

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

July 21, 2010

Via Electronic Transmission

The Honorable Steven Chu
Secretary
U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Dear Secretary Chu:

Thank you for your response to my previous letter, dated February 26, 2010 regarding the Department of Energy's (DOE/Department) slow progress of implementing and oversight of Recovery Act (Stimulus) funding of the Weatherization Assistance Program (WAP). Although the DOE stated in an April 20, 2010 response that the WAP has, "made significant progress in increasing its capacity to provide services throughout the country," I still remain concerned about the Department's implementation and monitoring of this program.

In my February 26th letter I asked DOE to describe actions taken against contractors who perform substandard work. In DOE's April 20th response, the Department stated that actions of the contractors are the responsibility of the subgrantees and that all grantees in this case State agencies in charge of monitoring all weatherization work are required to perform audits and monitoring of the contractors and subgrantees. However, recent reports by the Government Accountability Office (GAO) and the DOE Office of Inspector General (OIG) raise serious concerns that this system is ineffective in safeguarding taxpayer dollars against fraud, waste or abuse.

The GAO released a report, in May 2010, about States' and localities implementation of Recovery Act programs (GAO-10-604) (attached) including the weatherization program. The GAO stated that the DOE relies upon recipients/state agencies to ensure that about 900 local agencies nationwide are in compliance with program requirements. The GAO found that, "these DOE requirements are not being consistently implemented and it is unclear whether these requirements are being met." For example, the GAO found that local officials often did not consistently adhere to internal controls. For example, in Florida, the GAO found that in nearly a quarter of the homes they visited some of the authorized improvements were either not completed or of questionable quality, including three potential health and safety issues that had not been addressed. In Pennsylvania, the GAO found that the state's program guidelines do not specify how the agencies should manage the work subcontractors perform. The GAO stated that in one local agency most changes to the work order were handled verbally, especially if they were minor. However, the GAO found that a majority of the client files

they reviewed from this agency contained no authorized changes. The GAO stated that two of the changes were significant including one change costing about \$6,000 and another about \$3,000.

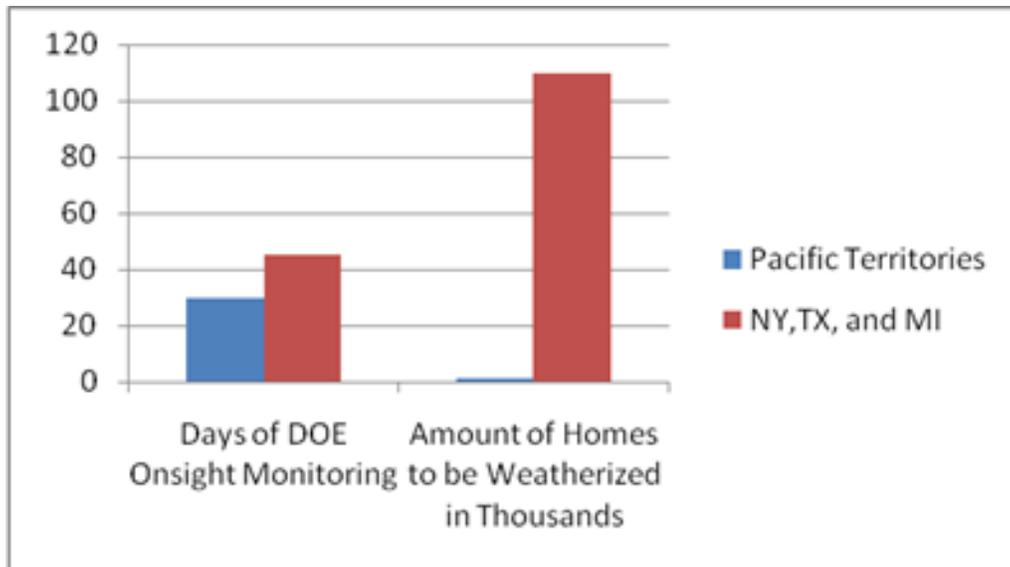
The GAO released another report (GAO-10-796R) (attached), in June 2010, concerning independent oversight of Mississippi's WAP. The GAO found that the Mississippi Department of Health and Human Services' (MDHS) Division of Program Integrity (DPI) failed to identify serious mismanagement with one community action agency charged with weatherizing homes. This community action agency did not perform adequate inspections of homes weatherized and that over half of the homes inspected suffered from poor workmanship. Further, the GAO determined that this community action agency paid contractors between 200 percent and 400 percent of material cost for the work performed yet the amount paid for labor is not to exceed 110 percent of material cost. Although a separate agency within MDHS determined this community action agency was grossly mismanaging taxpayer dollars and has required this agency to return \$38,000 in Stimulus funds, the GAO concludes that DPI should have been more robust in its efforts to identify mismanagement.

