



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand  
Auditor of State

NEWS RELEASE

Contact: Rob Sand  
515/281-5835  
or Annette Campbell  
515/281-5834

FOR RELEASE November 6, 2019

Auditor of State Rob Sand today released a report on a review of the Iowa Energy Center (Center) administered by Iowa State University (ISU) through September 2017 and currently administered by the Iowa Economic Development Authority (IEDA). The review covered the period July 1, 2012 through June 30, 2019. The review was conducted at the request of the Director of IEDA to provide up-to-date financial and program information to the new IEC Board and other constituents.

During the 73<sup>rd</sup> General Assembly held in 1990, the Legislature enacted legislation establishing the Iowa Energy Center at ISU in accordance with section 266.39C of the *Code of Iowa*. The Center was originally funded through a combination of an assessment on gas and electric investor-owned utilities and appropriations from the revenue bonds capital funds. While administered by ISU the Center operated the following programs:

- Grant programs, including planning, opportunity, matching, special project, and educational grants;
- the Alternative Energy Revolving Loan Program (AERLP);
- a scholarship program;
- the Biomass Energy Conversion (BECON) facility; and
- the Energy Resource Station (ERS).

In accordance with section 15.120 of the *Code of Iowa*, the Center was transferred to the Iowa Economic Development Authority (IEDA) effective October 1, 2017. The Center continues to receive funding from the assessment on gas and electric investor-owned utilities. However, the funding is currently scheduled to sunset on July 1, 2022. IEDA is also receiving repayments from loans made in accordance with the AERLP program. The Center continues to operate the grant

and AERLP programs. However, the scholarship programs and the BECON and ERS facilities were not transferred to IEDA.

Sand reported the review did not identify any instances where ISU or IEDA failed to comply with requirements established by the *Code of Iowa* using the records available. However, not all records were maintained after the Center's operations were transferred to IEDA. As a result, it was not possible to ensure all requirements were met for projects during the period reviewed.

Sand also reported under ISU's administration, the Center did not develop written policies and procedures for monitoring the grant and loan projects funded by the Center. In addition, ISU did not maintain the required start-up and annual reports required to be submitted for the loan projects which provided data that could be used to monitor the success of a project. Sand also reported it was not possible to determine if ISU monitored grant projects because the subscription to an on-line database where any documents were stored electronically was cancelled.

Sand recommended IEDA review established monitoring policies and procedures to ensure they are sufficient to evaluate the grants and loans administered by the Center.

A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON REVIEW  
OF THE  
IOWA ENERGY CENTER  
ADMINSTERED BY  
IOWA STATE UNIVERSITY  
AND THE  
IOWA ECONOMIC DEVELOPEMNT AUTHORITY**

**FOR THE PERIOD  
JULY 1, 2012 THROUGH JUNE 30, 2019**

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Rob Sand  
Auditor of State

Auditor of State's Report

To the Board of Directors of the  
Iowa Economic Development Authority  
and Deborah Durham, Director:

In conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Iowa Energy Center (Center) administered by the Iowa Economic Development Authority (IEDA) and previously administered by Iowa State University (ISU). The review covered the period July 1, 2012 through June 30, 2019. We reviewed the operations of the Center to determine compliance with applicable sections of the *Code of Iowa*, the Iowa Administrative Code (Administrative Rules), and IEDA and ISU policies and procedures. In conducting our review, we performed the following procedures:

- (1) Reviewed applicable sections of the *Code of Iowa*, Administrative Rules, ISU and IEDA policies and procedures for the Iowa Energy Center Compliance Fund and interviewed ISU and IEDA personnel who administered the Center to gain an understanding of the Center's operations.
- (2) Evaluated internal controls at ISU and IEDA to determine whether adequate policies and procedures were in place and operating effectively.
- (3) Determined if ISU and IEDA complied with the requirements established by the *Code of Iowa* for the Center's operations.
- (4) Tested selected loan and grant files to determine if the projects complied with the *Code of Iowa* and policies and procedures established by ISU.
- (5) Evaluated the Center's financial activity while administered by ISU and IEDA to identify how the funds allocated to the Center were expended and if the expenses were in accordance with the requirements of the programs administered under the Center.

Using the records available, we did not identify any instances where ISU or IEDA failed to comply with requirements established by the *Code of Iowa* while operating the Center; however, not all records were maintained after the Center's operations were transferred to IEDA. As a result, we are unable to ensure all requirements were met for projects during the period of our review.

We identified findings regarding the monitoring of the grant and loan programs. The findings should be considered by members of the Iowa Economic Development Authority Board and the Iowa Energy Center Board.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, other matters might have come to our attention which would have been reported to you.

We would like to acknowledge the assistance extended to us by the officials and personnel of the Iowa Economic Development Authority and Iowa State University during the course of our review.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and "S".

Rob Sand  
Auditor of State

October 30, 2019

## Introduction

From 1990 through September 2017, Iowa State University (ISU) administered the Iowa Energy Center (Center). In accordance with section 15.120 of the *Code of Iowa (Code)*, the Center was transferred to the Iowa Economic Development Authority (IEDA) effective October 1, 2017. The Director of IEDA subsequently requested the Office of Auditor of State perform a review of the Center, the Biomass Energy Conversion facility (BECON) located in Nevada, Iowa, and the Energy Research Station facility located on the Des Moines Area Community College Campus in Ankeny, Iowa.

### IOWA ENERGY CENTER (CENTER) ADMINISTERED BY ISU

**Establishment** – During the 73<sup>rd</sup> General Assembly, the Legislature enacted legislation establishing the Center at ISU in accordance with section 266.39C of the *Code of Iowa*. In accordance with section 266.39C, which was effective until September 30, 2017, the Center was to:

- Increase energy efficiency in all areas of Iowa energy use.
- Serve as a model for state efforts to decrease dependence on imported fuels and to decrease reliance on energy production from nonrenewable, resource-depleting fuels.
- Conduct and sponsor research on energy efficiency and conservation that will improve the environmental, social, and economic well-being of Iowans, minimize the environmental impact on existing energy production and consumption, and reduce the need to add new power plants.
- Assist Iowans in assessing technology related to energy efficiency and alternative energy production systems and support educational and demonstration programs that encourage implementation of energy efficiency and alternative energy production systems.
- Conduct and sponsor research to develop alternative energy systems that are based upon renewable sources and that will reduce the negative environmental and economic impact of energy production systems.
- Develop a program to provide assistance to rural residents for energy efficiency efforts.
- Cooperate with the state board of education in developing a curriculum which promotes energy efficiency and conservation.

Section 266.39C of the *Code* established an Advisory Council (Council) for the Center. The Council was responsible for advising the director in the development of budgets, on the policies and procedures of the center, in the funding of research grant proposals, and regarding program planning and review. The 13-person Council consisted of the following members:

- One person from the Iowa State University of Science and Technology, appointed by its President;
- One person from the University of Iowa, appointed by its President;
- One person from the University of Northern Iowa, appointed by its President;
- One representative of private colleges and universities within the state, to be nominated by the Iowa Association of Independent Colleges and Universities and appointed by the Iowa Coordinating Council for Post-High School Education;
- One representative of community colleges, appointed by the State Board for Community Colleges;
- One representative of the Energy and Geological Resources Division of the Department of Natural Resources, appointed by the Director;

- One representative of the Department of Transportation, appointed by the Director;
- One representative of the Office of Consumer Advocate, appointed by the Consumer Advocate;
- One representative of the Utilities Board, appointed by the Utilities Board;
- One representative of the rural electric cooperatives, appointed by the governing body of the Iowa Association of Electric Cooperatives;
- One representative of municipal utilities, appointed by the governing body of the Iowa Association of Municipal Utilities; and
- Two representatives from investor-owned utilities, one representing gas utilities, appointed by the Iowa Utility Association, and one representing electric utilities, appointed by the Iowa Utility Association.

