

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

The Budget and Control Board (B&CB) is the state's central administrative agency which oversees areas such as human resources, information technology, and fiscal matters. Members of the General Assembly asked that the Legislative Audit Council review the administration of loans and grants by the South Carolina Energy Office (SCEO), an office within the board's Division of Legal Services and Grant Administration. The B&CB's Office of Internal Operations handles the personnel services for the board itself. The requesters were also concerned about the hiring of employees with salaries of \$50,000 or more.

We identified areas where administration of loans and grants can be improved. We did not identify significant problems with the board's hiring practices.

SCEO LOANS AND GRANTS

REVOLVING LOAN PROGRAM

From September 1997 to December 2001, the SCEO administered a revolving loan program made up of two loan funds. The first loan fund, EnerFund, provided low-interest loans to private, commercial, and industrial businesses for energy conservation and recycling measures. The second program, ConserFund, provided loans for energy efficiency projects to the public sector and to private non-profit entities. Through December

2001, SCEO approved three EnerFund loans (two to the same borrower) which totaled \$1.1 million and three ConserFund loans which totaled \$681,636.

We reviewed the administration of both funds and concluded that the SCEO did not properly manage the EnerFund loan program.

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	<u>500,000</u>	08/03/01	10 years	**6%	Machinery and Operational Expenses
TOTAL		<u>\$1,100,000</u>				
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	<u>500,000</u>	12/21/01	10 years	**3.95%	Lighting Renovations in Nine Schools
TOTAL		<u>\$681,636</u>				

* This loan was repaid upon the deposit of funds from the second loan to this company.

** For these loans, a portion of the interest is retained by the lender who issued the loan; the remaining portion of interest is paid to SCEO.

Source: SCEO Loan Files.

INAPPROPRIATE ENERFUND LOAN AND INELIGIBLE ENERFUND LOAN EXPENDITURES

SCEO loan guidelines did not allow for repayment of one EnerFund loan with another EnerFund loan. Nevertheless, in August 2000, SCEO staff approved a \$100,000 loan that was repaid with a second EnerFund loan. In addition, the second loan of \$500,000 was used to refinance a bank loan. Based on EnerFund guidelines, loan funds could not be used for debts incurred before the loan was approved. In September 2000, however, \$303,000 (61%) of the \$500,000 loan was used to satisfy the bank debt.

During our review (in December 2001), the Budget and Control Board replaced the SCEO's EnerFund loan program with the Small Business Loan Program. This program was to be administered by South Carolina State University (SCSU). However, as of May 2002, the SCEO terminated the contract with SCSU. According to an SCEO official, the office will seek another entity to administer the new program.

**SCEO OFFICIALS SHOULD NOT HAVE APPROVED TWO
ENERFUND LOANS BECAUSE THE LOANS
DID NOT COMPLY WITH GUIDELINES.**

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 funds over four years. We concluded that SCEO's requirement for a "letter of credit" and the lack of marketing negatively impacted the program.

From September 1997 to August 2000, the SCEO made a direct EnerFund loan to a borrower and required the borrower to submit a letter of credit from a financial institution. This letter, which essentially guaranteed that the financial institution would repay the loan if the borrower did not, was difficult to obtain. In August 2000, the B&CB eliminated this requirement and a lender made a direct loan to a borrower instead. The SCEO then approved two EnerFund loans within a year.

In addition, the SCEO did not market the EnerFund program to the private sector. The program was specifically created to provide low-interest loans to private, commercial, and industrial businesses.

SCEO'S MISSION

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 11 grants to determine if energy costs have been reduced. For five grants, insufficient time had lapsed, and in two cases, the project was ongoing. When SCEO does not follow up with grant recipients, the office cannot determine if the purpose of the grants has been met.

WRITTEN LOAN PROCEDURES

The SCEO has not included important details about the loan program, such as the yearly amount of \$2 million allocated for ConserFund loans, in its written loan procedures. The current loan procedures were developed in 1997 and have not been revised, even though program changes have been implemented. Updated procedures would help to ensure consistency in the handling of loans and equity among loan applicants and recipients.