The OIG has also released an additional report on State WAPs. The OIG released a Preliminary Audit Report, in May 2010, concerning the management controls over the Commonwealth of Virginia's efforts to implement the Recovery Act funded WAP (OAS-RA-10-11) (attached). The OIG found that Virginia had not implemented financial and reporting controls needed to ensure WAP funds are spent effectively and efficiently. For example, the OIG noted that the state agency in charge of monitoring weatherization work had not made any on-site financial visits to its 22 subgrantees in the previous 18 months despite the fact that the state is required to perform at least an annual inspection of its subgrantees. The OIG stated that because of inadequate financial monitoring the accuracy of payments to subgrantees could not be verified.

The OIG also found that the number of weatherized homes Virginia reported to the DOE differed significantly from the number of homes reported by the subgrantees. For instance, during the reporting period of July 1, 2009 through September 30, 2009 Virginia indicated that 316 homes had been weatherized. However, the sub-grantee reporting database showed that subgrantees submitted data indicating that 978 homes had been weatherized during the same reporting period. The OIG concluded that, "these control and reporting weaknesses increase the risk that Recovery Act objectives may not be achieved and that fraud, waste or abuse can occur and not be detected in this critically important program." These reports only augment my concern that the states are not holding up their end of the bargain to ensure that taxpayer dollars are not being wasted.

I also remain concerned about the DOE's on-site monitoring of state and territory WAPs. Included in DOE's April 20th response to my February 26th letter is an enclosure titled "ARRA Monitoring, Readiness, and Green Light and Green Light 2 Visits and Calls, and NEPA Visits." (Attached) This enclosure provides little description of the type of work that each type of visit or call entailed, what was accomplished during the visit, or the number of DOE staff involved in the visit. Rather, this enclosure only lists the type of visit or call such as "Readiness Visits w/HQ" and the location and dates of said visit or call.

Even more concerning is the amount of time DOE staff have apparently spent on visits in some locations. According to the enclosure that DOE provided, a grand total of 30 days have been or will be spent in Guam, the Northern Marianas Islands, and American Samoa. The purpose of these on-site visits is to monitor WAPs even though a total of about \$2.6M in Stimulus money was directed to fund the weatherization of 940 homes in these three Pacific island territories. Conversely, DOE staff has or is planning to spend a grand total of 45 days in New York, Texas, and Michigan monitoring those WAPs which will have expended almost \$1 billion dollars in Stimulus funds to weatherize more than 110,000 homes (See graph below).



I find the disproportionate amount of attention directed to the Pacific island territories to be worthy of additional explanation by the DOE since so few homes are being weatherized in these territories compared to the states that are weatherizing the most homes.

Accordingly, please answer the following questions. For each question please respond by first repeating the enumerated question followed by the appropriate answer:

- 1) In light of the recent reports that document State failures to monitor weatherization work will the DOE take any new action to toughen oversight of Stimulus weatherization grantees or subgrantees? If so, please describe these actions in detail.
- 2) How does the DOE ensure the accuracy of weatherization data that is reported to the Department?

