



An Audit Report on

**The Commission on Environmental
Quality's Administration of the Texas
Emissions Reduction Plan Grants**

October 2018

Report No. 19-005



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Overall Conclusion

The Commission on Environmental Quality (Commission) had processes and controls in place for awarding grants, ensuring that grantees comply with program requirements, and recovering funds from noncompliant grantees for the Texas Emissions Reduction Plan (TERP) grants. In addition, the Commission made appropriate eligibility determinations for Emissions Reduction Incentive Grants (ERIG). However, the Commission should strengthen certain processes and controls. Specifically, the Commission should:

- Ensure that it accurately completes its application reviews and applies its scoring criteria consistently and correctly.
- Strengthen controls to ensure that the grantee-reported usage data it captures in its TERP Data Management System is accurate.
- Ensure that it accurately completes its disposition reviews and approvals in accordance with its internal procedures.
- Strengthen its processes for monitoring and following up with noncompliant grantees.

Auditors communicated other, less significant issues separately in writing to Commission management.

Table 1 on the next page presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Background Information

The 77th Legislature established the TERP program in 2001. The TERP program provides grants to eligible individuals, businesses, or local governments to reduce emissions from polluting vehicles and equipment.

Grant-funded vehicles and equipment include heavy-duty on-road vehicles and non-road equipment, such as trucks and tractors; stationary equipment or engines; locomotives; and marine vessels.

The Commission reported that it had awarded approximately \$1.1 billion in TERP program grants from fiscal year 2001 through fiscal year 2016. Approximately \$942 million of those awards were within the Diesel Emissions Reduction Incentives (DERI) program, which includes Emissions Reduction Incentive Grants (ERIG) and Rebate Grants.

Sources: The Commission.

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1-A	The Commission Made Appropriate Eligibility Determinations	Low
1-B	While the Commission Had Documented Scoring and Selection Criteria, It Had Weaknesses in Its Application Review and Scoring Processes That Resulted in Scoring Errors and Awards That Did Not Meet Its Criteria	High
2	The Commission Should Strengthen Its Processes to Ensure That Grantee-reported Usage Data Is Accurate	High
3	The Commission Had Guidelines and Processes for Reimbursing Grantees and Approving Disposition Documentation; However, It Should Ensure That It Accurately Completes Its Disposition Reviews and Approvals	Medium
4	While the Commission Had Processes for Monitoring and Following Up With Noncompliant Grantees, It Should Strengthen Those Processes to Help Increase Compliance, Recover Grant Funds, and Track Invoices	Medium

^a A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. **Immediate action is required to address** the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the **audited entity's ability to effectively administer program(s)/function(s) audited**. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated Low **if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited**.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Commission agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Commission has processes and related controls for the TERP program to help ensure that:

- TERP grant programs comply with state law, administrative rules, and Commission policies and procedures.
- Grant recipients comply with the terms of grant agreements and program guidelines.
- The Commission recovers grant funds from noncompliant grant recipients in a timely manner.

The scope of this audit covered the Commission's processes and controls for administering TERP programs from fiscal year 2016 through February of fiscal year 2018 and program data since the TERP program was implemented in fiscal year 2001.

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Detailed Results

Chapter 1

The Commission Made Appropriate Eligibility Determinations; However, It Should Strengthen Its Application Review and Scoring Processes

For its Texas Emissions Reduction Plan (TERP) grants, the Commission on Environmental Quality (Commission) had processes and controls for reviewing and scoring project applications and for awarding grants. For the fiscal year 2017 Emissions Reduction Incentive Grants (ERIG), the Commission evaluated 831 project applications and awarded 659 grants totaling \$60,274,365.

For those project applications, the Commission made appropriate eligibility determinations; however, it had systemic weaknesses in its application review and scoring processes that resulted in scoring errors and awards that did not meet its selection criteria.

