

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

For a complete copy of the report (09P-06) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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