- 3) Please provide detailed descriptions of each WAP visit to the Pacific Island territories included in the April 20th response. Please include the following information for each visit:
 - a) nature of the visit;
 - b) the location visited and the number of days in each location;
 - c) a detailed daily itinerary of the activities done during the visit;
 - d) a copy of, any reports/evaluations/audits or other assessments related directly or indirectly to the visit;
 - e) the number of staff participating in each visit;
 - f) the duty station of each staff member participating in the visit; and
 - g) the total cost of each visit to taxpayers including travel, hotel, meal, and any other incidental costs for the visit.
- 4) Why is so much time being spent in the Pacific island territories monitoring weatherization work when there are so few homes being weatherized?
- 5) Please identify any Stimulus funds that have been re-captured by the Department relating to the WAP.

Thank you in advance for your prompt attention to this matter. I would appreciate receiving your response to this letter by August 4, 2010. Should you have any questions regarding this matter, please do not hesitate to contact David Bleich of my staff at (202) 228-0927. All documents responsive to this request should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov.

Sincerely,



Charles E. Grassley
Ranking Member

Enclosures

May 2010

RECOVERY ACT

States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability



GAO

Accountability * Integrity * Reliability

The Department of Energy's Recovery Act Weatherization Program Faces Challenges in Meeting Increased Production Targets While Ensuring Program Requirements Are Being Met

According to the Department of Energy (DOE), during the past 33 years the Weatherization Assistance Program has helped more than 6.4 million low-income families by making such long-term energy-efficiency improvements to their homes as installing insulation; sealing leaks; and modernizing heating equipment, air circulation fans, and air conditioning equipment. According to DOE, these improvements enable families to reduce energy bills, allowing these households to spend their money on more pressing needs. DOE distributes Weatherization Assistance Program funds through grants to state-level agencies in each of the states, the District of Columbia (District), and five territories and two Indian tribes. State-level agencies (recipients) then contract with local agencies to deliver weatherization services to eligible residents.

Recovery Act Provides for a Large Increase in Weatherization Production

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which represents a significant increase for a program that has received about \$225 million per year in recent years. In addition to Recovery Act funds, DOE continued to receive appropriations for weatherization of \$200 million for fiscal year 2009, \$250 million in supplemental funding appropriated by the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, and another \$210 million for fiscal year 2010.¹³⁷ Because yearly DOE appropriations for weatherization are considered “no year money,” recipients of these funds may carry over balances from previous fiscal years. DOE guidance instructs recipients to spend their Recovery Act weatherization funds first, but also encourages recipients to use their appropriations in the appropriate year to avoid carrying over balances. In addition to the DOE funds, states and territories have access to Low Income Home Energy Assistance Program (LIHEAP) funds administered and distributed by the U.S. Department of Health and Human Services, of which up to 15 percent may be spent on weatherization, according to LIHEAP guidance. About \$752 million in fiscal year 2009 and about another \$737 million in fiscal year 2010 were available to states and territories for weatherization through LIHEAP. This represents a significant increase from previous

¹³⁷DOE submitted a request for \$300 million for fiscal year 2011 for Weatherization Assistance Program yearly appropriations.

years.¹³⁸ Using Recovery Act funds, DOE plans to weatherize approximately 593,000 homes by March 2012.¹³⁹ One of DOE's goals is to increase total weatherization production to a rate of 30,000 homes per month by the end of 2010.¹⁴⁰ When compared to the average rate of production in recent years before the Recovery Act was passed, which was around 100,000 homes annually, this new targeted production is more than three and a half times the previous production rates.

