South Carolina Legislative Audit Council

LAC

Report to the General Assembly

May 2002

A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices

LEGISLATIVE AUDIT COUNCIL

1331 Elmwood Ave., Suite 315
Columbia, SC 29201
(803) 253-7612 VOICE
(803) 253-7639 FAX

Authorized by §2-15-10 *et seq.* of the South Carolina Code of Laws, the Legislative Audit Council, created in 1975, reviews the operations of state agencies, investigates fiscal matters as required, and provides information to assist the General Assembly. Some audits are conducted at the request of groups of legislators who have questions about potential problems in state agencies or programs; other audits are performed as a result of statutory mandate.

The Legislative Audit Council is composed of five public members, one of whom must be a practicing certified or licensed public accountant and one of whom must be an attorney. In addition, four members of the General Assembly serve ex officio.

Audits by the Legislative Audit Council conform to generally accepted government auditing standards as set forth by the Comptroller General of the United States.

Copies of all LAC audits are available to the public at no charge.

A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices was conducted by the following audit team.

Audit Team

Audit Manager
Priscilla T. Anderson

Senior Auditor
Marcia A. Lindsay

Associate Auditor
Elizabeth W. Oakman

Typography
Candice H. Pou
Maribeth Rollings Werts

Senior Legal Counsel
Andrea Derrick Truitt

LAC

Report to the General Assembly

A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices

Contents

Synopsis

Members of the General Assembly requested that the Legislative Audit Council review the operations of the South Carolina Budget and Control Board's (B&CB) energy office. The requesters were specifically concerned about the administration of energy grants and loans by the South Carolina Energy Office (SCEO). Our review found areas where administration of loans and grants could be improved.

The requesters were also concerned about the hiring of Budget and Control Board employees with high salaries, specifically those with salaries of $50,000 or more. We did not identify significant problems with the board's hiring practices.

B&CB Energy Issues

- SCEO officials should not have approved two loans to a private industry because the loans did not meet office guidelines. The first loan was to be repaid upon deposit of funds from a second energy loan. Agency guidelines did not allow for such an arrangement. The second loan was also used to pay off an existing debt to a bank. SCEO guidelines prohibited the use of loan funds for expenses incurred before the energy loan was approved.

- From FY 98-99 to FY 00-01, the SCEO administered two loan programs, EnerFund and ConserFund. The EnerFund program provided low-interest loans to private, commercial, and industrial businesses for the implementation of energy conservation and efficiency measures. For approximately three years (September 1997 to August 2000), the SCEO did not approve any EnerFund loans. The SCEO required a "letter of credit" from a potential borrower in which a financial institution would guarantee repayment of the loan if the borrower did not repay the loan. This letter was difficult to obtain. In addition, the SCEO did not adequately market the EnerFund loan program to potential borrowers.

- The SCEO has not included important details about the loan program in its written procedures. The ConserFund program provides loans for energy efficiency projects to the public sector and to non-profit agencies. The loan procedures do not specify the maximum yearly allocation for ConserFund loans.

- The SCEO has not developed selection criteria or marketed grants funded with Petroleum Violation Escrow (PVE) funds (monies awarded to the states as a result of alleged oil pricing violations from 1973 to 1981). Applicants who asked about the availability of funds have been awarded grants, but information about these grants has not been disseminated to the general public. When grants are not marketed and awarded based on specific criteria, fewer eligible entities may benefit, and the selection process may not be equitable.

- A part of SCEO's mission is to increase energy efficiency and to reduce energy costs. We concluded that SCEO has not followed up with grant recipients to ensure that this goal is met. In addition, in FY 00-01, the office did not meet one of four objectives that were established by SCEO staff. These objectives were related to the administration of grants and loans.

- We attempted to assess the efficiency of the South Carolina Energy Office compared to entities in other states and territories in the Atlanta region of the U.S. Department of Energy. We concluded that operations in these entities differ significantly and are not comparable.

B&CB Personnel Issues

- As of September 2001, the B&CB employed 1,259 persons. The majority of persons earning annual salaries of $50,000 or more were white males; however, there was a slight increase in the percentage of minorities hired from FY 98-99 to FY 00-01, as compared to the overall number. Also, the median salary of all males earning $50,000 or more *hired during that time* was approximately $3,000 higher than the salaries for females earning over $50,000.

- While we did not find material problems with salary justifications for B&CB employees, the board has hired two classified employees without advertising these positions.

- We were asked to determine if responsibilities and salaries for B&CB positions are comparable to similar positions in other state agencies. We reviewed 201 positions with annual salaries of $50,000 or more at the B&CB and three other state agencies of similar size — the State Department of Education (SDE), Vocational Rehabilitation (VR), and the Employment Security Commission (ESC). We concluded that B&CB positions do not substantially differ in minimum training and experience required, major responsibilities, or average salary from those at the other state agencies.

- We sampled the personnel files of 59 persons hired by the B&CB from FY 98-99 to FY 00-01. These persons substantially met the minimum training and experience requirements for their positions.

- From FY 98-99 to FY 00-01, the B&CB created only two new jobs with annual salaries of $50,000 or more. We found nothing improper with the creation of these positions.

Introduction and Background

Audit Objectives

Members of the General Assembly requested that the Legislative Audit Council conduct a review of the South Carolina Budget and Control Board's (B&CB) energy office. The requesters were concerned about grants and loans awarded by that office. In addition, we were asked to examine the board's hiring of employees with high salaries, specifically those with annual salaries of $50,000 or more. The requesters also asked that we compare the responsibilities and salaries of these positions to similar positions within South Carolina state government. Our specific audit objectives follow.