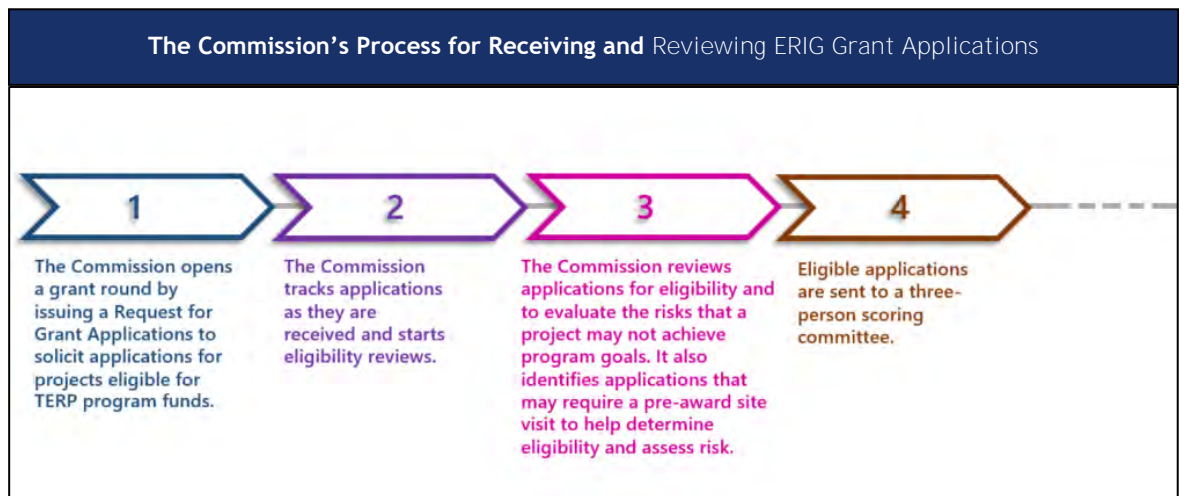
Chapter 1-A

The Commission Made Appropriate Eligibility Determinations

The Commission had documented processes for opening a grant round and performing reviews of all applications received (see Figure 1).

Chapter 1-A
Rating:
Low ¹

Figure 1



Source: The State Auditor's Office created this figure based on information from the Commission.

¹ The risk related to the issues discussed in Chapter 1-A is rated as Low because the audit identified strengths that support the audited entities' ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entities' ability to effectively administer the program(s)/function(s) audited.

ERIG Eligibility Requirements

The Commission's *Guidelines for Emissions Reduction Incentive Grants* describe various criteria that projects must meet to qualify for those grants. This includes criteria related to applicants, project categories, activities, and areas of the state.

For example, applicants must provide, as applicable, documentation related to the condition, ownership, registration, and areas of operation for the vehicles or equipment to be replaced.

Source: The Commission.

For all 25 project applications from the fiscal year 2017 grant round that auditors tested, the Commission made appropriate eligibility determinations (see text box for more information about ERIG eligibility requirements). The Commission correctly determined that three of those applications were ineligible. The Commission also obtained enough documentation to determine that the other 22 projects were eligible for the grants. However, the Commission did not always obtain all documentation required by its internal policies. Specifically, even though the checklists the Commission uses to review applications indicated that all required documentation had been obtained, 10 of the eligible applications were missing certain required photographs or other

documentation. While those 10 applications had enough other documentation that allowed the Commission to determine eligibility, not obtaining all required documentation increases the risk that the Commission may not make appropriate eligibility determinations.

Recommendation

The Commission should follow its application review process to help ensure that it obtains all required documentation from applicants and completes its reviews accurately.

Management's Response

Management Response - Agree

- *The TCEQ will revise the standard operating procedures (SOP) to include all of the documentation currently required for application review.*
- *The TCEQ has implemented more new training methods to ensure all reviewers receive personalized and hands-on application review training prior to reviewing applications received under a grant round.*
- *The TCEQ has implemented more consistent quality assurance and quality control (QAQC) measures to be utilized throughout the application review process, including weekly review of database reports and issuing reminders to staff who are making errors in their review and database entry.*

Responsible Staff - Team Leader, Grant Development Team

Timeline - The revised SOPs, new review training methods, and enhanced QAQC measures are being implemented during the FY 2018 Emissions Reduction Incentive Grants (ERIG) solicitation application review period and will be fully implemented in spring, 2019.