The Center’s Director, who was appointed by the President of Iowa State University of Science and Technology, administered and supervised the Center’s operations. The Center also employed Program Managers, Program Coordinators, a Fiscal and Operational Manager, and other personnel to operate the Center and administer various programs. In accordance with section 266.39C of the *Code*, the Center’s Director and staff were ISU employees.

None of the Center’s employees moved to IEDA when the Center’s operations were transferred in October 2017 and none of the Center’s program managers are still employed by ISU. Some positions were eliminated after responsibility for the Center was transferred to IEDA. Others employed by the Center moved to other positions within ISU but have since left ISU’s employment. As a result, we were unable to discuss the Center’s operations with staff who were responsible for the Center’s operations and programs prior to October 2017. However, information regarding the Center’s operations while at ISU was obtained from ISU legal counsel and accounting staff.

**Funding** – Chapter 476 of the *Code of Iowa*, Public Utility Regulation, includes a section related to the Center’s funding. Specifically, section 476.10A directs all gas and electric utilities remit 0.1% of total gross operating revenues derived from their intrastate public utility operations to the Treasurer of State. Of the gross amount remitted to the Treasurer, 85% is to be appropriated to the Center. The annual assessment is collected by the Iowa Utilities Board (IUB) and remitted to the Center. **Table 1** lists the annual assessment collections remitted to the Center, which averaged approximately \$4 million.

**Table 1**

<b>Fiscal Year</b>	<b>Amount</b>
2012	\$ 3,891,543
2013	3,887,247
2014	3,767,307
2015	4,148,425
2016	4,384,840
2017	4,123,150
2018~	4,233,903
2019	4,459,032
Total	<u>\$ 32,895,447</u>

~ The Center was moved from ISU to IEDA effective 10/01/17.

In addition to the funds transferred from the Iowa Utilities Board, the Center also received revenue from user fees at the Biomass Energy Conversion (BECON) facility in Nevada, Iowa, and the Energy Resource Station (ERS) in Ankeny, Iowa. The fees collected were used to offset the operating expenditures of these facilities. The Center also received interest earned on unspent funds. In

addition, the Center was allowed to solicit additional grants and funding from public and private nonprofit agencies and foundations.

Funds appropriated to and received by the Center were to be used to operate the BECON and ERS research facilities and sponsor research grants and projects submitted by Iowa colleges and universities and nonprofit agencies and foundations. In addition to grants, the Center also awarded loans and scholarships. Funds appropriated to or received by the Center were also used for salaries and benefits paid to the Center's employees.

Each program administered by the Center is discussed in the following sections.

### **Alternate Energy Revolving Loan Program (AERLP)**

During the 1996 76<sup>th</sup> General Assembly, the Legislature created the Alternate Energy Revolving Loan Program (AERLP) to be administered and managed by the Center. The program was created to encourage development of alternate energy production facilities or small hydro facilities within the state. In accordance with the original legislation, the Center was authorized to award zero-interest loans not exceeding \$250,000 to a facility. The terms of the loan were required to include repayment during a period not exceed 20 years. Subsequent changes in the legislation increased the maximum loan amount to \$1 million.

According to ISU's AERLP Handbook, the program was funded through rates charged by gas and electric investor owned utilities through a three-year assessment during calendar years 1995 through 1997. The Center received approximately \$5.9 million for the program over the 3-year period.

During 2010, \$5 million was appropriated to the program in accordance with Senate File 376. An additional \$5 million was appropriated to the program during 2011 in accordance with Senate File 477. With no additional appropriated revenue, the amount of money available for loans at any given time is a function of the rate of loan repayment.

Initially, funding was not provided for the administration of the program. However, the establishing legislation was amended in 2002 to permit up to one-half of the accrued interest income on unobligated loan funds to be spent for program promotion and administration.

While the legislation establishing the Center does not require a lender match, the AERLP program has required a minimum match of 50% from a lender for an extended period. When we asked ISU officials about the match, they were unable to find any documentation which expressly addressed the development of the match. However, ISU officials referred to the "notice to lenders" which states "after consulting with members of the lending community and the Iowa Banker's Association, a cooperative loan program was developed that takes advantage of the Energy Center's technical expertise and the lending expertise of Iowa's lenders." Because the ISU officials we spoke with were not employed by ISU at the time the match was implemented, they were unable to provide any information regarding the development of the match.

The Center's portion of the loan is a zero-percent interest loan up to a maximum of \$1 million with a maximum term of 20 years. The lender manages the entire loan and arranges repayment of the AERLP share to the Center, which is deposited back into the program fund and can be used to award new loans.

The AERLP program allows any individual or organization to apply for a loan. However, the *Code* prohibits gas and electric utilities that are not required to be rate-regulated from receiving financing from the assessment fees. Although, customers of those utilities are eligible. Utilities that are not required to be rate-regulated are eligible to receive financing through the funding appropriated to ISU by SF376 and SF477. The borrower does not need to be an Iowa citizen or be located in Iowa; however, the alternate energy production facility must be physically located in Iowa.

## **Grant Programs**

The Center's grant program supports work by Iowa organizations that further the mission of the Center. Objectives include helping Iowa organizations be more successful in attracting external funding that supports projects related to energy research, technology development, demonstration, deployment, education, workforce development, and community development. The grant programs are described in the following paragraphs.

- Planning Grants – provide funding to help applicants prepare proposals for major federal, nonprofit, or private-sector solicitations. The Center does not provide funding for proposals for conducting education or training events, conferences, seminars, and similar types of activities that are not directly related to the development of a response to an external funding opportunity.
- Opportunity Grants – provide funding for near-term projects which enable researchers to be more competitive in response to a solicitation. A grant award of this nature would fund proof-of-concept tests, early experimentation, economic viability analyses, piloting, preliminary studies, and similar efforts necessary to enhance a proposal targeting a known or likely external funding opportunity.
- Matching Grants – provide funding in order to help organizations to meet matching or cost-sharing requirements for funding opportunities in response to federal, nonprofit, or private-sector solicitations. The goal of these grants is to attract new funding to the State of Iowa. Matching grant funds are not intended to maintain or supplement current, ongoing, or newly funded operations or programs of applicants. Matching funds may be approved for externally sponsored projects when either a cost share or matching funds are required by the sponsor or a cost share or matching funds are recommended and rewarded by the sponsor.
- Special Project Grants support activities that do not readily fit within other Center grant programs. Generally, the Center accepts special project grant proposals which include public education activities that provide high impact and statewide value, including events, publications, web development, studies, workshops, and technology demonstrations.
- Education grants seek to provide Iowa students and adult learners with practical and credible energy education that contributes to the environmental, social and economic well-being of Iowans. Generally, the Center funds education grant proposals that create curriculum development and online adaptation, instructional design, supporting workshops and promotional materials and independent education evaluation.

Organizations eligible to apply for and receive grant funding include Iowa educational institutions and Iowa-registered private nonprofit organizations and foundations. The Center does not provide funding directly to individuals; for-profit entities; or state, county or local governmental entities, unless they are partners in the work conducted by an eligible grant recipient.

## **Scholarship Program**

According to the Center's Scholarship Handbook, the scholarship program "was designed to inspire the next generation to engage in our energy future and, in so doing, to advance the environmental, social, and economic well-being of Iowans through improved energy efficiency measures and alternative energy technology."

According to the handbook, the Center targeted \$20,000 for Scholarship awards for a given year and awarded scholarship funds directly to the college of the student's choice. The scholarships had three award levels, \$7,500, \$5,000, and \$2,500, or at the discretion of the judges and were selected based on the quality of the research project. Students could win more than one Youth and Energy Scholarship, but the amount of the awards per student could not exceed \$15,000."

Scholarships were provided to students who participated in the State Science and Technology Fair of Iowa (SSTFI) and presented information on research in energy efficiency or renewable energy. The scholarships were awarded to help defray the cost of attending accredited educational institutions. Scholarships were awarded based on the quality of the research project. If a winning project team included more than one member, each student in the team received a full scholarship at the amount awarded by the judges.