GRANT PROGRAM

The SCEO awards three types of grants based on source of funds. From FY 98-99 to FY 00-01, the office awarded 37 grants, totaling approximately \$2.1 million. Our review showed problems with the selection of other PVE grant recipients.

Federal Projects

Primarily U. S. Department of Energy funds for specific projects.

State Energy Program Projects

PVE funds (monies awarded to the states as a result of alleged oil pricing violations from 1973 to 1981) and USDOE funds to increase energy efficiency and the use of renewable resources. These funds are authorized for expenditure in accordance with the State Energy Program Plan approved by USDOE.

Other PVE Projects

Funds outside of the federal energy program used to provide restitution to the citizens of South Carolina for oil overcharges.

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

SCEO has not developed guidelines to select recipients for other PVE grants or marketed the grants. Instead, applicants who have asked about the availability of funds have been awarded grants. From FY 97-98 to FY 00-01, the SCEO awarded approximately \$469,000 in other PVE grant funds for nine projects. When grants are not marketed and awarded based on specific criteria, fewer eligible entities may benefit, and the selection process may not be equitable.

SCEO EFFICIENCY

We were unable to compare operations of the SCEO with other states and territories in the Atlanta region (Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, Puerto Rico, Tennessee, and the Virgin Islands) of the U.S. Department of Energy. We focused on the state energy plans, a large majority of the funding in the states and territories. Our review showed a wide variation in budget, staff size, and the number of activities among the energy entities.

ONLY THOSE PERSONS OR ENTITIES WHO WERE AWARE
OF AVAILABLE GRANT FUNDING INQUIRED ABOUT AND
RECEIVED FUNDS.

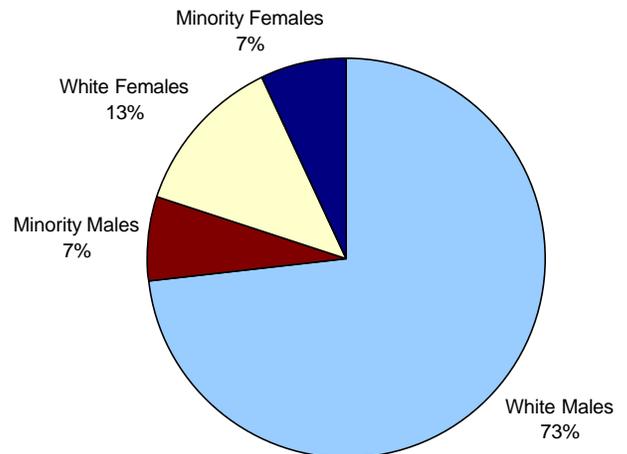
PERSONNEL ISSUES

BUDGET & CONTROL BOARD WORKFORCE

As of September 2001, the B&CB employed 1,259 individuals. The majority of employees earning annual salaries of \$50,000 or more were white males; however, there was a slight increase in the percentage of minorities hired between July 1998 and June 2001 as compared to the overall number.

Also, the median salary of the 36 males hired in those three years earning \$50,000 or more was approximately \$3,000 higher than the salaries for the 9 females.

RACE AND GENDER OF B&CB EMPLOYEES HIRED
DURING FY 98-99 – FY 00-01
EARNING \$50,000 OR MORE —
SEPTEMBER 2001



WE REVIEWED THESE PERSONNEL AREAS:

HIRING PRACTICES

The B&CB has filled two classified positions without properly advertising the vacancies, as is required by state human resources regulations.

COMPARABLE POSITIONS

We determined that positions at the B&CB are comparable in minimum training, experience requirements, major responsibilities, and average salary relative to other state agencies of similar size.

STAFF QUALIFICATIONS

The board has hired individuals who substantially met the minimum training and experience requirements for their positions.

NEWLY CREATED POSITIONS

Only two new positions with salaries of \$50,000 or more were created between July 1998, and June 2001. We found nothing improper with the creation of these positions.



This document summarizes our full report, *A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices*. A response from the Budget and Control Board is included in the full report. All LAC audits are free of charge. Audit reports and information about the LAC are also published on the Internet at www.state.sc.us/sclac. If you have questions, contact George L. Schroeder, Director.