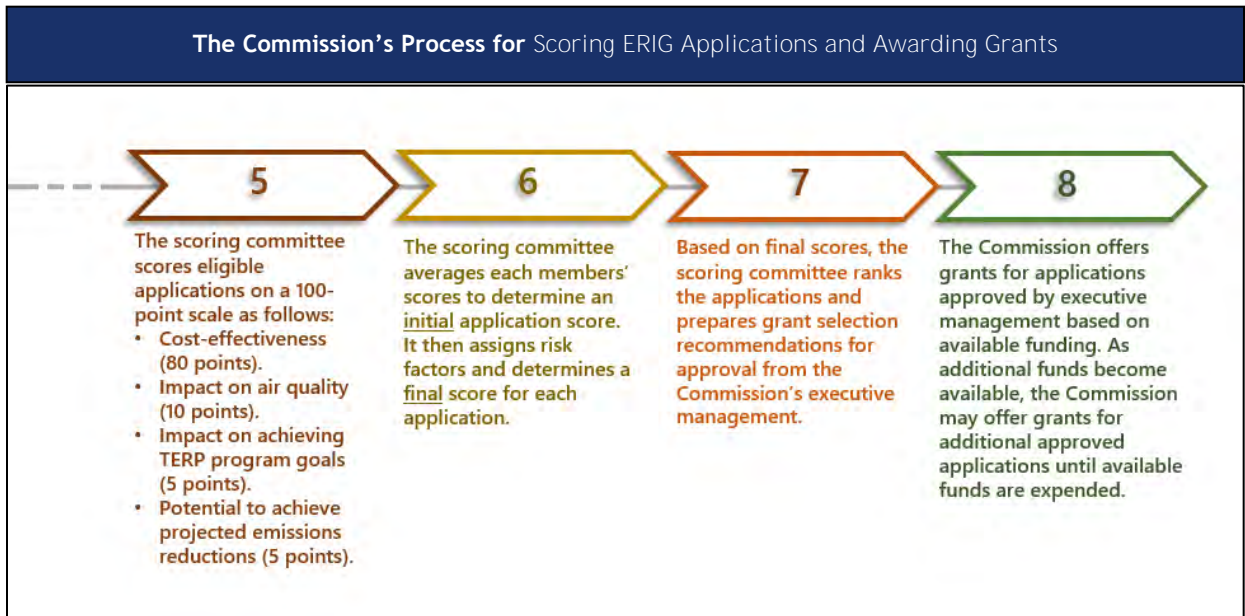
Chapter 1-B

While the Commission Had Documented Scoring and Selection Criteria, It Had Weaknesses in Its Application Review and Scoring Processes That Resulted in Scoring Errors and Awards That Did Not Meet Its Criteria

Chapter 1-B
Rating:
High ²

The Commission had documented processes and criteria for scoring applications and awarding grants (see Figure 2). For example, the Commission assesses whether there is a risk that vehicles and equipment may not be used as much as projected, and it reviews past performance on previous TERP grants. It may also perform pre-award site visits to help verify the information that applicants submit and to assess the condition of the vehicles or equipment to be replaced.

Figure 2



Source: The State Auditor's Office created this figure based on information from the Commission.

² The risk related to the issues discussed in Chapter 1-B is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

However, the Commission had systemic weaknesses in its reviewing and scoring processes because it did not ensure that it consistently and correctly applied the scoring criteria. Specifically, of 764 project applications for the fiscal year 2017 ERIG grant round, auditors identified 460 (60 percent) that the Commission did not score correctly. Examples of the identified errors included the Commission not correctly calculating initial scores due to manual errors and not assigning the correct risk factors because it did not identify applicants' past performance issues.

For nearly all of the project applications, those errors, if corrected, would not have changed the award outcome. However, the Commission incorrectly awarded grants to applicants for 4 project applications (0.6 percent of the 659 grants awarded) totaling \$345,000. The applicants for those four project applications had performance issues on previous TERP grants they received. As a result, the Commission should have determined that those project applications were "high risk" and not awarded those grants because its selection criteria specified it would not fund any high-risk projects.

In addition, auditors identified inconsistencies within and among the spreadsheets the Commission uses to track project applications, document eligibility determinations, calculate scores, and document scoring results and decisions. As a result, the information in those scoring tools did not always support the Commission's final scoring decisions and eligibility determinations. The inconsistencies contributed to the identified scoring errors discussed above.

Recommendations

The Commission should:

- Follow its criteria for assessing risks, and assign risk factors based on applicable information.
- Reconcile its scoring tools to help ensure that it calculates scores and assigns risk factors correctly.
- Document its final scoring decisions and eligibility determinations.