- ❑ Determine if energy office requirements for grants and loans are appropriate.
- ❑ Determine if grants and loans awarded by the energy office have promoted the agency's mission.
- ❑ Review energy office salaries and other costs. Also review the amount of assistance provided for energy projects and the efficiencies in energy use achieved through the efforts of the office.
- ❑ Create a data base to include demographic information (i.e., salary and gender) on Budget and Control Board employees.
- ❑ Determine if the Budget and Control Board has complied with state laws, regulations, and agency policies regarding hiring.
- ❑ Determine if staff hired by the Budget and Control Board met minimum training and experience requirements for their positions at the time of hire.
- ❑ Determine if the responsibilities and salaries for Budget and Control Board positions are commensurate with the responsibilities and salaries of comparable positions in other South Carolina state agencies.
- ❑ If new positions were created by the Budget and Control Board, determine how the need for positions was justified, and how the salary levels were established.

Scope and Methodology

This review was limited to the operations of the South Carolina Energy Office (SCEO) regarding the energy program and the internal hiring practices of the Budget and Control Board. The general period of our review was from FY 98-99 through FY 00-01.

We reviewed several types of records:

- Agency policies and procedures.
- Personnel records.
- Salary data.
- Energy grant and loan records.

State laws and regulations were used to evaluate the B&CB's hiring practices. The federal and state guidelines for energy grants and loans were used to assess SCEO's compliance with requirements. We conducted various samples during our review, including a sample of personnel files and hiring documentation for employees earning annual salaries of $50,000 or more. We interviewed agency staff, energy officials from other states, staff from the Atlanta Regional Office of the U.S. Department of Energy, and other interested parties.

This audit was conducted in accordance with generally accepted government auditing standards.

South Carolina Budget and Control Board

The South Carolina Budget and Control Board was established in 1950 as the state's central administrative agency. Its mission is to provide policy oversight for the effective operation of government in areas such as human resources, information technology, and fiscal matters. The agency, reorganized in December 2001, is composed of eight divisions (see organizational chart on p. 21). Five of these divisions report directly to the Chief of Staff, with the remaining three reporting to the Executive Director.

The B&CB is governed by a five-member board which is chaired by the Governor. The other board members are the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee.

In FY 00-01, the board's budget was approximately $247 million. Of this amount, approximately $54 million (22%) was expended for personnel. As of September 2001, the agency employed 1,259 staff; 13 of these employees worked in the South Carolina Energy Office with the energy program.

South Carolina Energy Office

The South Carolina Energy Conservation and Efficiency Act of 1992 (§48-52-10 *et seq.* of the South Carolina Code of Laws) is the enabling legislation for the SCEO. The SCEO administers the energy program and the radioactive waste disposal program. The mission of the energy program is to increase efficiency in the use of energy resources, to maximize environmental quality, and to minimize costs.

The office has undergone various status and name changes since 1974. In the early 1990s, energy offices were under the Governor's Office (the Office of Energy Program) and the Budget and Control Board's Division of General Services (the State Energy Office). In 1994, these two offices were merged as the South Carolina Energy Office of the B&CB. In 1997, that office became a part of the Regional Development Division of the B&CB. Then, in December 2001, the SCEO became a part of the board's newly created Division of Legal Services and Grant Administration.

The SCEO develops an annual State Energy Plan which details its strategic plan and activities for the fiscal year. Through various grants, contracts, and staff services, the office provides information, technical assistance, and program support to energy consumers, producers, and policy makers. In addition, the SCEO administers the ConserFund revolving loan fund for energy efficiency projects for the public sector (state agencies, school districts, and local governments) and for non-profit agencies.

The SCEO receives no state appropriations and is funded through grants from the U.S. Department of Energy (USDOE) and by Petroleum Violation Escrow (PVE) funds. PVE funds resulted from litigation by the USDOE against oil companies which overcharged for oil from 1973 to 1981. The funds are distributed on a pro-rata basis from USDOE to the states.

In FY 00-01, the SCEO's total budget was approximately $2.3 million (see Table 1.1). Approximately $795,000 (35%) was spent for personnel.

Table 1.1: Revenues and Expenditures for the South Carolina Energy Program, FY 00-01

REVENUES	
PVE Funds	$1,661,949
Federal Funds	649,989
Other	23,766
TOTAL	$2,335,704
EXPENDITURES	
Grants and Loans	$1,334,049
Personnel	794,852
Contractual Services*	591,089
Fixed Charges**	125,444
Travel	24,593
Supplies	21,086
Equipment	16,516
TOTAL	$2,907,629

* Includes costs for energy audits, publications, and workshops.
** Includes rent and office space.

Source: South Carolina Energy Office.

SCEO Loans and Grants

We found that the South Carolina Energy Office (SCEO) approved two loans which did not comply with established guidelines. Also, we concluded that one of the requirements for loans to the private sector and the lack of marketing of that loan program hindered the approval of energy loans. The office did not develop selection criteria or market grants which used oil overcharge (Petroleum Violation Escrow [PVE]) funds. We concluded that energy operations in South Carolina and other areas of the region differ significantly and are not comparable.

Revolving Loan Program

South Carolina Act 449 of 1992 (the Energy Conservation and Efficiency Act) authorized a revolving loan program for energy efficiency projects. The SCEO was to develop and administer this loan program. In 1997, the Budget and Control Board approved the implementation of two loan funds which would be funded with PVE monies.

From September 1997 to December 2001, the SCEO administered both funds. During that time, the office allocated $2 million on an annual basis to each fund, and loans ranged from $25,000 to $500,000. In December 2001, administration of the EnerFund loan program (renamed the Small Business Energy Loan Program) was transferred from the SCEO (see p. 8).