During 2009, DOE obligated about \$4.73 billion of the Recovery Act's weatherization funding to the states, territories, and tribes, while retaining about 5 percent of funds to cover the department's expenses, such as those for training and technical assistance, and management and oversight for the expanded weatherization program. DOE first provided each recipient with the first 10 percent of its allocated funds, which could be used for start-up activities such as hiring and training staff, purchasing needed equipment, and performing energy audits of homes, among other things (see fig. 15).¹⁴¹

¹³⁸ Although about \$752 million in LIHEAP funds was potentially available for weatherization in fiscal year 2009 and about another \$737 million was available in fiscal year 2010, these are estimates based on 15 percent of the total of about \$5 billion and about \$4.9 billion in total LIHEAP funds that were available in fiscal year 2009 and fiscal year 2010, respectively. State agencies administering the LIHEAP determine what percentage of total LIHEAP funding to use on weatherization. In recent years, states have spent about 10 percent of their LIHEAP funds on weatherization, but state agencies may ask for a waiver in order to spend up to 25 percent of their respective LIHEAP total allocations on weatherization. The U.S. Department of Health and Human Services submitted a request for \$3.3 billion in LIHEAP funding for fiscal year 2011, of which 15 percent—about \$495 million—would potentially be available for weatherization. Up to 10 percent of total LIHEAP funding may be carried over from one fiscal year to the next. In previous years, the estimated amount available through LIHEAP for weatherization ranged from about \$256 million to about \$362 million.

¹³⁹ Homes refers to housing units, which include single-family units, units within a multifamily building, and mobile homes. DOE defines a weatherized unit as a dwelling unit on which a DOE-approved energy audit or priority list has been applied and weatherization work has been completed, and the final energy audit has taken place.

¹⁴⁰ This total production goal of weatherizing about 360,000 homes annually would include weatherization funded with Recovery Act funds, as well as with DOE yearly appropriations.

¹⁴¹ During an energy audit, auditors visually inspect the building shell and mechanical systems; conduct diagnostic, health, and safety tests; and record the location, condition, and dimensions of walls, ceilings, floors, windows, doors, and mechanical systems. According to DOE, before work is conducted, auditors should use this information to select cost-effective measures which would make the unit more energy-efficient and prepare work orders to ensure that appropriate measures are installed. After weatherization work is completed, another energy audit and final inspection should be conducted.

Figure 15: Pointing Out Ceiling Cracks During an Energy Audit of a Home in Georgia



Source: GAO.

Energy audit of home in Georgia

Before recipients could receive the next 40 percent of their funds, DOE required each to submit a weatherization plan outlining how it would use its Recovery Act weatherization funds. These plans identify the number of homes to be weatherized and include strategies for monitoring and measuring performance. By the end of 2009, DOE had approved the weatherization plans of all 58 recipients, including all of the states, the District, all five territories and two Indian tribes. Each recipient now has access to at least 50 percent of its funds, and DOE plans to provide access to the remaining funds once a recipient has completed weatherizing 30 percent of the homes identified in its weatherization plan and meets other requirements. The other requirements include the recipient fulfilling the monitoring and inspection protocols established in its weatherization plan; monitoring its local agencies at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; ensuring that local quality controls are in place; inspecting at least 5 percent of completed units during the course of the respective year; and

submitting timely and accurate progress reports to DOE, and monitoring reviews confirm acceptable performance.

Under Section 1603 of the Recovery Act, funds are available for obligation by DOE until September 30, 2010, and DOE officials told us they plan to meet this requirement. DOE officials told us that as of May 12, 2010, although DOE had obligated a total of \$4.73 billion of the Recovery Act's weatherization funding to the recipients, about \$1.4 billion of that total had not yet been obligated by recipients to their respective local weatherization agencies. DOE has indicated that the recipients are to spend their Recovery Act weatherization funds by March 31, 2012.