Management's Response

Management Response - Agree

- *The TCEQ will implement new tracking for risk and consolidate risk information and risk assessment in one location to ensure the criteria for assessing and assigning risk is based on applicable information and that the risk factors are assigned correctly and documented.*

Responsible Staff - Team Leader, Grant Development Team

Timeline - Consolidation of risk information and assessment is being implemented during the FY 2018 ERIG solicitation application review period and will be fully implemented in spring 2019.

The Commission Should Strengthen Its Processes to Ensure That Grantee-reported Usage Data Is Accurate

Chapter 2
Rating:
High ³

The Commission requires grantees to report certain usage information for grant-funded vehicles and equipment, such as the hours they operate the equipment annually in various areas of the state. The Commission captures most of the reported usage data in its TERP Data Management System (DMS). However, the Commission had weaknesses in its data entry controls that resulted in inaccurate usage information in TERP DMS, such as incorrect usage amounts, duplicate reports, and reports for overlapping usage periods. For example, auditors identified:

- Instances in which grantees reported unreasonably high usage, such as using vehicles or equipment more than 24 hours a day or amounts that significantly exceeded the standard default usage rates. Auditors identified a usage report that showed a grantee using an agricultural tractor for the equivalent of more than 288 hours per day.
- Mathematically inaccurate usage amounts. Auditors identified instances in which the sum of the three individual types of usage that grantees reported (in eligible areas, in eligible corridors, and out of eligible areas) did not equal the total usage amount they reported.
- Multiple usage reports for the same vehicle or equipment for the same usage period.

It is important that the usage data in TERP DMS is accurate because the Commission uses it to periodically evaluate and update standard default usage rates for various vehicle classes and equipment types. The Commission uses the standard default usage rates to (1) project usage for grant-funded vehicles and equipment and (2) calculate the cost-effectiveness of projects, which accounts for 80 percent of an ERIG project application's initial score. The Commission also uses standard default usage rates to help calculate and report performance measures.

³ The risk related to the issues discussed in Chapter 2 is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

Recommendations

To help ensure that standard default usage rates closely represent actual usage and that it awards grants to the most cost-effective projects and accurately reports its performance, the Commission should:

- Ensure that it enters usage data into TERP DMS correctly.
- Strengthen its processes for reviewing usage reports so that it identifies and corrects unreasonable usage data.
- Ensure that its periodic evaluations of its standard default usage rates are based on accurate data. For example, identifying and excluding inaccurate usage data from the data sets it uses to perform those evaluations.

Management's Response

Management Response - Agree

- *The TCEQ is implementing changes to the TERP DMS that includes improved reporting features for a more robust QAQC process to ensure that usage data is entered correctly and that unreasonable usage data is identified and corrected.*
- *The TCEQ will implement a process to evaluate standard default usage rates that will include a biennial analysis of historic and reported usage as provided by grantees and the data being used in applicable usage models.*

Responsible Staff - Team Leader, Monitoring Team

Timeline - Changes to TERP DMS and the process for evaluating standard default usage rates will be fully implemented in fall 2019.

The Commission Had Guidelines and Processes for Reimbursing Grantees and Approving Disposition Documentation; However, It Should Ensure That It Accurately Completes Its Disposition Reviews and Approvals

Chapter 3
Rating:
Medium ⁴

Disposition Requirements

Grantees are required to submit documentation to demonstrate that their old vehicles or equipment had been rendered permanently inoperable. Specifically, grantees must provide:

- Photographs before and after destruction. In general, these should show that the frame rails have been cut and holes (of at least 3 inches in diameter) have been drilled through the engine block.
- A Nonrepairable Vehicle Title (for on-road vehicles only).

If grantees use a salvage, recycling, or remanufacturing company, they must also provide written documentation of destruction from the company. In some cases, a grantee may submit a notarized affidavit in place of certain required documentation.

Source: The Commission.

The Commission had external guidelines and internal policies and processes in place to reimburse grantees for new vehicles or equipment and verify that grantees disposed of old vehicles or equipment. For example, in 2011, the Commission implemented a requirement for grantees to submit a

Nonrepairable Vehicle Title from the Texas Department of Motor Vehicles for on-road vehicles replaced through the TERP program. For all 28 on-road vehicles tested for that requirement, the Commission obtained a Nonrepairable Vehicle Title as required.