The former EnerFund loan program provided low-interest loans to private, commercial, and industrial businesses for the implementation of energy conservation and recycling measures. The second program, ConserFund, is still administered by the SCEO. This program essentially provides loans for energy efficiency projects to the public sector, including state agencies, school districts, and local governments. Private non-profit agencies are also eligible to receive ConserFund loans.

Through December 2001, the SCEO approved three EnerFund loans (two to the same recipient) which totaled $1.1 million and three ConserFund loans which totaled $681,636 (see Table 2.1).

Table 2.1: SCEO Loans

TYPE OF LOAN	LOAN RECIPIENT	AMOUNT	LOAN CLOSING	TERM	INTEREST RATE	PURPOSE
ENERFUND	Recycling Company A	$100,000*	08/25/00	Upon Demand	0%	Recycling Equipment and Operations
	Recycling Company A	500,000	09/07/00	15 years	**7%	Refinancing of an Existing Loan and Repayment of a Previous SCEO Loan
	Recycling Company B	500,000	08/03/01	10 years	**6%	Machinery and Operational Expenses
TOTAL		$1,100,000				
CONSERFUND	School District 1	$126,994	08/25/99	5 years	4.7%	Upgrade/Expansion of Energy Control Systems in Four Schools
	Town	54,642	08/25/99	5 years	4.7%	Lighting and Heating/Air Improvements in Town Hall
	School District 2	500,000	12/21/01	10 years	**3.95%	Lighting Renovations in Nine Schools
TOTAL		$681,636				

* This loan was repaid upon the deposit of funds from the second loan to this company (see p. 7).
** For these loans, a portion of the interest is retained by the lender who issued the loan; the remaining interest is paid to SCEO.

Source: SCEO Loan Files.

When the SCEO administered EnerFund loans, the amount of the loan was deposited with a lender, and the lender, in turn, made a direct loan to the borrower. The general responsibilities of the lender and the SCEO included the following:

- The borrower applied to the SCEO for loan funds.
- The lender determined the feasibility of the loan.
- SCEO provided the lender with a letter detailing proposed use of the loan proceeds.
- The lender served as the underwriter for the loan.
- The lender monitored use of the loan proceeds.
- The lender received loan payments from the borrower.
- The lender agreed to pay the principal and a portion of the interest (1% to 3%) to SCEO while the remaining interest (2.5% to 4%) was retained by the lender.
- In the event of default, the lender agreed to pay SCEO the outstanding loan balance upon demand. The lender also agreed to pay reasonable attorney fees and other costs associated with the default.

ConserFund loan funds are either deposited with a lender or loaned through the Budget and Control Board. Funds borrowed directly from a lender are secured by the lender; funds borrowed from the board are generally secured through the State Treasurer's Office. For a public entity, the treasurer's office can withhold the loan amount from any revenue due to that entity.

Inappropriate Loan

We reviewed SCEO loan files and concluded that the SCEO did not properly manage the EnerFund loan program. In August 2000, SCEO approved an EnerFund loan which was to be repaid with proceeds from a second EnerFund loan. According to the agreement between SCEO and the borrower, this loan, amounting to $100,000, was interest-free and was to be repaid upon deposit of a second EnerFund loan for $500,000. Agency guidelines did not allow for such an arrangement.

An SCEO manager told us that the $100,000 loan was made to accommodate the borrower in a timely manner since the primary loan required approval of new loan procedures by the Budget and Control Board. The B&CB approved the procedures in August 2000, and agency documents show that the first loan was repaid, as agreed, upon deposit of funds from the second loan. However, we found that SCEO officials *should not have* approved either the first loan or the second loan of $500,000. In addition to repayment of the first loan of $100,000, proceeds from the second loan included an ineligible expenditure. This finding follows.

Ineligible Loan Expenditure

SCEO established guidelines which specified eligible and ineligible expenditures for EnerFund recycling loans. According to these guidelines, loan proceeds could not be used for expenses incurred before the loan was approved. However, in September 2000, the SCEO approved a second EnerFund loan which was used for previously incurred expenses. In an agreement between the SCEO and the lender, the SCEO confirmed that this loan, which included "the refinancing of existing debt," complied with EnerFund program requirements. We concluded that this loan did not comply with requirements. In this instance, $303,000 (61%) of a $500,000 loan was used to pay off an existing debt to the lender which handled the EnerFund loan.

According to an SCEO official, agency staff were not aware that the $500,000 loan was to refinance an existing loan until after the agency had approved the $100,000 to this borrower. This official stated that agency personnel thought that the $100,000 loan would not be repaid if the second loan was not approved. The second loan was underwritten by the bank.

We reviewed six other EnerFund applications for loans in which the loan proceeds would be used to refinance existing loans. SCEO requested a review by the Atlanta Regional Office of the U.S. Department of Energy to determine if these applications met EnerFund program requirements. Both the regional office and the headquarters in Washington, D.C. determined that the loans were inappropriate, based in part on the SCEO's guidelines which prohibited the refinancing of existing loans.

Replacement Program

During our review (in December 2001), the Budget and Control Board approved replacement of the EnerFund Loan Program with the Small Business Energy Loan Program. At that time, SCEO contracted with South Carolina State University (SCSU) for administration of the program. However, as of May 2002, the SCEO terminated its contract with SCSU, and office staff will seek another entity to administer the program.

The SCEO will fund a grant for program staffing and operating expenses to the entity that administers the program. In addition, the energy office will fund a separate loan pool of $2 million for a revolving loan account.