### **Biomass Energy Conversion Facility (BECON)**

The Center's Biomass Energy Conversion (BECON) facility, located in Nevada, Iowa, supported innovative and collaborative biomass projects. The BECON facility provided a platform for researchers to turn promising ideas into commercial-scale biomass conversion units. It was open to researchers from all of Iowa's colleges, universities, and non-profit organizations from the private sector. Key benefits of the BECON facility included:

- Increasing exposure to potential investors, funding agencies, and legislators to witness pre-commercial technologies being refined firsthand;
- Demonstrating full-scale biomass conversion technologies, increasing adoption and commercialization; and
- Strengthening Iowa's economy by actively leading discussions and sharing technologies across Iowa and around the world.

### **Energy Resource Station (ERS)**

The Center's Energy Resource Station (ERS), located in Ankeny Iowa, was designed to simultaneously test and demonstrate multiple, full-scale commercial building heating, ventilating, and air conditioning (HVAC) systems. The facility allowed for real-world demonstrations of HVAC equipment and control systems, as well as training opportunities related to energy efficiency. Research projects conducted at ERS were part of the Center's applied research portfolio and often involved collaborations with national energy laboratories, universities, and industry leaders. Key objectives of the ERS included:

- Cost and energy savings for commercial, industrial, and residential buildings;
- Increased energy efficiency, boosting Iowa's economy and reducing energy dollars leaving the state; and
- Establishing unbiased product performance information for businesses and homeowners to make more informed investments.

### **IOWA ENERGY CENTER ADMINISTERED BY IEDA**

During the 2017 General Assembly, legislation was passed which moved the Center to the IEDA effective October 1, 2017. As part of the legislation, section 15.120 of the *Code* was added to Chapter 15, Economic Development Authority. As established by the newly created *Code* section, the Center's objectives were revised as follows:

- To expand workforce and career opportunities for workers in the energy sector to ensure that the state is able to attract and train professionals to meet the state's future energy needs;
- To support technology-based development by encouraging public-private partnerships and innovative manufacturers to develop and bring to market new energy technologies;
- To support rural and underserved areas and vulnerable populations by creating opportunities for greater access to energy efficiency expertise, training, programs, and cyber security preparedness for small utilities;

- To support the expansion of natural gas infrastructure to rural and underserved areas of the state where the absence is a limiting factor to economic development;
- To promote and fund research, development, and commercialization of biomass technology to benefit the state economically and environmentally by further realizing the value-added attributes of biomass in the development of bioenergy, biofuels, and biochemical;
- To encourage growth of the alternative fuel vehicle market, particularly for electric vehicles, and the infrastructure necessary to support the market; and
- To support efforts to modernize the electric grid infrastructure of the state to support increased capacity and new technologies.

IEDA staff have developed their own handbooks for the AERLP and grants programs. IEDA is continuing to administer the AERLP program in accordance with Section 476.46 of the *Code* and has not made any significant changes to the administration of the program.

IEDA developed a new handbook for the grant program. The program no longer includes the 5 types of grants listed in ISU's grant handbook. In accordance with IEDA's handbook, a project must meet 1 of the 7 key focus areas of the Iowa Energy Plan. IEDA's handbook states eligible applicants included Iowa businesses, colleges and universities, and private nonprofit agencies and foundations. The handbook also states IEC grant eligibility requirements include, but are not limited to, the following criteria.

- Applicants shall demonstrate a benefit for ratepayers.
- Applicants shall demonstrate they are eligible candidates.
- Applicants shall demonstrate the capacity for grant administration.
- Applicants who have previously received IEC awards have demonstrated acceptable past performance, including timely expenditure of funds.
- Applicants shall demonstrate the feasibility of completing the proposed activities with the funds requested.
- Applicants shall identify and describe any other sources of funding for the proposed activities.

When the responsibility for administration of the Center was transferred to IEDA, the legislation did not include the transfer of the BECON or ERS facilities. BECON continues to be operated by ISU and is conducting Biomass research. The ERS facility was leased from Des Moines Area Community College (DMACC) and ISU and DMACC agreed to end the lease when the Center was moved to IEDA.

In addition, the new legislation did not provide for the continuation of the scholarship program. Prior to the Center being transferred to IEDA, ISU had awarded 5 scholarships totaling \$17,000.00 which had not been issued as of October 1, 2017. IEDA was provided the names, amount, and the academic year the recipient would enter college as a freshman. As the new administrators of the Center, IEDA will issue the scholarships awarded by ISU. However, no new scholarships will be issued by the Center under IEDA's administration.

IEDA adopted administrative rules, which became effective March 6, 2019, related to administering the Center and the related grant and loan programs. Prior to adopting the administrative rules, IEDA did not award any new grants or loans.

The funding from the Iowa Utilities Board is currently expected to sunset on July 1, 2022 in accordance with section 15.120 of the *Code*. Funds received by IEDA from the repayment of the loans may still be used to issue new loans in accordance with the requirements established by the *Code*.

## Objectives, Scope and Methodology

Our review was conducted to determine whether:

- The Center administered the grant program and AERLP in accordance with applicable laws and the Center's policies, procedures, and internal controls.
- The Center sufficiently monitored the grant program and AERLP to ensure grant and loan recipients completed and maintained projects in accordance with the project agreements, applicable laws and Center policies.
- The Center evaluated the success of the grant program and AERLP and determined the benefit to the State.
- Funding received by the Center was used for the Center's operations in an efficient and effective manner.
- Required reports were submitted by the Center.

To gain an understanding of the Center we:

- Reviewed applicable sections of the *Code of Iowa*,
- Reviewed policies and procedures related to the Center's operations during the period it was administered by ISU and IEDA.
- Interviewed IEDA and ISU personnel to obtain an understanding of established policies and procedures for administering the Center and its programs, including the application, awarding, contracting, monitoring, reporting, and close-out process for projects awarded financial assistance under the programs.
- Evaluated internal controls at IEDA and ISU to determine whether adequate policies and procedures were in place and operating effectively.
- Evaluated active grants and selected AERLP projects to determine compliance with applicable laws, administrative rules, and IEDA and ISU policies and procedures.
- Determined if the Center monitored selected AERLP projects.
- Summarized and analyzed the Center's financial activity for fiscal years 2015 through 2019.
- Reviewed the Center's annual reports to determine compliance with the *Code*.
- Determined whether the Center performed program evaluations for the grant and AERLP programs to determine the success and benefits realized by the State.

## Project Administration

As previously stated, the Center was transferred to IEDA effective October 1, 2017. The BECON, ERS and scholarship programs were not included in the new legislation and as a result did not transfer to IEDA. IEDA subsequently developed administrative rules for the Center's operations and the grant and loan programs.

We reviewed the handbooks developed by ISU and the administrative rules developed by IEDA to administer the grant and loan programs. The handbooks and administrative rules complied with the requirements established by the *Code of Iowa* for the Center at the time it was administered by ISU and IEDA, respectively. The following paragraphs describe the administration of the Center's programs by ISU and IEDA.

## **Loan Program Administration – AERLP**

As previously stated, the Center administers the Alternate Energy Revolving Loan Program (AERLP). AERLP funds may be used for the development of alternate energy production facilities or small hydro facilities within the State. Financial assistance is provided in the form of a zero-interest loans for the Center's share of the total loan package.

**Funding** – As previously stated, AERLP was originally funded through a combination of an assessment on gas and electric investor-owned utilities and appropriations from revenue bonds capital funds during fiscal years 2010 and 2011. In addition, legislation passed in 2002 allowed the Center to keep any accrued interest and use it for the administration of the program. As repayments are received on the loans, the repayments are deposited in the AERLP fund to be used to make additional loans.

Section 476.47(e)(3) of the *Code* requires interest earned on the fund be deposited in the fund and up to 50% of the total interest accrued, shall be used for promotion and administration of the fund. Based on financial reports from ISU, the interest earned on the fund was properly recorded in the Assessment Control Accounts and the portion earned on the AERLP balance is allocated to the AERLP program.

