has completed 84 projects since its inception. There are 1.93 FTE which work on SBECF activities.

### The State Building Energy Conservation Program

For state government, there are two main programs which support energy efficiency renovation work in state-owned buildings, namely the SBECF and the LRBP. State agencies may also independently perform energy improvement work as part of their general facility management duties. In addition, in 2007 Governor Schweitzer established the 20x10 Initiative (20x10) to reduce state government's executive branch agencies' facility energy requirements by 20 percent by the end of 2010. While the work of the SBECF and LRBP is not specific to 20x10, their work will likely provide the most significant impacts in terms of measuring the progress of 20x10.

### Energy Improvements for State-Owned Buildings

This chapter provides background information on energy efficiency renovation efforts for state-owned buildings identified through the State Building Energy Conservation Program (SBECF), the interaction between the SBECF and the Long Range Building Program (LRBP), and the financing and repayment of SBECF projects.

### Introduction

## Chapter II - Program Background