EnerFund Loan Requirements and Marketing

We examined possible reasons why the SCEO did not make any EnerFund loans in three years and approved only $1.1 million in loans while $8 million was available in loan funds over four years. We concluded that SCEO's requirements for EnerFund loans and its lack of marketing hindered the program.

From September 1997 (when the EnerFund Loan Program was authorized) until August 10, 2000, the SCEO required potential borrowers to submit a "letter of credit." The SCEO made a direct EnerFund loan to a borrower and required the borrower to submit a letter of credit from a financial institution. The letter essentially guaranteed that the institution would repay the loan to SCEO if the borrower did not.

The letter of credit was difficult to obtain, and at least one businessman who sought an EnerFund loan was unable to obtain the letter. On August 10, 2000, the B&CB eliminated the requirement for a letter of credit. In lieu of the letter, SCEO deposited the amount of an EnerFund loan with a lender and the lender made a direct loan to the borrower. The lender served as the underwriter for the loan.

Shortly after the elimination of the letter of credit, the SCEO approved a temporary loan (see p. 7) and then a second EnerFund loan to the same applicant. In August 2001, the office approved a third EnerFund loan to a different borrower.

In addition, the SCEO did not adequately market the EnerFund loan program to the private sector, which made up the bulk of potential borrowers. According to an SCEO official, the contacts and publications regarding loans were generally targeted to the public sector, which was served by the ConserFund loan program. This official stated that the energy office did not have an active marketing program or a systematic approach to market loans.

The SCEO approved only three ConserFund loans to public entities during the period we reviewed. However, as of December 2001, commitments for three other ConserFund loans and an application for an additional loan had been made. In contrast, there were no commitments or applications for EnerFund loans.

Written Procedures for SCEO Loans

The SCEO has not included important details about the loan program in its written procedures for loans. In 1997, the B&CB approved the loan program and the office developed loan procedures which have not been changed.

The procedures for ConserFund loans (those to the public sector and non-profit agencies) do not include the following:

- The yearly amount of $2 million allocated for loans (approved June 1999).
- The allowance of multiple loan projects in excess of $500,000 to the same client, as long as total loans do not exceed $1 million (approved June 1999).

We also found that the SCEO did not include details about the EnerFund loan program in its procedures. The procedures did not indicate that loans were made directly from a lender to a borrower.

Written procedures serve to clarify the specific objectives of management and to direct the actions of staff. Updated procedures would help to ensure equity among loan applicants and recipients.

Recommendation

1. The SCEO should update written procedures for the ConserFund Revolving Loan Program.

Grant Program

In addition to loans, the SCEO also administers grants. SCEO grants are funded by the U.S. Department of Energy (USDOE) and from Petroleum Violation Escrow (PVE) funds. The SCEO awards three types of grants based on source of funds. These include:

FEDERAL PROJECTS — Awards funded primarily by the U.S. Department of Energy for specific projects. If the SCEO receives a federal grant award, the office subgrants or contracts a part or all of the funds to a subrecipient for project implementation.

STATE ENERGY PROGRAM PROJECTS — Includes both USDOE and PVE funds. The intent of these projects is to increase energy efficiency and the use of renewable resources. Proposed projects are included in the annual State Energy Program Plan.

OTHER PVE PROJECTS — Funds other than those of the federal energy program. In accordance with PVE guidelines, these funds are to be used to provide restitution to the citizens of South Carolina.

The office awarded 37 grants in the past three fiscal years. Table 2.2 shows the number of grants by type and amount.

We sampled SCEO grants to determine if the office has monitored grant activities as required. Our sample included 35% (13 of 37) of the grants awarded which amounted to 55% ($1,139,177 of $2,072,564) of the total grant funds awarded.

For federal projects, monitoring requirements are generally specified by grant. For all other grants, the SCEO requires the grant recipient to submit a quarterly report which details activities. In addition, office staff visit the recipient at the end of the grant period to ensure that the purpose of the grant has been accomplished.

Our review indicated that the office has not established selection criteria to award other PVE grant funds. Applicants who asked about the availability of funds have been awarded grants, but information about the program has not been disseminated to the general public. Further, we found that the SCEO has not followed up with grant recipients to determine if energy costs have been reduced (see p. 12).

Table 2.2: SCEO Grant Awards from FY 98-99 to FY 00-01

Type of Grant	Example of Grant	Number of Grants	Total Amount Awarded	Percentage of All Grants Awarded
Federal Projects	Clemson University Evaluation of reduced energy consumption in commercial and institutional buildings. ($102,428)	13	$496,442	35%
State Energy Program Projects	Dorchester School District 2 Upgrade of lighting fixtures in nine schools. ($75,000)	18	1,256,694	49%
Other PVE Projects	Francis Marion University Energy conservation improvements in the gymnasium. ($25,000)	6	319,428	16%
Total		37	$2,072,564	100%

Source: SCEO Grant Files.

Other PVE Grants

The SCEO has not developed guidelines to select recipients for other PVE grants. According to an SCEO official, the office had not intended to award this type of grant and did not develop guidelines. However, this official stated that when the office received inquiries about possible funding for specific projects, it awarded grant funds. From FY 97-98 to FY 00-01, the SCEO awarded approximately $469,000 in other PVE grant funds for nine projects.

Federal project grants are marketed through the U.S. Department of Energy as well as the SCEO. Grant recipients are selected by the regional office (Atlanta) or the headquarters (Washington, D.C.) of the USDOE. The state energy program grants (primarily school initiative grants) are used to improve lighting in the state's poorer school districts. SCEO mails information concerning these grants to the qualifying schools and assists the districts in applying for grant funds.