**Eligibility** – Eligible recipients include any unit of local government, public or private group, business, or individual. In accordance with section 476.46 of the *Code*, gas and electric utilities that are not required to be rate-regulated were not initially eligible for funding. However, with the passage of Senate File 376 in 2010 and Senate File 477 in 2011, gas and electric utilities that are not required to be rate-regulated are now allowed access to funding provided by appropriations received in those years.

Borrowers do not need to be Iowa citizens or located in Iowa; however, the alternate energy production facility (facility) must be physically located in Iowa. Section 476.42 of the *Code* defines a qualified facility as solar, wind turbine, waste management, resource recovery, refuse-derived fuel, agricultural crops or residues, or wood burning.

Facilities receiving funding in accordance with section 476.46 of the *Code*, are limited to \$1 million of outstanding loans at any time. Those same limitations apply under Senate Files 376 and 477, with the exception that gas and electric utilities not required to be rate-regulated are limited to a maximum of \$500,000 per application and are limited to one loan every two years. The only project which received a \$1 million loan was a 2.5MW (MegaWatt) wind turbine project at Kirkwood Community College.

Based on a review of the loan files for 40 projects, we determined eligibility requirements were met.

**Application and Award Process** – The Center, in consultation with Iowa's investor-owned utilities, lending community, and other key stakeholders, established proposal application and guidelines (AERLP Handbook) for administration of the program.

To be considered for an AERLP loan, those seeking financing must complete and submit a Technical Loan Application (technical application) to the Center. The purpose of the technical application form is to provide the Center with sufficient information about the project, including the general cost of construction, operation, and maintenance as well as the energy production of the project.

In addition to the technical application form, applicants are expected to provide supporting documentation about the facility, including manufacturer-provided specifications, utility bills, the source of data used to estimate energy to be produced, and, where applicable, evidence that the gas or electric utility provider for the facility site will consider providing a utility interconnection agreement.

According to the handbook, the application cycles established by the Center operate on a quarterly basis which helped with efficient review of applications and management of available AERLP funds. However, applications seeking \$25,000 or less of AERLP funds are reviewed as soon as possible after receipt. Applications seeking more than \$25,000 of AERLP funds are reviewed along with all similar applications received on or before the close of the current cycle.

Applications are screened by the Center’s Program Manager to ensure all required information is provided on the application forms, supporting documentation is included, and the application is signed. The application is then reviewed for technical feasibility. The technical feasibility review includes planned site layout, equipment, facility operations, expected energy generation, expected maintenance, and expected project value of project benefits. Finally, based on information provided in the application, the simple project payback for the project is calculated.

For projects requesting \$25,000 or less, decisions are made on a first-come, first-served basis. For projects requesting \$25,000 or more, the funding requested by all applications which meet the Center’s criteria for completeness and technical feasibility is totaled. If total AERLP funds available exceeds the total amount requested, the application cycle is considered non-competitive and the Program Manager is given discretion to determine which projects will be funded. However, if the total amount requested exceeds the amount of AERLP funds available, the application cycle is deemed competitive and projects are selected to receive funding based on application rankings.

When the pool of technically feasible projects exceeding \$25,000 are reviewed for award each quarter, the projects are listed from shortest to longest loan term. The Project Manager calculates a running total based on the amount the projects’ request and determines the point where the cumulative requests exceed the available funding. In general, all requests above this point will be selected and those below will be declined. When ties exist based on loan term requested at the funding-availability threshold, the Program Manager ranks those ties in ascending order based on the secondary ranking criterion, simple project payback. Those projects with a shorter calculated simple payback period up to the funding threshold are selected.

**Table 2** summarizes the number of projects and the funding awarded during fiscal years 1997 through 2017. As of July 2019, IEDA had not issued any new AERLP loans.

<b>Fiscal Year</b>	<b>Quantity</b>	<b>Loan Amount</b>	<b>Fiscal Year</b>	<b>Quantity</b>	<b>Loan Amount</b>
1997	4	\$ 755,034	2008	6	\$ 308,911
1998	4	764,023	2009	10	623,812
1999	3	303,858	2010	39	3,696,828
2001	3	273,020	2011	32	3,055,629
2002	8	1,178,500	2012	32	9,052,243
2003	9	1,544,244	2013	21	1,589,900
2004	6	854,683	2014	51	3,785,080
2005	8	673,247	2015	95	6,759,633
2006	6	113,982	2016	69	4,238,738
2007	22	3,876,045	2017	56	3,405,152
			Total	484	\$ 46,852,562

Successful applicants are notified by mail after the Center completes its ranking and selection process. The letter outlines the responsibilities of the applicant for completing the loan approval process and identifies any contingencies that must be met before the Center will provide financing. An example of a common contingency is for the applicant to provide to the Center a copy of its fully executed utility interconnection agreement.

The letter also reports the applicant's lender has been notified the Center selected the project for AERLP financing and instructs the applicant to begin working with its lender to complete the financing application, loan origination, and loan closing. Included with the letter is an owner agreement which must be signed and returned to the Center prior to the release of AERLP funding to the applicant's lender. The owner agreement contains a set of certification and requirements which include:

- The applicant's obligation to construct and operate the facility in a reasonable time frame or to repay the AERLP funds in full on demand;
- The applicant's obligation to submit a startup report and annual reports for as long as the loan is in repayment; and
- The applicant's obligation to allow the Center's representatives to inspect the facility and, within reason, to allow others to visit the facility.

The applicant's lender is notified that the Center has technically qualified the project and provides details on total expected cost of the project, amount of the AERLP funds the Center is willing to finance, and the minimum size of the entire loan package. The lender is also provided with the deadline for loan closing.

The letter to the lender also explains the allowable loan structures and the Center's intent to purchase up to 50% of the loan through a participation agreement. The lender is informed the AERLP share must be loaned at 0% interest and the lender is required to originate and service the entire loan and remit the AERLP share back to the Center.

The letter to the lender includes several documents related to the technical application, the loan program guidelines and applicable legislation, and guidance specific to lenders on the means by which the AERLP is administered. The lender is also provided an applicant-specific participation agreement and a master loan agreement to serve as templates for the final loan documents.

After obtaining the lender's commitment to work with the AERLP, electronic copies of the participation agreement, master loan agreement, request for routing instructions, and a lender checklist are sent to the loan officer. The loan officer is asked to provide the Center with draft copies of the promissory notes, security/collateral agreements, completed participation agreement, completed master loan agreement, and routing instructions.

The Center's Contract Coordinator reviews the loan documents for completion, consistency, and compliance with AERLP legislation. If no issues arise, the lender is asked to sign and notarize the participation agreement and send it to the Center. If issues arise, the Coordinator and lender worked cooperatively to resolve the issues.

**Transfer of Funds** – When the Center receives the owner agreement signed by the applicant, the participation agreement signed by the lender, and when all other contingencies are met, the Center's Director reviews the agreements and signs them on behalf of the Center. The owner agreement and participation agreement are sent to IEDA and were previously sent to ISU's Senior Vice President of Business and Finance for execution on behalf of ISU.

Following loan closing, the lender is directed to provide the Center with copies of all signed loan documents and amortization schedules for the lender's share of the loan. An original signed copy of the participation agreement is sent to the lender along with instructions for remitting payments to the Center.

**Loan Repayment** – It is the responsibility of the borrower to remit scheduled payments to the lender that issued the loan. Under the terms of the program, the lender was to remit the Center’s share of the payment to ISU. When responsibility for the AERLP was transferred to IEDA, a letter was sent to all active loan recipients and banks informing them payments were to be remitted to IEDA.

Currently, IEDA tracks the status of the loan, loan repayments, and the outstanding balance in their loan database. At the request of IEDA, we confirmed all loans outstanding as of December 31, 2018. Of the 332 confirmations sent, 27 were returned noting a variance between the amount in the database and the balance outstanding per the bank. Based on the documentation attached to the confirmation by the banks, the variance was the result of payments made which had not yet been received by IEDA from the lender.

**Reporting** – The owner agreement signed by the applicant sets forth reporting requirements in effect while the project’s loan is in repayment. Borrowers are required to submit a start-up report and annual reports for the duration of the financing.