DOE officials indicated that its goals are for each recipient to have weatherized 30 percent of the homes identified in their respective weatherization plans and obligated 100 percent of their respective allocations to their local agencies by September 30, 2010. However, DOE's funding announcement does not clarify whether these goals are fixed deadlines for all recipients, nor has DOE clarified how recipients are to obligate funds without having access to the remaining 50 percent of their allocation. Some recipients are concerned about the consequences of not meeting these targets. For example, a large association representing local weatherization agencies told us that state agencies are very concerned their funds will be reallocated if they do not meet these production and spending targets. In addition, in February 2010, a California state official told us that DOE urged timely obligation and expenditure of funds and strongly encouraged larger states to aggressively achieve the 30 percent production goal; as a result, California established the September 30 target for meeting this goal. In an audit issued February 2, 2010, the California State Auditor expressed concern that California would lose the remainder of its Recovery Act weatherization allocation if the Department of Community Services and Development, which administers the state's weatherization program, were unable to weatherize 30 percent of the homes in its state plan by September 30, 2010, and recommended that the agency seek an extension of this milestone from DOE.¹⁴² In regard to this increased pressure to spend Recovery Act funds and weatherize homes rapidly, a DOE Inspector General (IG) report issued in February 2010 indicated that the DOE IG is concerned that the understandable desire to

¹⁴²California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif., Feb. 2, 2010).

Recipients' Ability to Meet Targets for Weatherizing Homes Using Recovery Act Funds Varies Greatly

spend the weatherization funds on a catch-up basis may lead to an environment conducive to wasteful, inefficient and, perhaps even abusive, practices.¹⁴³

Recipients' ability to use available funds for weatherization and to weatherize the number of homes targeted varies considerably. Recipients have only used a small percentage of their Recovery Act funds, but DOE has indicated that the recipients are to spend the funds by March 31, 2012. As of March 31, 2010, recipients had spent about \$659 million. With 2 years until the deadline, this only represents about 14 percent of the total \$4.73 billion in Recovery Act funds available for weatherization activities.

Although Some States Are Meeting or Exceeding Targets, Others Are Behind Schedule

Although nationwide weatherization funds are being spent slowly, many of the states in our review are meeting or exceeding their targets for weatherization production outlined in their respective weatherization plans. For example, officials from the Illinois Department of Commerce and Economic Opportunity, which administers the state's weatherization program, expect to meet or exceed their goals of spending 40 percent of the Recovery Act funds and weatherizing 40 percent of the total homes in its Recovery Act plan by June 30, 2010. In Florida, the Department of Community Affairs indicated that the state was about 30 percent below its overall goal as of March 31, 2010, but that with a recent increase in production, they should meet their target of weatherizing at least 5,700 homes statewide by the end of September 2010, and at least 19,090 dwellings by March 31, 2012. Officials in Iowa and Mississippi also indicated the states are exceeding their targets for weatherizing homes with Recovery Act funds. As of March 31, 2010, local agencies in Iowa had spent about \$14.1 million and had completed weatherizing 1,176 homes, or about 16 percent of the state plan's target for using Recovery Act funds. In Mississippi, which DOE identified as one of the front-runners nationwide in meeting its targets, the state's Division of Community Services reported that it had weatherized about 45 percent of the total of 5,468 planned as of March 31, 2010, which was ahead of its scheduled production. New York's Division of Housing and Community Renewal reported that although

¹⁴³Department of Energy Office of the Inspector General, *Special Report: Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act*, OAS-RA-10-04 (Washington, D.C., Feb. 19, 2010).

agencies in the state had only weatherized about 3 percent of the total of 45,000 homes planned, agency officials were confident that they would not only meet but exceed their goal. Because New York has used most of its Recovery Act funding on multifamily units, production there may appear slow even though many units are in process. According to state officials, this may be because units in multifamily projects cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted as complete by the local weatherization agency.¹⁴⁴

Other recipients in our review, such as the District, Georgia, and North Carolina, are behind schedule. The District, which only began spending Recovery Act funds to weatherize homes in March 2010, had only completed about 14 percent of the total homes in its plan as of March 31, 2010. As of the end of March 2010, 1,538 homes had been weatherized in Georgia using Recovery Act funds, about 11 percent of the homes identified in its state plan. Although Georgia did not meet its goal of weatherizing about 500 homes per month in March 2010, DOE has asked the state to increase its monthly production to 700 units from April through September 2010. According to North Carolina's weatherization program manager, as of March 31, 2010, local agencies there had only completed weatherizing 1,715 homes, or approximately 7 percent, of the homes identified in the state plan. Although California was not in our review during this reporting cycle, we have previously noted delays in the implementation of California's Recovery Act weatherization program. By March 31, 2010, California had only weatherized 2,934 homes, less than 7 percent of the 43,400 total homes to be weatherized with Recovery Act funds.