When grants are not marketed and awarded based on specific criteria, fewer eligible entities may benefit, and the selection process may not be equitable. Only those individuals who are aware of available grant funds have an opportunity to apply for and receive funds. Guidelines for selection, as well as the marketing of available funds, would help to ensure fairness in the selection of grant recipients.

Recommendations

2. The SCEO should market the availability of other PVE grant funds to ensure that potential recipients are aware of funding.

3. The SCEO should develop guidelines for the selection of other PVE grantees.

SCEO's Mission

One of our audit objectives was to determine if grants and loans awarded by the energy office have promoted its mission. The mission of the SCEO is "to increase efficiency in the use of all energy resources in all consuming sectors of the state and, to the extent practical, to maximize environmental quality and minimize the cost of energy use." We concluded that the SCEO needs to follow up with grant recipients to ensure that projects intended to reduce energy costs have met this goal. In addition, in FY 00-01, SCEO did not meet one of four objectives related to administration of grants and loans.

Five of the six loans that we reviewed were to provide assistance for recycling operations or for lighting and heating renovations. Of the 13 grants that we reviewed, 2 grants involved more effective use of energy resources. The remaining 11 grants involved installation of energy improvements such as windows and lighting fixtures intended to reduce energy costs.

To determine if energy savings have been realized, SCEO requires grant recipients to compare utility costs before improvements were made to utility costs one year after improvements were made. Our review indicated that the SCEO has not followed up with grant recipients in 4 (36%) of the 11 cases to determine if costs have been reduced. For five grants, not enough time had lapsed to determine energy savings, and in two cases, the project was ongoing.

We also reviewed SCEO's performance and workload measures related to administration of grants and loans. In FY 00-01, four of the office's objectives related directly to loans and grants. The SCEO did not meet one objective (see Table 2.3).

A part of SCEO's mission is to increase energy efficiency in all consuming sectors of the state. When SCEO does not follow up with lighting grant recipients, the office cannot determine if the purpose of the grants has been met.

Table 2.3: SCEO's Performance or Workload Measures in FY 00-01

OBJECTIVE	STATUS AS OF JUNE 30, 2001
Recruit 10 Rebuild South Carolina partners and assist 5 partners in implementing energy efficiency projects.*	Recruited 7 partners; assisted 9 partners.
Implement lighting improvements in ten public schools.	Awarded 13 grants involving 23 schools.
Provide $2 million in financing assistance (loans) to public entities for energy efficient projects.	Provided no loans to public entities.
Submit one grant proposal for biomass energy.	Submitted the proposal.

* Partners are recruited and assisted for the Rebuild America Program. This program focuses on the renovation of buildings to improve energy efficiency.

Source: SCEO Documents.

Recommendation

4. SCEO staff should follow up with grant recipients to determine if energy costs have been reduced.

SCEO Efficiency

We attempted to assess the efficiency of the South Carolina Energy Office compared to energy entities in other states and territories in the Atlanta region of the USDOE. The region includes Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, Puerto Rico, Tennessee, and the Virgin Islands. We concluded that operations in these entities differ significantly and are not comparable.

According to a USDOE official, energy funding for a state or territory generally includes USDOE funding, State Energy Plan funding, and other funding. The majority of the funds are under the State Energy Plan. The state or territory can choose the activities that will be included in its plan while USDOE staff determines if activities are allowable and if costs are reasonable. Regional staff monitor the status of activities.

We reviewed fiscal year 2001-2002 energy plans for all states and territories in the Atlanta region and found a wide variation in budget, staff size, and the number of activities (see Table 2.4). Our review, which included interviews with energy officials, indicated that the budget may be greatly impacted by several factors, including the availability of funds from settlements to the states, such as for oil overcharges. In addition, although the state energy plan budget is submitted yearly, the plan may include continuous programs that require more than one year to complete. Finally, the number of activities do not necessarily reflect those implemented, but rather those planned. For example, according to an official of the North Carolina Energy Office, 20 (43%) of the 46 activities included in that state's plan have not been implemented.

The South Carolina Energy Office budget is comprised primarily (91%) of Petroleum Violation Escrow funds. Activities in South Carolina include programs in the six categories (administration, general education, transportation, buildings, industrial, and utilities) allowed under the plan. According to an SCEO official, as of February 2002, no funds had been expended to implement 4 (18%) of the 22 activities included in the plan.

Table 2.4: FY 01-02 State Energy Plans

State/Territory	Administrative Structure	Budget	Staff Size		Number of Activities
			Full-Time	Part-Time	
Alabama	Department of Economic and Community Affairs	$1,044,337	8	1	47
Arkansas	Economic Development Commission	$689,461	5	0	5
Florida	Department of Community Affairs	$1,583,000	11	2	17
Georgia	Environmental Facilities Authority	$1,792,667	2	2	9
Kentucky	Department of Natural Resources	$805,184	10	0	7
Mississippi	Development Authority	$1,032,759	2	10	35
North Carolina	Department of Administration	$10,633,597	26	0	46
Puerto Rico	Department of Natural and Environmental Resources	$1,434,623	39	0	19
South Carolina	Budget and Control Board	$8,344,083	8	2	22
Tennessee	Department of Economic and Community Development	$2,664,000	8	0	10
Virgin Islands	Department of Planning and Natural Resources	$2,437,017	20	0	14

Source : State Energy Plans obtained from the Atlanta Regional Office of the U.S. Department of Energy.

