





OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: January 9, 2023

TO: Xochitl Torres Small
Under Secretary
Rural Development

ATTN: Angilla Denton
Chief Risk Officer
Office of the Chief Risk Officer

FROM: Yaris Rivera Rojas
Acting Assistant Inspector General for Audit

SUBJECT: Prior OIG Audits Relevant to Rural Development's Inflation Reduction Act Funding

According to the U.S. Department of Agriculture (USDA) Office of Budget and Program Analysis, the Inflation Reduction Act (IRA), Pub. L. No. 117-169, signed on August 16, 2022, provided more than \$43 billion to the USDA. Of this amount, IRA provided more than \$13 billion for the following activities/programs administered by Rural Development (RD):

- \$1 billion for Electric Loans for Renewable Energy;
- \$500 million for Biofuel Infrastructure and Agriculture Product Market Expansion¹;
- \$9.7 billion for USDA Assistance for Rural Electric Cooperatives; and
- More than \$2 billion² for the Rural Energy for America Program (REAP).

As part of the Office of Inspector General's (OIG) oversight responsibility, we reviewed the results of prior OIG and Government Accountability Office (GAO) engagements that were relevant to the funding provided by IRA.³ Identifying areas in which OIG reported past weaknesses and recommendations may provide RD insight to maintain or further strengthen existing controls for programs receiving IRA funding. Based on our review, we identified the following findings and recommendations that RD may wish to consider to ensure that its energy activities and programs continue to operate effectively with the proper control environment. According to information maintained by the Office of the Chief Financial Officer (OCFO), as of December 9, 2022, the recommendations associated with these prior audits have been implemented.

¹ We did not identify any prior OIG engagements for this area.

² IRA provided \$2,025,450 for REAP, which included more than \$300 million for underutilized renewable energy technologies.

³ We limited our review to prior OIG engagements with recommendations tracked by the Office of the Chief Financial Officer.

Electric Loans for Renewable Energy

- *RUS-Energy Efficiency and Conservation Loan Program*⁴: OIG reported that the Rural Utilities Service (RUS) did not have relevant quantitative performance measures needed to assess and monitor the Energy Efficiency and Conservation Loan Program (EECLP) performance, or a process to obtain appropriate and reliable performance information. It would be beneficial, early in the program, for RUS to develop specific EECLP performance measures and reliable performance data to permit agency managers to make informed program decisions. Additionally, we found that RUS had not fully trained staff or updated existing policies and procedures to include monitoring borrower compliance with EECLP regulations. Without this oversight, RUS lacks sufficient assurance that borrowers are complying with the program's unique regulatory requirements.

OIG recommended that RUS establish and report quantitative, outcome-based performance measures that reflect EECLP's successes, and also develop policies and procedures to periodically monitor and assess EECLP borrowers' compliance with program requirements. According to OCFO, all the recommendations for this audit have been implemented.

USDA Assistance for Rural Electric Cooperatives

- *Rural Utilities Service Financial Management of Section 313A Guarantees for Bonds and Notes*⁵: OIG reported that RUS administers and monitors the Section 313A Program. This program allows USDA to guarantee payments on bonds or notes issued by a cooperative or other lender organized on a not-for-profit basis, if the proceeds of the bonds or notes are used to make utility infrastructure loans. Under the Section 313A Program, only two financial institutions are currently eligible to receive guarantees: the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank. The collateral backing the Government's debt are unencumbered loans made by CFC and CoBank, which are subject to certain quality standards. At the time of our review, the Section 313A Program had obligations of \$8.3 billion. We determined that RUS properly monitored and provided adequate oversight of the Section 313A Program. Accordingly, OIG did not make any recommendations in this report.

Rural Energy for America Program

- *Rural Energy for America Program*⁶: OIG reported that the Rural Business-Cooperative Service (RBS) needs to strengthen its internal controls for approving and servicing REAP loans and grants. First, the REAP award and project performance data maintained in the Guaranteed Loan System (GLS) were unreliable. Specifically, we found: (1) REAP recipients did not always submit project performance reports, as required; (2) the amount of energy produced or saved by the funded projects was not accurately reported; and (3) the REAP information maintained in GLS was incomplete or inaccurate. Additionally, we found that RBS did not check for duplicate funding of REAP projects with other USDA agencies. As a result, 1 of the 30 award recipients in our sample received duplicate funding of just over \$2,900. Finally, we found that RBS officials had not

⁴ Audit Report 09601-0001-41, *RUS-Energy Efficiency and Conservation Loan Program*, Sept. 2016.

⁵ Audit Report 09601-0001-11, *Rural Utilities Service Financial Management of Section 313A Guarantees for Bonds and Notes*, June 2020.

⁶ Audit Report 34001-0001-21, *Rural Energy for America Program*, Aug. 2016.

documented the justification and approval of priority points awarded by a State director. We found that RBS officials had awarded priority points to 1 of the 30 REAP awards in our sample. As a result, RBS has reduced assurance that the selected project demonstrated the appropriate priority based on the project's overall score.

OIG recommended that RBS implement procedures and controls for entering REAP data into GLS, cross-checking for any duplicate payments in the system, and issuing guidance to ensure that State Director priority points are justifiable based on documentation in the recipient award file. According to OCFO, all the recommendations for this audit have been implemented.

Related GAO Reports

We also noted the following GAO reports that RD may want to consider, which include findings and recommendations relevant to the funding provided by IRA:

- *Wind Energy: Additional Actions Could Help Ensure Effective Use of Federal Financial Support*⁷; and
- *Biofuels: Potential Effects and Challenges of Required Increases in Production and Use*.⁸

This memorandum contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>).

⁷ GAO-13-136, *Wind Energy: Additional Actions Could Help Ensure Effective Use of Federal Financial Support*, Mar. 2013.

⁸ GAO-09-446, *Biofuels: Potential Effects and Challenges of Required Increases in Production and Use*, Aug. 2009.

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