The start-up report is to document the actual construction of the facility and provides information on the final cost for comparison with the estimated cost provided in the technical application and to document any significant issues associated with the project development. The start-up report is due within 30 days after the facility begins to generate energy for sale or for consumption by the owner. We reviewed 50 active loan projects to determine if the start-up report had been filed. Of the 50 projects reviewed, only 22 had a start-up report included in the project file.

The annual report enables the Center to document continued operation of the facility and to obtain data that can be used by the Center to develop case studies to assist others that are developing similar projects. The first annual report is due one year from the date of the start-up report and annually thereafter for the term of the loan. We tested 50 active loan project files to determine if any annual reports were included in the project files. Each of the 50 project files tested should have had at least one annual report and in many cases, should have had multiple annual reports in the project file. However, we determined only 9 project files included one or more annual reports.

Annual reports should include the actual monthly and annual energy production and associated cost savings, the operation and maintenance costs of the project (including reasons for both scheduled and unscheduled downtime), and statistics on the availability of the alternative energy production facility. The reports should also contain a summary of the owner’s general assessment of the system, including the benefits and problems associated with the system. As previously stated, only 9 projects included an annual report. The annual report(s) for these 9 projects contained the information required by AERLP.

**Closeout** – When a loan is paid off in full, the Center sends the lender an acknowledgement letter and requests the lender confirm the borrower has satisfied all requirements for the loan and there are no on-going or unresolved issues associated with the loan. The Center also sends a letter to the owner of the facility acknowledging the loan is paid in full and releasing the owner of any further reporting obligations to the Center.

We reviewed 20 closed project files and determined the 20 files included a letter to the owner of the facility acknowledging the loan was paid in full and releasing the owner of any further reporting obligations to the Center.

**Loan Files** – Loan files are retained for all AERLP projects to demonstrate compliance with the requirements of the AERLP program. The project files contain documents such as:

- Application screening form;
- Signed technical application;
- Signed owner agreement;

- Signed participation agreement;
- Signed contract;
- Master loan agreement and amortization schedules; and
- Start-up and annual reports as applicable.

**Loan File Testing** – The database transferred to IEDA effective October 1, 2017 included 483 loans totaling \$46,250,181.74. Of the 483 loans, there were 322 active loans totaling \$26,290,919.94, 150 loans totaling \$17,719,044.80 which had been completed and closed, and 11 loans totaling \$2,240,217.00 which were in default.

We selected loan files consisting of active, closed, and defaulted loans to determine compliance with requirements established by the *Code of Iowa* and policies and procedures established by the Center and ISU. The files were selected from the Center’s AERLP listings for fiscal years 1997 through 2017.

Based on the review of 40 active loan files, we determined the Center maintained documentation demonstrating the project complied with the requirements of the AERLP program including eligibility, applications, and funding requirements. However, the “Iowa Energy Center Use only” section of the 40 applications reviewed was not completed. This section of the application included a check box showing if the loan was recommended or denied, and the reviewers initial and date. While this section was not completed, based on the other support in the file, such as letters, signed agreements, and the completed checklist, the Center, complied with its policies and procedures.

We also reviewed 20 closed projects and determined 17 of the 20 closed projects did not include a final report from the borrower. For these 17 projects, ISU submitted a follow-up request after the project was completed; however, a final report was not filed.

As previously stated, 11 projects were reported as in default. Based on the information in IEDA’s database, 6 of these projects went into bankruptcy, 2 stopped making payments in July 2009, 1 stopped making payments in May 2012, and 2 were misclassified by IEDA as in default when the companies were current on their loan repayments.

As of October 2, 2019, IEDA has not issued any new loans. According to IEDA staff, new loans could not be issued until the administrative rules were approved. The administrative rules were approved and effective March 6, 2019.

**Project Monitoring** – Requirements established by the *Code of Iowa* for the program do not specify the Center is to perform monitoring of the projects. Although not specifically required by the *Code*, monitoring is an integral part of administering any program to ensure projects comply with program requirements throughout all phases of the project.

On-site monitoring helps ensure loan recipients complete projects in accordance with the AERLP agreements, applicable sections of the *Code*, the Center’s AERLP rules, and ISU guidelines. In addition, on-site monitoring allows the Center an opportunity to observe and document the impacts of the projects on the surrounding communities, if the funds were properly used, and if the project is meeting its objectives.

According to an ISU representative, the Center used an informal on-site monitoring process. The informal on-site monitoring was performed by the Program Manager. ISU officials we spoke with stated they believe the informal process included trips to various locations to observe the project and see how it was performing. We reviewed selected loan files transferred to IEDA and were able to observe pictures of the projects after it they had been completed. Some files had copies of annual and closeout reports. We also observe travel claims and supporting documents included in the ISU accounting system showing the Project Manager traveled to various project locations.

## Program Administration – Grants

Prior to the passage of Senate File 513 in 2017, which transferred authority for the Center from ISU to IEDA, established procedures for administration of the grant programs were maintained by ISU and the Center. These requirements were included in the grant handbook which was available to applicants through the Center’s website.

As previously stated, there were 5 grant programs when the Center was administered by ISU. According to the grant handbook, the Center’s grant programs support the efforts of Iowa organizations that further the Center’s mission. One of the objectives of the grant program is to help organizations be more successful in attracting external funding which supports projects related to energy research, technology development, demonstration, deployment, education, workforce development, and community development.

**Expenditures** – Center expenditures were recorded in ISU’s accounting system. **Table 3** summarizes the grant program expenditures reported in the Center’s annual report for fiscal years 2014 through 2017.

**Table 3**

Grant Type	Fiscal Year Ended June 30				Total
	2014	2015	2016	2017	
Planning	\$ 10,538	13,343	13,372	917	38,170
Opportunity	99,897	347,719	570,132	635,674	1,653,422
Matching	2,410	243,250	50,126	177,696	473,482
Education	-	-	-	-	-
Special Project	-	-	43,520	35,997	79,517
Legacy	1,330,745	1,592,351	864,866	100,185	3,888,147
Total	\$ 1,443,590	2,196,663	1,542,016	950,469	6,132,738

**Grant Eligibility** – Organizations eligible to receive grants from the Center include Iowa educational institutions and Iowa-registered private-nonprofit organizations and foundations. The Center does not award grants to individuals, for-profit entities, or state, county, and local government entities. However, these groups may be partners in the work conducted by an eligible grant recipient.

**Application and Award Process** – The Center accepts grant proposals throughout the fiscal year. Proposals were required to be submitted electronically through the Center’s grant management system. An acknowledgement of proposal receipt and the Center’s intent to review was automatically generated and sent to the applicants.

The Center’s Grant Coordinator evaluated the eligibility of each applicant and informed the Director of any concerns. If no concerns were identified, a Project Manager was assigned. All proposals were required to be consistent with the Center’s mission to advance the environmental, social, and economic well-being through improved energy efficiency measures. Proposals accepted for review were evaluated by Center staff according to the criteria for each grant. The criteria were included in the grant handbook available on the Center’s website.

**Grant Files** –The Center maintained grant files for all projects on-line in a cloud-based grant management system for which they paid a subscription (SmartSimple). The information in the system included the following documents.

- application packet,
- full proposal,

- budget,
- principal investigator resume,
- signed contract, and
- final report.

Prior to our review, pertinent information and files related to currently active grants were transferred from the SmartSimple database to the State of Iowa grant management website, IowaGrants.gov. Subsequently, the SmartSimple subscription was cancelled by IEDA. However, SmartSimple was able to recover information regarding project status, organization, project name, open date, and close date which was provided to IEDA after we requested the information. Because IEDA cancelled the SmartSimple subscription, we are unable to determine if additional supporting documentation would have been available for the active grants. We are also unable to review supporting documentation for grants closed prior to the Center’s transfer to IEDA.

In addition, we cannot verify the data provide by SmartSimple is a complete population of all grant applications received and/or awarded by the Center prior to its transfer to IEDA. As previously started, IEDA downloaded information for only the 23 active grants when the subscription was cancelled.