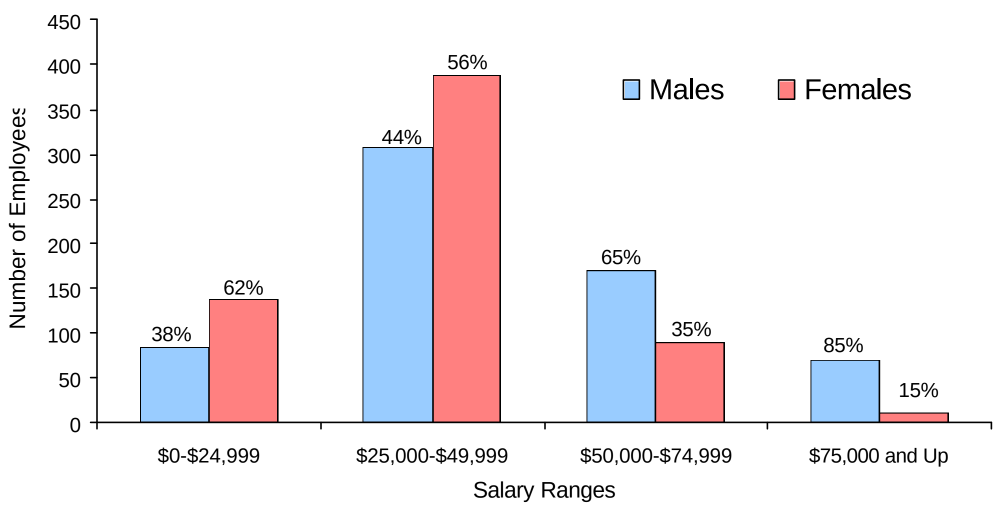
Personnel Issues

We obtained information regarding the composition of the B&CB's workforce. We also reviewed the board's hiring practices and found that the agency has hired individuals without properly advertising positions. In addition, we concluded that B&CB positions do not substantially differ in regards to minimum requirements, major responsibilities, or average salary from positions at three other state agencies. Finally, a sample of B&CB employees showed that individuals substantially met the minimum training and experience requirements for their positions.

Budget and Control Board Workforce

As of September 2001, the Budget and Control Board employed 1,259 individuals. The following chart shows the composition of the workforce by salary range and gender. We did not conduct any further analysis of this particular data.

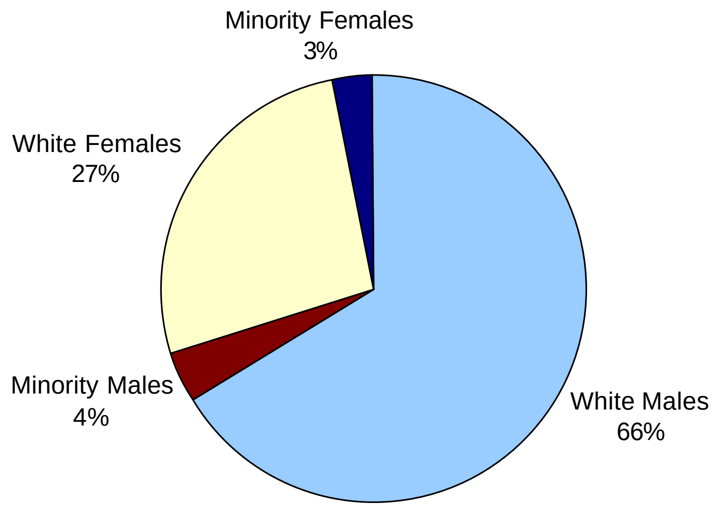
Chart 3.1: Salary Ranges by Gender for All B&CB Employees – September 2001



Source: B&CB documents.

We were asked to review information regarding employees with annual salaries of $50,000 or more. We found that the majority (66%) of the 340 B&CB employees earning a salary of $50,000 or more were white males. The following shows the breakdown of all employees earning $50,000 or more.

Chart 3.2: Race and Gender of All B&CB Employees Earning $50,000 or More – September 2001

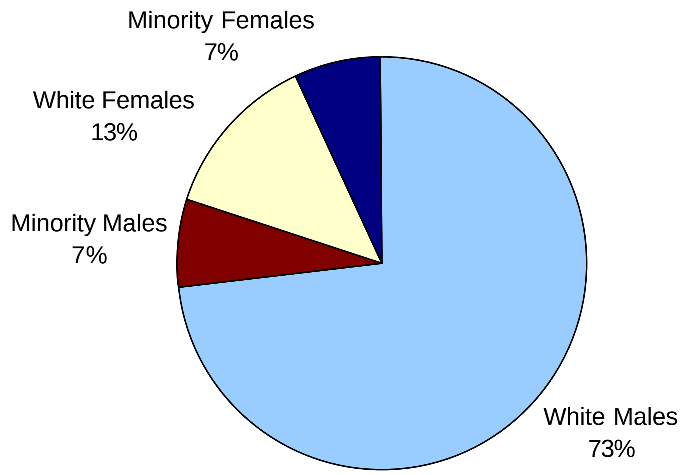


Source: B&CB documents.

The primary scope of our audit was FY 98-99 through FY 00-01. The B&CB hired 326 individuals during that time. Forty-five (14%) of these employees earned $50,000 or more at the time of our review.

The employees hired during those three years earning more than $50,000 were more diverse racially, but less diverse by gender than the overall group in this salary range. While white males were the majority in both groups, the recent hires included increased percentages of minority males and females and a decrease (14%) in white females.

Chart 3.3: Race and Gender of B&CB Employees Hired During FY 98-99 Through FY 00-01 Earning $50,000 or More – September 2001



Source: B&CB documents.