Nationwide, as of March 31, 2010, about 80,000 homes had been weatherized throughout the United States with Recovery Act funds, or about 13 percent of the 593,000 homes originally planned for weatherization. According to DOE, only two states—Washington and Idaho—had completed the weatherization of at least 30 percent of the homes outlined in their state plans and had therefore been given access to the remaining 50 percent of their funds. DOE also indicated that six other states—Delaware, Maine, Mississippi, Ohio, Tennessee, and Vermont—were very close to meeting the 30 percent target as of March 31, 2010.

¹⁴⁴New York officials reported that work on 10,546 units was currently under way and that energy audits—which are required before weatherization can take place—of an additional 14,008 units had been completed. Once these 24,554 units are completed, New York will have weatherized about 58 percent of the units in its weatherization plan.

State Officials Offered a Number of Reasons for Delays in Spending Program Funds

State officials provided several reasons for the delay in spending weatherization funds. Some state and local agencies needed time to develop the infrastructure required for managing the significant increase in weatherization funding and ensuring compliance with Recovery Act requirements. Several states in our review, such as Illinois and Iowa, waited to begin weatherizing homes using Recovery Act funds until the Department of Labor had issued the Davis-Bacon prevailing wage rate for weatherization work.¹⁴⁵ In Florida, local agencies did not begin weatherizing homes using Recovery Act funds until September 2009 because the state agency and local agencies needed time to hire and train new staff, identify and certify new contractors, and implement Davis-Bacon wage requirements. In Pennsylvania, officials told us that their Recovery Act-funded weatherization program was delayed, in part because it took time to implement a training and certification program for workers.

Concerns about hiring more workers may have also contributed to the difficulty in rapidly increasing production. As state and local agencies hire new employees, they must also find a way to adequately train these workers. Moreover, the temporary nature of Recovery Act funds has led to long-term concerns about having to lay off workers; for example, some state and local agencies told us they are reluctant to use funds to hire nontemporary employees because of concerns about the “cliff effect” of having to lay them off when Recovery Act funds are no longer available after March 2012. In Georgia, for example, one service provider told us they decided to initially use contractors instead of the in-house crews they had used, in part because they did not want to hire staff and then lay them off just 2 years later.¹⁴⁶ Two local agencies in New York told us that they do not wish to hire employees if they would have to lay them off after

¹⁴⁵The Davis-Bacon provisions of the Recovery Act require that all laborers and mechanics employed by contractors and subcontractors on Recovery Act-funded projects be paid at least the prevailing wage, including fringe benefits, as determined by the Secretary of Labor. Because the Weatherization Assistance Program, funded through annual appropriations, is not subject to the Davis-Bacon Act, the Department of Labor (Labor) had not previously determined prevailing wage rates for weatherization workers. On September 3, 2009, Labor completed its first determination of wage rates for weatherization work conducted on residential housing units in each county of the 50 states and the District. The rates were revised in December 2009.

¹⁴⁶Service providers weatherize homes; local agencies manage service providers but are sometimes qualified to provide weatherization services themselves.

Inconsistent Program
Implementation Raises
Concerns as to Whether
Program Requirements Are
Being Met

Recovery Act funds are gone. North Carolina officials also said that they do not like to hire employees if they would have to lay them off. They eventually did hire additional personnel, but told them their term of employment was only through the end of the Recovery Act funding. Nationwide, DOE plans to add over 30,000 jobs to its network of weatherization providers by the end of 2011. According to available sources, as of March 31, 2010, 14,600 jobs have been created through the use of Recovery Act weatherization funds.