Based on a review of the information from the recovered data files provided by SmartSimple, there were 1,597 grant applications submitted from 178 organizations from April 1992 through September 2017. **Table 4** summarizes the grant applications submitted and awarded by type of organization.

**Table 4**

Type of Organization	Applications Submitted		Grants Awarded		Awarded as Percent of Submitted
	Quantity	Percent	Quantity	Percent	
Iowa State University (ISU)	776	48.6%	214	43.1%	27.6%
University of Iowa (U of I)	141	8.8	39	7.8	27.7
University of Northern Iowa (UNI)	148	9.3	34	6.8	23.0
Iowa Community Colleges	51	3.2	11	2.2	21.6
Private Colleges and Universities	45	2.8	11	2.2	24.4
Iowa schools and AEAs <sup>^</sup>	19	1.2	8	1.7	42.1
Other	417	26.1	180	36.2	43.2
Total	1,597	100.0%	497	100.0%	

<sup>^</sup> - Includes primary and secondary schools and area education agencies.

As illustrated by **Table 4**, 417 of the grant applications were not submitted by an educational institution. These applications were submitted by foundations, rural electric co-ops, and non-profit organizations. The remaining 1,180 (74%) of the grant applications were submitted by Iowa educational institutions.

Of the 497 grants awarded, 317, or 64%, were awarded to educational institutions. Of the 317 awarded to educational institutions, 287 were awarded to one of the Iowa’s three State Universities. As illustrated by the **Table**, ISU received the largest number of awards. While the Center was initially administered by ISU, ISU also specializes in forms of engineering which are closely correlated with the Center’s purpose. Research performed by the other State Universities focuses on other types of disciplines.

Since the Center’s operations have been transferred to IEDA, ISU has received 8 of the 10 grants awarded by IEDA. Specifically, ISU was awarded 8 grants totaling \$2,392,470.00, UNI was awarded a \$129,293.00 grant, and a \$140,000.00 grant was awarded to Baldrige Environmental Services LLC in July 2019.

Of the 497 grants awarded, only the 23 active grants were included on the State of Iowa grant management website (IowaGrants.gov). The remaining 474 grants had been completed and closed. The information related to these grants was not added to IowaGrants.gov, because the data was lost when the SmartSimple on-line subscription was cancelled. **Table 5** summarizes the 23 active grants awarded by organization.

**Table 5**

<b>Active Grants Listed on IowaGrants.gov</b>				
<b>Organization</b>	<b>Number</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
ISU	19	82.60%	\$ 2,617,189	94.5%
U of I	1	4.35	49,723	1.8
UNI	1	4.35	31,339	1.1
Other	2	8.70	72,083	2.6
Total	23	100.00%	\$ 2,770,334	100.0%

**Table 5** illustrates 82.6% of the 23 active grants were awarded to ISU and \$2,617,189 of the \$2,770,334, or 94.5%, of the active grants were awarded ISU.

**Grant File Testing** – As stated previously, after the Center was transferred to IEDA effective October 1, 2017, pertinent information and files related to the 23 active grants were transferred from the SmartSimple database to the State of Iowa grant management website. These 23 active grants included grants awarded from July 1, 2013 through September 30, 2017. The 23 grants are summarized by grant type in **Table 6**.

**Table 6**

<b>Grant Type</b>	<b>Number</b>	<b>Amount Awarded</b>	<b>Claims Paid</b>		<b>Unexpended at 06/30/19</b>
			<b>Prior to 09/30/17</b>	<b>10/01/17-06/30/19</b>	
Opportunity	7	\$ 767,116.00	510,563.67	256,204.94	347.39
Matching	9	1,346,672.00	40,173.65	764,709.51	541,788.84
Education	5	240,364.00	88,068.87	101,907.10	50,388.03
Special Project	1	14,916.00	5,115.34	9,800.66	-
Legacy	1	401,266.00	106,491.78	-	294,774.22
Total	23	\$ 2,770,334.00	750,413.31	1,132,622.21	887,298.48

We reviewed the active grants to determine if the Center complied with program requirements established in the *Code*, Center rules, and ISU policies and procedures. We determined the Center maintained documentation demonstrating the grant complied with the requirements of the program including eligibility, application, and award requirements. However, there was no supporting documentation available to demonstrate there was a competitive process for awarding grant funds. Any support related to the competitive process, including any rating forms, would have been included in SmartSimple. As previously stated, only information for the active projects was downloaded by IEDA.

The active grant budgets uploaded to IowaGrants.gov also provided a breakdown by expense type. **Table 7** summarizes the active grants budgets by expense type.

**Table 7**

<b>Expense Type</b>	<b>Amount</b>	<b>Percent</b>
Salaries and wages	\$ 1,628,831	58.8%
Fringe benefits	356,393	12.9
Equipment	268,000	9.7
Tuition	241,032	8.7
Supplies and materials	161,560	5.8
Consultants	37,800	1.4
Other direct costs	32,925	1.2
Travel	25,810	0.9
Subcontracted partners	17,983	0.6
Total	\$ 2,770,334	100.0%

Of the \$2,770,334 included in the **Table**, \$1,985,224, or 71.1%, of the amounts awarded for active grants was budgeted for salaries, wages, and fringe benefits. **Table 8** summarizes salaries, wages and fringe benefits by position reported in the grant budgets for the active grants.

**Table 8**

<b>Position</b>	<b>Salaries and Wages</b>		<b>Fringe Benefits</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Faculty	\$ 360,503	22.1%	\$ 124,976	35.1%
Professor	375,914	23.1	104,496	29.3
Graduate Student	758,746	46.6	125,065	35.1
Undergraduate Student	131,298	8.1	1,003	0.3
Other	2,370	0.1	853	0.2
Total	\$ 1,628,831	100.0%	\$ 356,393	100.0%

Of the amounts included in **Table 8**, 54.7% of the salaries and wages and 35.4% of the fringe benefits were budgeted for graduate and undergraduate students. Research projects are routinely carried out by students who are supervised by a faculty member or professor who is the primary investigator on the research project. As a result, payroll would be a large part of any research project.

**Grant Monitoring** – The *Code* did not establish specific requirements for the Center to perform monitoring of the various grants. Although not specifically required by the *Code*, monitoring is an integral part of administering any program to ensure projects are complying with the program requirements throughout all phases of the project.

The Center’s grant rules do not identify monitoring as a requirement. However, the grant handbook indicates the Center will track metrics on funded projects for two years after their completion. The metrics include, but are not limited to, information on publication, patents, commercialization, student education, external sponsorship, use of the grant as cost share, and further collaborations among the partners that were facilitated by the Center’s funding. The handbook stated annual questionnaires would be sent to grant recipients in order to collect this metric information.

According to ISU officials, any monitoring documents would have been maintained electronically in SmartSimple. Because the SmartSimple subscription was cancelled, we are unable to determine if any metrics related to completed grants were obtained prior to the transition to IEDA.

## **BECON and ERS Research Facilities**

As stated previously, the Center was transferred to IEDA effective October 1, 2017; however, the BECON and ERS facilities and the scholarship program were not transferred to IEDA. At the time of the transfer, IEDA was provided financial information from ISU showing the BECON and ERS facilities had deficit balances of \$155,538.00 and \$216,677.00, respectively, as of June 30, 2017. According to an IEDA official we spoke with, it was not clear why the accounting records for the BECON and ERS facilities showed a deficit balances at June 30 which were subsequently eliminated.

According to ISU officials we spoke with, the Center chose not to transfer funds annually from the assessment account to offset operating deficits incurred by the BECON and ERS facilities in order to readily ascertain the operating positions of the facilities. However, prior to transferring the Center's accounts to IEDA, ISU internally transferred funds from the assessment account to the BECON and ERS facilities' accounts to offset the accumulated deficit balances.