In addition, for all 25 reimbursements that auditors tested, the Commission reimbursed the grantees for eligible amounts in accordance with its guidelines. The Commission awards grant funds by reimbursing grantees for the new vehicles or equipment the grantees purchase. According to the Commission's guidelines, grantees are required to dispose of their old vehicles or equipment within 90 days of being reimbursed for the new vehicles or equipment to ensure that the old vehicles or equipment do not continue to operate and create emissions.

However, the Commission did not obtain all applicable required documentation for 16 (27 percent) of the 60 dispositions tested (see text box for disposition requirements). For 14 of those 16 dispositions, there was still adequate documentation to demonstrate that the old vehicle or equipment was destroyed. For the other two dispositions, the Commission did not obtain required photos of the engine serial numbers needed to verify that the correct engines were destroyed. If old vehicles or equipment remain in service, they continue to create emissions, which negates the emissions reduction benefits of the new grant-funded vehicles or equipment.

⁴ The risk related to the issues discussed in Chapter 3 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

In addition, there were inconsistencies between the guidelines the Commission provides to grantees and its internal policies and checklist it uses to review and approve disposition documentation that contributed to the Commission not obtaining all required documentation. For example, the Commission's internal policies and the disposition form that grantees are required to complete and submit to the Commission required photographs of two holes through the engine, whereas the checklist required only a single photo of the engine with one hole through the engine.

Recommendations

The Commission should:

- Ensure that its external guidelines and internal policies and checklists are consistent in describing the documentation requirements for dispositions.
- Follow its process for reviewing and approving disposition documentation.

Management's Response

Management Response - Agree

- *The TCEQ will update disposition documentation requirements on forms to ensure internal and external requirements are consistent.*
- *TCEQ will update review and approval processes to ensure the TCEQ receives clear photos of applicable equipment before approval of disposition is finalized, including through the execution of site visits to view equipment and obtain clear photos when implementing the requirement that clear photos are received up front.*

Responsible Staff - Team Leader, Monitoring Team

Timeline - Updates to disposition documentation requirements, and documentation review and approval processes will be fully implemented in fall 2019.

While the Commission Had Processes for Monitoring and Following Up With Noncompliant Grantees, It Should Strengthen Those Processes to Help Increase Compliance, Recover Grant Funds, and Track Invoices

Chapter 4
Rating:
Medium ⁵

The Commission had processes in place for monitoring and following up with grantees that failed to comply with program requirements. Those processes have helped the Commission bring grantees back into compliance or recover grant funds from noncompliant grantees (see text box for additional information).

The Commission's Implementation Grants Section invoices grantees that fail to comply with disposition, usage reporting, and other program requirements to recover grant funds. When the Implementation Grants Section has exhausted its efforts to bring grantees back into compliance or recover grant funds from them, it refers them to its General Law Division for assistance in recovering grant funds. In addition, the General Law Division determines whether a case is eligible for referral to the Office of the Attorney General (OAG).

However, the Commission should strengthen its processes for consistently following up with noncompliant grantees and tracking invoices. Specifically, the Commission should:

- Send reminders consistently and on a timely basis to grantees that do not submit required usage reports. The Commission's policy stated it should send a reminder to grantees "approximately 8 weeks" after the grantees' usage reports were due. However, for 3,633 usage reports that were overdue by more than 8 weeks as of March 5, 2018, the Commission had sent reminders only to grantees for 1,269 (35 percent) of those usage reports. For the overdue usage reports for which reminders were sent, the Commission took between 12 and 49 weeks from when those reports were due to send the reminders to the grantees.

Invoices Prepared for Noncompliant Grantees

According to the Commission's records as of March 5, 2018, it had prepared \$295.7 million in invoices for noncompliant grantees since the TERP program was implemented in 2001. Of that amount:

- The Commission did not need to recover \$205.7 million from grantees because they had returned to compliance.
- The Commission collected \$23.7 million from noncompliant grantees.
- The Commission was tracking \$66.3 million in other prepared invoices, including outstanding invoices.

Source: The Commission.

