



Office of the Auditor  
465 S. King Street  
Rm. 500  
Honolulu, HI 96813  
Ph. (808) 587-0800

Jan K. Yamane  
Acting State Auditor  
State of Hawai'i

### Projected Energy Contract Costs and Savings

Total Cost Savings	\$518 mil.
Project Costs	\$363 mil.
Net Savings	\$155 mil.

The division is  
unable to verify the  
achievement of \$13.7  
million in guaranteed  
savings covering the  
project's first two years.

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# Audit of the Department of Transportation's Energy Performance Contracts

Report No. 15-18, December 2015

*Improved oversight of DOT's energy performance contract needed to ensure promised savings*

## Airports Division's "20-year" energy contract is flawed, but still protects the State's interests

The Department of Transportation-Airports Division's energy contract, executed in December 2013 with Johnson Controls, Inc., promises to address a host of current and future energy needs, and could serve as a model for other agencies to follow. However, we found flaws in the design and implementation of the project. Contrary to State Procurement Office guidance, the contract allows for automatic acceptance of the annual savings report, which is a key document for ensuring savings match guaranteed levels. This provision weakens the division's ability to challenge or dispute any savings issues discovered after the 90-day review period expires.

We also found flaws that could undermine the energy contract's \$518 million savings guarantee. The department thought the energy contract covered a 20-year term, but the contract actually expires after 19 years. Consequently, \$60 million in savings are scheduled to occur after the contract expires. This error occurred even though the division said it had "ample" time to review the contract, which was reviewed by multiple internal and outside parties. The division was unaware of this flaw until we brought it to their attention.

## Lax administration of energy contract undermines accountability for savings guarantee

Johnson Controls' annual savings report is the division's foundation for assessing whether the project has achieved the savings that were guaranteed. Thus, it is imperative the division be able to thoroughly review the report in a timely fashion. We found the division lacks the procedures and expertise needed to evaluate these annual savings reports. The division's incomplete review of the first savings report left it unaware of significant reporting problems that undermine Johnson Controls' accountability for ensuring savings exceed costs, as required by law. The division was therefore unable to verify whether \$13.7 million in guaranteed savings for the project's first two years was achieved, undermining the public's confidence in the department's ability to ensure the energy contract delivers promised benefits.

## Agency response

The Department of Transportation generally agreed with our findings and recommendations, and reported that it has begun implementing all our recommendations. Among other things, the department said it has amended the energy contract to correct flaws we identified.