We reviewed information recorded in ISU's accounting system for fiscal years 2015 through 2017 and confirmed during this period the BECON and ERS facilities operated with a deficit balance as of June 30 each year and had accumulated deficit balances of \$155,538.00 and \$216,677.00, respectively, as of June 30, 2017. In accordance with the *Code*, the operational costs of the BECON and ERS facilities were allowable uses of the assessment fees. As a result, the transfer made by ISU to offset the deficit balances prior to moving the Center's operations was allowable.

## **ISU Administrative Costs**

As previously stated, the Center was established in 1990 to support economic development, environmental sustainability, and social well-being through advances in alternate energy production technology and energy efficiency measures. To this end, the Center established four program areas to further the Center's mission: energy efficiency, bioenergy, renewable energy, and education and outreach. The program areas are supported by the loan and grant programs, as well as through collaborative research, training, and public outreach.

**Energy Efficiency** – The Center's Energy Efficiency program includes areas such as building, industrial, agricultural, and transportation efficiency.

**Bioenergy** – The Bioenergy program was established with the intent of assisting in the development of commercial technologies in the conversion of biomass (organic materials) to chemicals and fuels. The Center's Bioenergy program awards grants supporting innovative and collaborative biomass projects and supports research for commercial-scale biomass conversion units through the Biomass Energy Conversion Facility in Nevada, Iowa.

**Renewable Energy** – The Center's Renewable Energy program provides reliable, objective information on wind, solar, and biomass energy to help homeowners, farmers, business owners, utilities, municipalities, researchers, manufacturers, and communities.

**Education and Outreach** – The Education and Outreach program builds partnerships with a wide range of public education and workforce development stakeholders in Iowa. The program aims to assist in the creation of energy education programs that can leverage additional resources, having an impact statewide.

The Center's annual reports include expense information for the areas listed above (functions) along with expenses for administration, AERLP, BECON, and ERS. The expenses did not include the grants or loans issued by the Center. **Table 9** summarizes the Center's operating expenses by function for fiscal years 2014 through September 30, 2017, which was the end of the first quarter of fiscal year 2018.

**Table 9**

Function~	Fiscal Year Ended June 30,					Total
	2014	2015	2016	2017	2018*	
Administration	\$ 750,660	766,064	763,729	865,663	153,747	3,299,863
Energy Efficiency	274,524	270,799	245,797	178,295	108,615	1,078,030
Bioenergy	68,769	106,065	108,210	108,056	44,900	436,000
Renewable Energy	23,715	56,557	73,880	40,721	8,795	203,668
Education and Outreach	72,919	129,037	204,343	108,729	14,582	529,610
AERLP	107,106	107,650	137,513	157,598	55,382	565,249
ERS	266,877	252,865	195,371	219,284	27,015	961,412
BECON	280,008	275,537	255,721	197,140	55,495	1,063,901
Total	\$ 1,844,578	1,964,574	1,984,564	1,875,486	468,531	8,137,733

~ - Amounts do not include grant or loan expenses

\* - Data includes only first quarter of 2018 (July 1, 2017 through September 30, 2017).

As illustrated by the **Table**, operating expenses for the Center totaled \$8,137,733 for July 1, 2013 through September 30, 2017. Of the \$8,137,733 total expenditures, \$3,865,112 or 47.5%, was used to support Center staff and administrative activities, including expenses for the administration of the AERLP. Expenses for the Center's four program areas totaled \$2,247,308, or 27.6%, of operating expenses for July 1, 2013 through September 30, 2017. Expenses for the Center's Energy Resource Station (ERS) and Biomass Conversion Facility (BECON) totaled \$961,412 and \$1,063,901, or 11.8% and 13.1%, respectively.

**Schedule 1** lists expenses by categories such as payroll, travel, and supplies for each function. As illustrated by the **Schedule**, personnel expenses totaled \$5,368,946, or 66.0% of all operating expenses for July 1, 2013 through September 30, 2017.

### **IEDA Administrative Costs**

IEDA adopted administrative rules for the Center and the grant and loan programs which became effective March 6, 2019. The Center, under IEDA's administration, did not award any new grants or loans prior to adopting the administrative rules. However, the Center continued to issue payments to for grants that were awarded when the program was administered by ISU.

**Table 10** summarizes administrative expenses incurred by IEDA after the Center was transferred from ISU. The **Table** does not include any grants or loans issued by IEDA.

**Table 10**

Object Category	Fiscal Year Ended June 30,			Total	Percent
	2018*	2019			
Personal Services	\$ 89,324.17	210,379.07		299,703.24	85.3%
Travel & Subsistence	105.95	3,663.93		3,769.88	1.5
Supplies & Materials	294.00	9,214.38		9,508.38	3.7
Contractual Services	26,160.38	20,847.91		47,008.29	8.5
Equipment and Repairs	10,339.12	2,459.00		12,798.12	1.0
Total	\$ 126,223.62	246,564.29		372,787.91	100.0%

\* - From October 1, 2017 through June 30, 2018.

As illustrated by the **Table**, costs to administer the Center increased from \$126,223.62 in fiscal year 2018, to \$246,564.29 in fiscal year 2019. The increase is the result of IEDA operating the Center for a full fiscal year. According to representatives of IEDA, once the program has been fully implemented and operations have expanded, the estimated cost of administering the Center will increase to approximately \$325,000 annually.

### **Findings and Recommendations**

We reviewed the grant and loan programs administered by the Iowa Energy Center to determine whether the Center administered the program in compliance with the applicable sections of the *Code of Iowa*, Center Rules, and ISU policies and procedures. We also assessed whether the Center sufficiently monitored and evaluated the success of the programs and analyzed the benefits realized by the State. As a result, we identified certain findings and recommendations regarding the grant and loan programs which should be considered by members of the Iowa Economic Development Authority Board and the Iowa Energy Center Board.

**FINDING A – ISU Monitoring** - The *Code* does not include requirements for monitoring the grant or loan programs awarded by the Center. Although not specifically required by the *Code*, monitoring is an integral part of administering any program to ensure projects are complying with the program requirements throughout all phases of the project.

- i. **Grant Program** – The grant handbook developed by ISU states the Center reserves the right to inspect facilities, acquired materials, and equipment, and to review the progress work performed pursuant to the grant. In addition, the grant agreements included requirement for grant recipients to provide reports or other deliverables. Deliverables may include items such as books, learning materials, preliminary evaluation of learning modules, peer-reviewed journal and conference publications based on the project results, and annual reports.

However, the Center did not establish written policies or procedures regarding the documentation to be maintained or the types of monitoring to be performed. According to ISU officials, any documentation related to monitoring would have been maintained electronically in the SmartSimple subscription service. However, because the subscription service was cancelled by IEDA, we are unable to determine what documentation, if any, was prepared or maintained in the SmartSimple service.

- ii. **Loan Program** – We determined the Center, under ISU’s administration, did not implement a formal monitoring process for loans awarded by the Center. Although the AERLP Handbook stated the Center reserves the right to tour project sites to ensure that the project was built as proposed and to verify ongoing operation, and the Center indicated a program manager was responsible for conducting annual on-site reviews, the Center did not establish written policies or procedures regarding the documentation to be maintained or the types of monitoring to be performed.

The loan agreements require a start-up report and annual reports be submitted by the projects over the life of the loan. We tested 50 active loan project files and determined the following:

- 28 of the files did not include the required start-up report.
- 41 of the files did not include any annual reports.
- The 9 files which included an annual report did not include all required annual reports.

**Recommendation** – While ISU no longer administers the grant and loan programs for the Center, ISU officials should ensure policies and procedures are developed including requirements for the types of documentation which should be maintained for monitoring performed for any projects for which ISU awards grants, loans, or other funding mechanisms. The monitoring procedures established should be consistently performed to ensure the projects are completed in accordance

with the requirements of the project agreements, the applicable sections of the *Code*, and ISU policies and procedures.

Response – ISU has reviewed the Auditor’s recommendations and will consider them as it develops policies for other programs in the future.

Conclusion – Response accepted.