We compared the median salaries of the 36 males to the 9 females earning $50,000 or more hired during this time frame and found that the median salary for males was $62,088 compared to $59,200 for females.

Hiring Practices

One of our audit objectives was to determine if the B&CB has complied with state laws and human resources regulations regarding hiring. We primarily focused on the written justifications of salaries and advertisements of job vacancies. While we did not find any material problems with the salary justifications, we found that the B&CB has hired employees without advertising positions.

State human resources regulation 19-703.02 and §8-11-120 of the South Carolina Code of Laws require agencies to announce vacancies of classified positions to include the title and responsibilities of the position, salary range, and minimum training and experience requirements, with some exceptions. Regulation 19-703.02.C. states that the use of the Human Resources Information System meets the advertising requirements.

We reviewed personnel files and application documentation for 39 of the 45 employees hired between July 1, 1998 and June 30, 2001 who earned $50,000 or more annually. The B&CB could not provide application documentation for the remaining 6 employees because of its records retention schedule. We found that the B&CB hired two classified employees, who previously worked at another state agency, without advertising either position. In addition, although state human resources regulations do not require unclassified positions to be advertised, the B&CB advertised two of three unclassified attorney positions.

When vacancies are not advertised in accordance with state regulations, interviews may either not be conducted or may be granted only to those individuals who are otherwise aware of the vacancies. To protect the agency from potential liability and to ensure that the most qualified individuals are hired, the B&CB should advertise classified job vacancies.

Recommendation

5. As required by state human resources regulation 19-703.02 and §8-11-120 of the South Carolina Code of Laws, the Budget and Control Board should advertise all classified positions.

Comparable Positions

We were asked to determine if the responsibilities and salaries for B&CB positions are comparable to similar positions in other state agencies. We reviewed a sample of 201 positions with annual salaries of $50,000 or more at the B&CB and three other state agencies of similar size — the State Department of Education (SDE), Vocational Rehabilitation (VR), and the Employment Security Commission (ESC). The total number of employees at these four agencies ranged from 931 to 1,280. We concluded that B&CB positions do not substantially differ in minimum training and experience required, major responsibilities, or average salary from those at the other state agencies.

We reviewed positions for eight job classifications in which all four agencies were represented. These positions involved the management of agency programs and services, the agency's centralized accounting system, or its information technology system. We compared these positions in terms of their requirements for minimum training and education, major duties, and knowledge and skills. Table 3.4 shows an example of one position we reviewed. In this case, the average salary for a Program Manager II at the four agencies ranged from $68,083 to $75,535, with the B&CB having the second lowest average.

Table 3.4: Example of Position Reviewed — Program Manager II[1]

Agency	Number of Positions as of 7/01	Minimum Training and Experience Requirements [2]	Supervision Received	Major Responsibilities [2]	Employees Directly Supervised	Average Salary [3]
Budget and Control Board	45	Bachelor's Degree and up to 10 Years Experience, Including 3-5 Years Management Experience	Limited	Direct Implementation of Programs for State Facilities	0 to 24	$73,242
State Department of Education	18	Doctorate in Education and 6 Years Experience or Master's Degree and 8 Years Experience, Including Administrative Experience	Limited	Coordinate Diverse Statewide SDE Programs	0 to 27	$75,535
Vocational Rehabilitation	9	Master's Degree and up to 7 Years Experience or Bachelor's Degree and up to 6 Years Experience, Including 3-5 Years Management Experience	Limited	Coordinate Diverse Regional or Statewide VR Programs and Services	1 to 31	$75,028
Employment Security Commission	10	Bachelor's Degree and 5 Years Experience or 5 Years Management Experience	Limited	Direct Regional ESC Program Areas or Coordinate Statewide Plans	1 to 13	$68,083

1 We reviewed all of the Program Manager II positions at Vocational Rehabilitation (9) and the Employment Security Commission (10); we reviewed 10 positions at both the Budget and Control Board and at the State Department of Education.
2 Minimum training and experience and major responsibilities are examples of requirements at the agencies we reviewed.
3 According to the Office of Human Resources compensation manual, the midpoint of the salary range for a Program Manager II was $67,717, effective July 1, 2001.

Source: B&CB documents.

Staff Qualifications

One of our audit objectives was to determine if staff hired by the Budget and Control Board met the minimum training and experience requirements for their positions. We reviewed personnel documentation for a sample of 59 employees hired from July 1, 1998 to June 30, 2001. Of the employees sampled, 27 were on the staff of the State Auditor's Office and 32, including 7 unclassified employees, served in other B&CB offices. We concluded that all of these individuals substantially met the minimum requirements for their positions.