⁵ The risk related to the issues discussed in Chapter 4 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- Establish timelines for invoicing grantees and referring invoices to its General Law Division. **The Commission had not established standards for how long its Implementation Grants Section should work with grantees before initiating the invoicing process or referring invoices to the General Law Division.**
- Establish (1) timelines for processing cases referred to the General Law Division and (2) processes for monitoring the status of cases referred to the Office of the Attorney General. **The Commission had not established standards for when the General Law Division should complete additional collection efforts, such as when demand letters should be sent. In addition, the General Law Division did not have processes for monitoring the status of cases it referred to the OAG or communicating the status of those cases to the Implementation Grants Section.**
- Strengthen controls to capture accurate and sufficiently detailed invoice information. **Auditors identified inaccurate, inconsistent, and incomplete invoice records in and between the two tracking tools the Commission used to track invoices it prepared for noncompliant grantees and related cases. For example, auditors identified invoice records with missing or incorrect dates and reasons for the invoices. In addition, invoice records did not capture key information, such as assigning unique invoice numbers for each instance of noncompliance, which could help the Commission identify all instances of noncompliance.**

Having accurate and more detailed information could help the Commission better track and monitor the status of invoices, as well as grantees' performance history, which the Commission uses to assess risk when grantees apply for new grants.

Recommendations

The Commission should:

- Follow its process for sending reminders to grantees that fail to submit usage reports in a timely manner.
- Establish timelines for (1) invoicing grantees who fail to comply with program requirements, (2) referring invoices to the General Law Division, and (3) processing cases referred to the General Law Division.
- Establish processes for monitoring cases referred to the Office of the Attorney General.

- Strengthen controls to capture accurate and sufficiently detailed invoice information to allow the Commission to better track and monitor the status of invoices and grantees' performance history. This could include assigning unique invoice numbers to each instance of noncompliance.

Management's Response

Management Response - Agree

- *The TCEQ will utilize the improved reporting features included in the changes to TERP DMS to ensure that timely reminders are sent to grantees that fail to submit usage reports.*
- *The TCEQ will institute a standard deadline for the receipt of any outstanding usage reports, a standard deadline for invoicing grantees that fail to submit usage reports in a timely manner, and a standard deadline for referring invoices to the GLD.*
- *The GLD is finalizing its standard operating procedures (SOP) for processing cases, including standards for sending demand letters and time frames.*
- *The GLD's SOP for processing cases will include directions for monitoring cases referred to the OAG, such as checking in with the OAG on pending cases and communicating with the TERP program. In August 2018, the OAG moved TERP enforcement cases from the Financial Litigation and Charitable Trusts Division to the Environmental Protection Division; GLD will coordinate with the new division on timelines.*
- *The TCEQ's TERP DMS updates will include assignment of unique invoice numbers for each instance of non-compliance and an improved QAQC process. GLD's SOP will address standards for what information is entered into its database.*

Responsible Staff – Information Technology, Team Leader, Monitoring Team, and Senior Attorney, GLD

Timeline - Updates to TERP DMS to include assignment of unique invoice numbers for each instance of non-compliance were completed in Summer 2018. Updates to GLD's SOP for processing cases will be fully implemented in Fall 2018. TCEQ will institute standard deadlines for outstanding usage reports, invoicing grantees that fail to submit usage reports, and referrals to GLD by Fall of 2019.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Commission on Environmental Quality (Commission) has processes and related controls for the Texas Emissions Reduction Plan (TERP) program to help ensure that:

- TERP grant programs comply with state law, administrative rules, and Commission policies and procedures.
- Grant recipients comply with the terms of grant agreements and program guidelines.
- The Commission recovers grant funds from noncompliant grant recipients in a timely manner.

Scope

The scope of this audit covered the Commission's processes and controls for administering TERP programs from fiscal year 2016 through February of fiscal year 2018 and program data since the TERP program was implemented in fiscal year 2001.

Methodology

The audit methodology included reviewing criteria relevant to the TERP program; interviewing Commission staff; testing contract files; reviewing scoring documentation; reviewing site-visit documentation; analyzing grantee-reported usage data; and compiling and analyzing invoice data. Auditors reviewed processes and controls that were similar across multiple TERP grant programs; in some cases, auditors focused on the Emissions Reduction Incentive Grants (ERIG) and Rebate Grants programs.