**FINDING B – IEDA MONITORING** - The *Code* does not include requirements for monitoring the grant or loan programs awarded by IEDA. Although not specifically required by the *Code*, monitoring is an integral part of administering any program to ensure projects are complying with the program requirements throughout all phases of the project.

The IEDA administrative rules for the grant and loan programs, effective March 6, 2019, state IEDA may perform project reviews and site inspections as necessary to ensure program compliance. However, they do not provide specific guidelines regarding what will be monitored, the timing of the monitoring, how projects will be monitored and the documentation related to the monitoring that will be maintained.

Recommendation - On-site monitoring of projects should be consistently performed to ensure the projects are completed in accordance with the requirements of the project agreements, the applicable sections of the *Code*, administrative rules, and IEDA policies and procedures. In addition, the monitoring procedures performed should be documented and periodically reviewed by an independent party familiar with program requirements.

Performance of on-site monitoring allows the Center the opportunity to observe and document the impact of the projects on the surrounding communities. The Center should continue to improve the grant and loan programs’ on-site monitoring procedures, as follows:

- Implement formal written policies and procedures regarding on-site monitoring of projects including, but not limited to, the frequency of on-site monitoring, the selection of projects, the procedures to be performed during on-site monitoring, and the procedures for documenting and following-up on the results of the on-site monitoring.
- Consistently complete comprehensive on-site monitoring at projects while in progress and/or after projects are completed, including, but not limited to, observing the project to determine whether the project is completed in accordance with the project agreement, applicable sections of the *Code*, administrative rules, and IEDA guidelines; taking pictures of items the Center paid for; reviewing the project’s progress; verifying project files and records as needed; and completing the other items listed on the form.
- Consistently document and maintain in the Center’s project files the procedures performed and the results of on-site monitoring.

Response – The IEDA will develop formal written policies and procedures related to the monitoring of projects under both the grant and loan programs. These procedures will include but not necessarily be limited to desk-top review of performance reports submitted by recipients at a frequency determined by the IEDA; on-site monitoring visits by IEDA staff and the filing of requisite documentation supporting the on-site review. We anticipate these policies and procedures will be finalized by the end of State Fiscal Year 2020.

Conclusion – Response accepted.

## **Schedule**

Report on a Review of the  
Iowa Energy Center  
Administered by Iowa State University and the  
Iowa Economic Development Authority

Schedule of ISU Administrative Expenses by Function

Description	Fiscal Year Ended June 30,					Total
	2014	2015	2016	2017	2018^	
<b>Administration</b>						
Personnel	\$ 647,482	588,327	653,946	668,482	170,695	2,728,932
Travel	137	36,059	29,177	11,447	1,056	77,876
Services and IT	145,191	166,176	139,359	242,317	30,375	723,418
Supplies	56,111	72,410	72,042	34,876	5,579	241,018
Repairs and maintenance	6,024	8,312	3,166	61,888	842	80,232
Utilities	2,590	2,431	2,677	3,025	582	11,305
Miscellaneous*	231	-	875	1,226	-	2,332
Subtotal	857,766	873,715	901,242	1,023,261	209,129	3,865,113
<b>Energy Efficiency Program</b>						
Personnel	137,704	217,506	154,186	167,502	74,936	751,834
Travel	13,351	14,029	17,146	14,624	1,844	60,994
Services and IT	113,670	42,044	80,083	18,768	31,811	286,376
Supplies	2,145	3,838	12,645	3,203	24	21,855
Repairs and maintenance	3,199	-	-	-	-	3,199
Tuition	-	13,815	12,497	2,119	-	28,431
Miscellaneous*	(68)	(20,433)	(30,760)	(27,921)	-	(79,182)
Scholarships	4,523	-	-	-	-	4,523
Subtotal	274,524	270,799	245,797	178,295	108,615	1,078,030
<b>Bioenergy Program</b>						
Personnel	68,509	105,791	106,586	105,870	44,408	431,164
Travel	-	264	1,624	2,186	492	4,566
Services and IT	-	10	-	-	-	10
Supplies	260	-	-	-	-	260
Subtotal	68,769	106,065	108,210	108,056	44,900	436,000

**Schedule 1**

Report on a Review of the  
Iowa Energy Center  
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Iowa Economic Development Authority

Schedule of ISU Administrative Expenses by Function

Description	Fiscal Year Ended June 30,					Total
	2014	2015	2016	2017	2018^	
<b>Renewal Energy Program</b>						
Personnel	20,923	56,257	72,725	38,130	8,451	196,486
Travel	2,792	-	82	2,591	344	5,809
Services and IT	-	300	1,073	-	-	1,373
Subtotal	23,715	56,557	73,880	40,721	8,795	203,668
<b>Education and Outreach Program</b>						
Personnel	48,481	53,776	38,694	37,828	14,116	192,895
Travel	1,490	2,024	1,303	11	-	4,828
Services and IT	3,851	57,146	164,338	70,874	466	296,675
Supplies	19,097	11,091	8	16	-	30,212
Miscellaneous*	-	5,000	-	-	-	5,000
Subtotal	72,919	129,037	204,343	108,729	14,582	529,610
<b>Energy Resource Station (ERS) Facility</b>						
Personnel	173,968	70,915	128,718	110,793	15,637	500,031
Travel	276	2,758	19	3,524	-	6,577
Services and IT	41,542	23,033	1,102	1,054	-	66,731
Supplies	26,778	35,820	16,848	17,368	-	96,814
Repairs and maintenance	13,124	87,354	17,321	57,670	1,734	177,203
Utilities	8,325	12,269	25,525	27,964	9,621	83,704
Depreciable Equipment	-	20,148	-	-	-	20,148
Miscellaneous*	2,864	568	5,838	911	23	10,204
Subtotal	266,877	252,865	195,371	219,284	27,015	961,412
<b>Biomass Energy Conversion (BECON) Facility</b>						
Personnel	157,647	139,304	123,267	120,826	26,560	567,604
Travel	4,588	3,590	6,971	3,619	860	19,628
Services and IT	22,618	28,324	21,993	22,356	2,041	97,332
Supplies	32,898	25,696	28,813	11,690	3,477	102,574

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Schedule of ISU Administrative Expenses by Function

Description	Fiscal Year Ended June 30,					Total
	2014	2015	2016	2017	2018^	
Repairs and maintenance	21,939	15,871	30,722	4,281	3,602	76,415
Utilities	40,333	34,620	36,162	33,162	8,364	152,641
Depreciable Equipment	-	26,315	6,649	-	-	32,964
Tuition	-	1,817	1,144	1,206	10,591	14,758
Miscellaneous*	(15)	-	-	-	-	(15)
Subtotal	280,008	275,537	255,721	197,140	55,495	1,063,901
Total	\$ 1,844,578	1,964,575	1,984,564	1,875,486	468,531	8,137,734
<b>Total for all functions</b>						
Personnel	1,254,714	1,231,876	1,278,122	1,249,431	354,803	5,368,946
Travel	22,634	58,724	56,322	38,002	4,596	180,278
Services and IT	326,872	317,033	407,948	355,369	64,693	1,471,915
Supplies	137,289	148,855	130,356	67,153	9,080	492,733
Repairs and maintenance	44,286	111,537	51,209	123,839	6,178	337,049
Utilities	51,248	49,320	64,364	64,151	18,567	247,650
Depreciable Equipment	-	46,463	6,649	-	-	53,112
Tuition	-	15,632	13,641	3,325	10,591	43,189
Miscellaneous*	3,012	(14,865)	(24,047)	(25,784)	23	(61,661)
Scholarships	4,523	-	-	-	-	4,523
Total	\$ 1,844,578	1,964,575	1,984,564	1,875,486	468,531	8,137,734

^ - Through September 30, 2017.

\* - According to ISU officials, the deficit balances in the Miscellaneous expense category result from refunds not coded to the same category as the original expense.

Source: ISU accounting system

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Staff

This review was performed by:

James S. Cunningham, CPA, Director  
Anthony M. Heibult, Senior II

  
Annette K. Campbell, CPA  
Deputy Auditor of State