CALIFORNIA ENERGY COMMISSION

Avoiding Audit Findings

The California Energy Commission's Office of Audits, Investigations, and Program Review (AIPR) conducts audits of Energy Commission grant recipients to ensure the expenditures claimed for the grant and as match are allowable, supported, and incurred within the approved period. The audits also verify that the products and deliverables detailed in the grant agreement scope of work are completed as required.

The following is a review of the most common audit findings that have been reported by AIPR. This document should help grant recipients avoid negative audit findings. This document, however, is not inclusive of all issues or findings reported by AIPR. It is strongly recommended that recipients engage the services of an attorney to ensure they understand the terms and conditions of the grant agreement and an accountant to ensure they know what documentation is required to support claimed costs, especially indirect costs. Please see the disclaimer at the end of this document.

Expenditures

The most important thing for a recipient to remember is that all expenditures claimed for reimbursement and as match must be based on actual costs that can be traced to supporting documentation, such as invoices or pay stubs, and verified as paid with bank statements.

Commission budgets contain maximum rates as opposed to actual rates to minimize amendments. For example, actual rates can increase over the life of the agreement up to the maximum amounts without having to amend the agreement. Some grant recipients, however, incorrectly invoice for the maximum instead of the lower actual rates they paid. This invoicing does not comply with the terms of the grant agreement that state the Energy Commission reimburses only for actual expenditures. When this happens, the recipient is obligated to repay the Energy Commission for the overcharged amount.

The following is a discussion of different types of expenditures and some of the issues auditors have encountered during audits.

Indirect

Indirect, Overhead, and General and Administration are all terms for overhead costs. Overhead may be claimed if it is supported by a documented cost allocation plan that details which amounts and types of costs are classified as indirect and how those costs are allocated among all the recipient's projects and activities.

Indirect expenditures may be unsupported or overclaimed in the following ways:

- There is no documented support for indirect costs, such as an indirect cost allocation plan.
- There is an indirect cost allocation plan, but it uses estimates instead of actual costs in the calculations.
- There is an indirect cost allocation plan, which uses actual costs, but the supported rate from the plan is less than the rate that was claimed.
- The method used by the recipient to allocate costs is different than the one used to claim indirect expenditures.
- The indirect plan includes expenditures that were also claimed as direct costs (double billing).
- The indirect plan includes unallowable expenditures, such as fundraising or lobbying.
- The indirect plan includes costs that are more appropriately classified as direct, such as consultants hired for a specific project.
- The indirect plan is not updated each year with actual costs.

Labor

Labor consists of two variables—the number of hours and the hourly rate. Common audit findings for unsupported labor expenditures include:

- Claimed hourly rates that are higher than the actual hourly rate earned by the employee based on payroll documentation.
- Claimed hourly rates that are “loaded” to include fringe benefits and other costs.
- Claimed overtime hours for salaried employees.
- Clamed hours that are not supported by timesheets either because the employee does not track hours by project codes or the hours charged to the grant project code are fewer than the hours claimed.
- Missing timesheets.
- Weak internal controls over timesheets, which include timesheets (hard copy or electronic) that do not track all hours for all activities, including leave hours; timesheets not signed or certified by the employee; timesheets with no evidence of review by a supervisor, timesheets not maintained in a format that cannot be altered once approved, or a combination.

Fringe Benefits

Fringe benefits are the additional costs paid by the recipient to either provide benefits to employees, such as medical insurance, or are those costs required to employ staff, such as payroll taxes. Fringe benefit rates are always calculated as a percentage of labor.

Unsupported fringe benefit expenditures are due to either claiming a rate not supported by actual fringe benefit costs or including costs in the fringe benefit rate that are not properly classified as fringe benefits. For example, the recipient includes business travel in the fringe benefit rates. However, business travel, while necessary to run the business, does not benefit the employee directly and is not a requirement to hire employees. Therefore, business travel costs are not properly included in the fringe benefit rate.

Subcontractor/Materials/Equipment/ Other Expenditures

These expenditures are costs paid to another party such as a subcontractor or vendor. Common reasons these type of costs are unsupported are due to:

- Expenditures incurred before the approved period.
- Expenditures incurred, but not paid by, the recipient.
- Expenditures claimed but service, goods, or equipment not received by the recipient.

In-Kind Match

An in-kind match is funding provided by a third party, such as a subcontractor, the value of assets donated, or the value of assets owned by the recipient.

Audit findings that reject an in-kind match are usually due to lack of documentation verifying the fair market value for the use of equipment or other assets provided. The documentation must come from an independent source and support the cost to rent or lease similar equipment for the time frame used for the project.

Deliverables/Products

The grant agreement scope of work includes a list of tasks. Each task includes a list of products required to complete the grant. Failure to provide any of the products or complete the tasks may be considered a material noncompliance of the grant agreement.

In cases where required products or deliverables are not provided by the recipient, the auditor may recommend remittance of some or all of the grant funds. The final decision on how much grant funds, if any, should be remitted rests with Energy Commission management.

Sources

- Grant agreement, all exhibits
- Office of Management and Budget Guidance for Grants and Agreements: **https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl**
- Title 48—Federal Acquisition Regulations System: **https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title48/48cfr31_main_02.tpl**
- California Department of Finance Bond Accountability and Audits Guide: **http://www.dof.ca.gov/Programs/OSAE/Prior_Bond_Audits/documents/BondAccountabilityandAudits.pdf**

Disclaimer

Staff members of the California Energy Commission prepared this document. As such, this document has not been approved or disapproved by the Energy Commission, and it does not necessarily represent the views of the Energy Commission or the State of California. The Energy Commission and the State of California make no warranties, express or implied, and assume no legal liability for the information in this document. The information in this document is general and does not in any way alter the responsibility of, or relieve, Energy Commission grant recipients from fully complying with all grant agreement requirements. The information in this document is also not legal advice. Grant recipients should rely upon the advice of their own attorneys to comply with grant agreement requirements.

STATE OF CALIFORNIA ENERGY COMMISSION

Governor
Gavin Newsom

Chair
Robert B. Weisenmiller, Ph.D

Executive Director
Drew Bohan

Commissioners
Karen Douglas, J.D.
David Hochschild
J. Andrew McAllister, Ph.D.
Janea A. Scott, J.D.