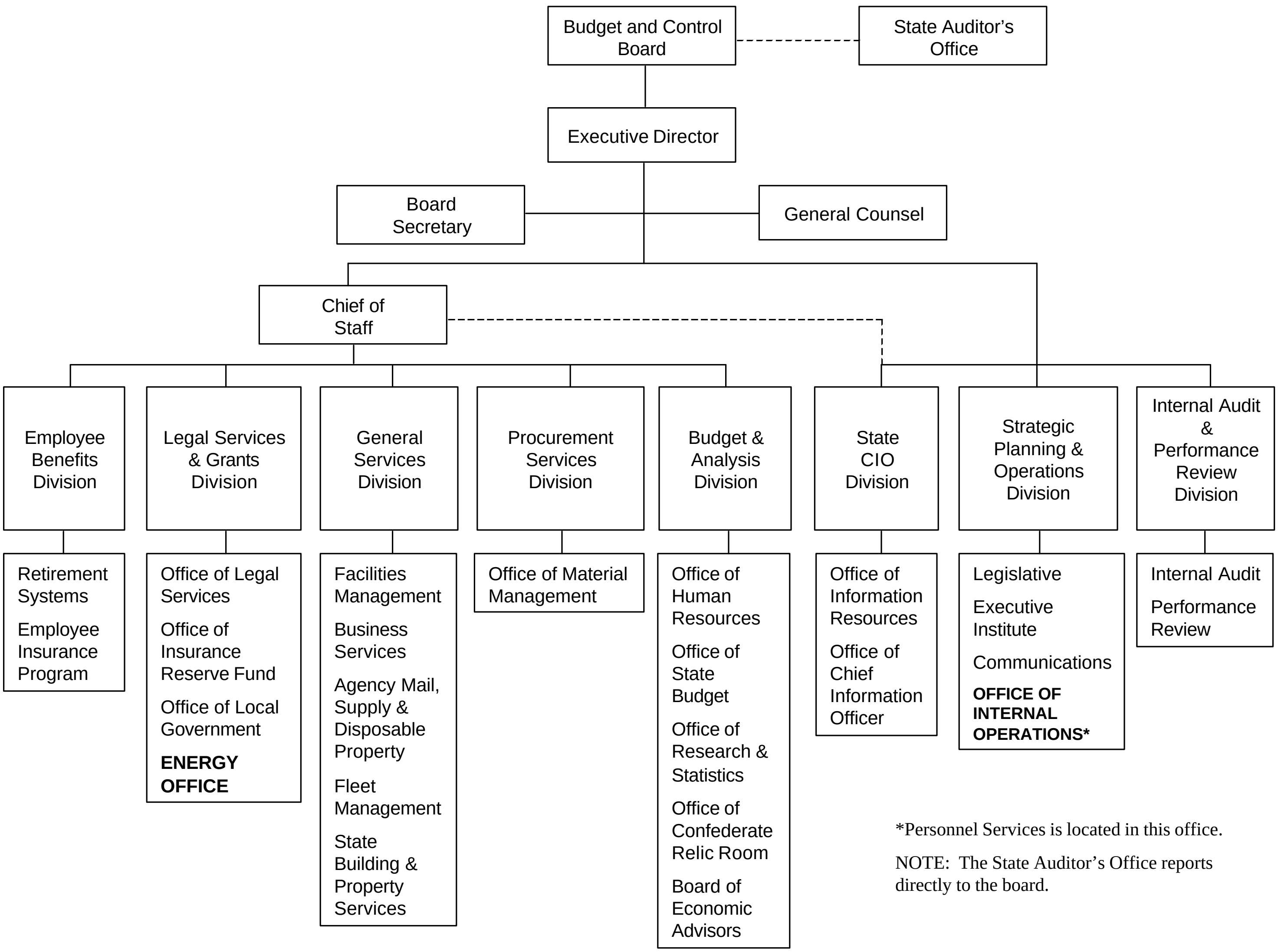
Newly Created Positions

Between July 1998 and June 2001, the Budget and Control Board approved only two new positions with annual salaries of $50,000 or more. We reviewed documentation related to the creation of these positions and could find nothing improper with either the justification or the salary levels established for them.

In its FY 00-01 budget, the Office of the State Engineer, a division of the Budget and Control Board, requested new positions for two professional engineers with salaries of $55,000 and $65,000 per year. The agency justified its request by citing increased demands on its enforcement of the state's building and safety codes.

In July 2000, B&CB officials approved these positions. In both cases, the salaries were adjusted and were less than the midpoint of the assigned range.

B&CB Organizational Chart



*Personnel Services is located in this office.

NOTE: The State Auditor's Office reports directly to the board.

Appendix A
B&CB Organizational Chart

Agency Comments

Appendix B
Agency Comments

STATE OF SOUTH CAROLINA

State Budget and Control Board

OFFICE OF THE EXECUTIVE DIRECTOR

P.O. BOX 12444
COLUMBIA, SOUTH CAROLINA 29211
(803) 734-2320
Fax: (803) 734-2117

May 13, 2002

George Schroeder
Legislative Audit Council
1331 Elmwood Ave., Suite 315
Columbia, S.C. 29211

Dear Mr. Schroeder:

Thank you for the opportunity to comment on your analysis of the Budget and Control Board's hiring practices and the South Carolina Energy Program's operations.

First, I would like to compliment your staff on their professionalism in the conduct of their work. We appreciate the opportunity to have an independent organization evaluate these issues with the goal of finding ways to improve our service to the citizens of South Carolina. I would also like to emphasize that all of the findings in the audit deal with management issues internal to our agency. The members of the Budget and Control Board set broad policy for the state and are not involved in the daily administrative tasks of the agency that are the subject of this study.

We have made changes at the South Carolina Energy Program to ensure that procedures are closely followed and that effectiveness is improved. Organizationally, the program has been moved within the Budget and Control Board to ensure an increased level of management oversight. Guidelines established for the Revolving Loan Program are now being strictly adhered to in all cases. In addition, the Energy Advisory Committee has also been reformed and activated. This panel of outside business people evaluates the Energy Program's action plan and results. We believe these changes will improve the program's performance and enable it to help fulfill its mission of increasing energy conservation in South Carolina.

Concerning the Board's personnel practices, we agree that it is important to post vacancies for which recruiting will occur and which will be filled with external candidates. As the report indicates, this practice has been followed in all required vacancies except for two positions. In these two cases the employees were transferred from another state agency to perform program responsibilities. If we have any such transfers in the future, we will ensure that these are posted.

Sincerely,

Frank W. Fusco

Frank W. Fusco