Data Reliability and Completeness

Auditors assessed the reliability of the following data sets:

- Usage data and grant contracts from the TERP Data Management System (DMS).
- Invoice records from the Commission's invoice tracking spreadsheet and TERP Litigation Data Report.

- Various spreadsheets that the Commission used to administer the TERP program.

To assess the reliability of those data sets, auditors reviewed queries that the Commission used to extract the data, when applicable, and analyzed the data sets for reasonableness and completeness. Auditors identified missing, inaccurate, and inconsistent information in those data sets.

Auditors determined that the usage data from TERP DMS was not sufficiently reliable for the purposes of the audit (see Chapter 2 for a discussion of those issues). However, auditors used that usage data because it was the most complete data available.

While auditors accounted for the errors identified with the invoice records when possible, the Commission had weaknesses in its data entry controls that increased the risk of data entry errors. Therefore, there may have been additional information that appeared reasonable but was incorrect. As a result, auditors determined that the data was of undetermined reliability for the purposes of this audit. However, auditors used the data from the invoice records because it was the most complete data available.

Auditors determined that the data related to grant contracts from TERP DMS and the spreadsheets the Commission used to administer the TERP program were sufficiently reliable for purposes of the audit.

Sampling Methodology

Auditors selected the following samples:

- To assess the Commission's application review and scoring processes, auditors selected a non-statistical, random sample of 25 applications from the 831 applications the Commission tracked for the fiscal year 2017 ERIG grant round.
- Auditors selected two samples from the population of dispositions for grants for four TERP programs—ERIG, Rebate Grants, Texas Clean Fleet, and Drayage Truck Incentive—that the Commission approved from September 1, 2015, through February 14, 2018. Specifically, auditors selected the following samples to assess the Commission's processes for the review and approval of reimbursements and dispositions:
 - ♦ A non-statistical, random sample of 25 reimbursements, and
 - ♦ A non-statistical, risk-based sample of 60 dispositions.

- To compare standard default usage rates to reported historical and actual usage, auditors selected a risk-based sample of 74 ERIG activities derived from the application and disposition samples discussed above.

The sample items described above were not necessarily representative of the populations; therefore, it may not be appropriate to project the test results to the populations.

Information collected and reviewed included the following:

- Statutes, rules, guidelines, and operating procedures relevant to the TERP program.
- The Commission's Emissions Reduction Incentive Grants Request for Grant Applications Fiscal Year (FY) 2017.
- TERP program grant applications, grant contracts, requests for reimbursement, and disposition forms.
- The Commission's grant application tracking and scoring documentation.
- The Commission's pre-award and post-award site-visit documentation.
- Grant contract and usage information from TERP DMS.

Procedures and tests conducted included the following:

- Interviewed Commission staff to gain an understanding of the TERP program and the Commission's internal processes.
- Tested applications, reimbursements, and dispositions for compliance with program requirements.
- Reviewed and tested the Commission's application scoring processes.
- Analyzed ERIG and Rebate Grant program usage data. This included comparing standard default usage rates to reported historical and actual usage and evaluating the timeliness of usage reports.
- Compiled and analyzed invoice data and referral information.
- Reviewed and analyzed site-visit documentation.

Criteria used included the following:

- Texas Health and Safety Code, Chapters 386 through 395.
- Title 30, Texas Administrative Code, Chapters 14 and 114.
- The Commission's *Guidelines for Emissions Reduction Incentive Grants*.
- The Commission's workbook for grant recipients, *Just Received a TERP Grant, Now What?*
- The Commission's Standard Operating Procedures.
- The Commission's standard grant forms and instructions.

Project Information

Audit fieldwork was conducted from January 2018 through July 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Tessa Mlynar, CFE (Project Manager)
- Valerie Bogan, CFE (Assistant Project Manager)
- Scott Boston, MPAff
- Brandy Corbin
- Melissa Prompungorn
- Joseph Smith, MBA, CISA
- Robert G. Kiker, CGAP (Quality Control Reviewer)
- Courtney Ambres-Wade, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
11-012	An Audit Report on the Texas Emissions Reduction Plan Program at the Commission on Environmental Quality	December 2010

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Commission on Environmental Quality

Members of the Commission on Environmental Quality

Mr. Jon Niermann, Chair

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