Recipients and local weatherization agencies face the challenge of using their Recovery Act funds to increase production significantly, while ensuring that these funds are spent in compliance with Recovery Act requirements and the weatherization program requirements. While the Recovery Act prioritizes moving funds into the economy quickly, recipients of funds are also expected to invest these funds with a high level of transparency and are held accountable for results under the Act. DOE relies upon recipients to ensure that about 900 local agencies nationwide are in compliance with program requirements. Among the requirements that DOE has for the use of its weatherization funds are those relating to verifying client eligibility, limiting the maximum statewide average expenditure per home, training for the weatherization workforce, ensuring local agencies have adequate internal controls, state monitoring of weatherization work, and ensuring that weatherization be cost-efficient, meaning that the resulting energy savings from the work should be at least equal to the amount spent on the work.

In our review, we found that these DOE requirements are not being consistently implemented and it is unclear whether these requirements are being met. In general, we found that this is due to a combination of a wide degree of discretion in DOE guidance relative to some of these requirements and state and local agencies that have not implemented the program in a consistent manner. We identified consistency concerns in these areas:

- Determination and documentation of client income eligibility varies between states and local agencies.
- Different methodologies exist for determining the \$6,500 maximum average weatherization expenditure limit per home.
- Training and certification requirements for weatherization workers vary greatly among the states.

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- Internal controls to ensure local weatherization agencies comply with program requirements are applied inconsistently.
 - Some states have implemented monitoring systems, but other states have not yet fully developed their monitoring systems.
 - States' methods to ensure weatherization work is cost-effective vary and many states are only just beginning to measure long-term energy savings.

Determination and Documentation of Client Income Eligibility Varies

The Recovery Act amended requirements on client eligibility to increase the number of households that would qualify for weatherization. Previously, a household was only eligible to receive weatherization services through this program if the household income was at or below 150 percent of the federal poverty threshold. The Recovery Act increased eligibility from 150 percent to 200 percent of the federal poverty threshold.

In determining income eligibility, DOE indicates that agencies should verify income by checking documents such as proof that the person receives Supplementary Security Income or Temporary Assistance for Needy Families, either of which makes a person automatically eligible. Other proof of income, such as W-2 forms or documentation of LIHEAP eligibility, is also acceptable. DOE guidance further indicates that this proof of income must be for the year before the application date. DOE gives recipients discretion in determining the method of calculating eligibility, so long as recipients are using a consistent policy throughout their territory. In particular, DOE allows the income data for the year to be annualized in order to determine eligibility—for example, by multiplying by four the amount of income received by the applicant during the most recent three months.¹⁴⁷ Regarding documentation of eligibility, DOE guidance indicates that local agencies should maintain proof of client eligibility in their case files, but leaves to the discretion of each recipient what sort of proof of eligibility its local agencies should maintain. Finally, if no other documents for verification are available, DOE also allows

¹⁴⁷In terms of prioritizing clients to serve, DOE provides recipients with flexibility in targeting their services to maximize program effectiveness. Its regulations indicate that recipients are to give priority consideration to “high residential energy users” and “households with a high energy burden” in addition to the other priority categories of elderly, persons with disabilities, or families with children.

applicants to self-certify their income. However, allowing self-certification without additional documentation does not adequately prevent ineligible participants from potentially receiving program benefits.

In our review of local agency practices, we found that the flexibility in the DOE guidance allows for a great deal of variation in how eligibility was determined, thereby generating concerns as to whether program requirements are being met. For example, regarding eligibility determination, one local agency in Illinois concluded that if the applicant has previously qualified for LIHEAP, then the applicant automatically qualified for weatherization since the LIHEAP income level is 150 percent of poverty level—a lower threshold than the 200 percent needed for weatherization. In Pennsylvania, at one local agency where we reviewed files, we found two client files where income information was more than 12 months old and eligibility was confirmed simply by calling the client and asking if their income had changed. While in some cases eligibility requirements were adequately documented, in others it did not appear that local agencies were consistently adhering to DOE guidance. For example, we found that the files we reviewed at one local agency in Illinois appeared to meet documentation guidance. Applicants provided documents that demonstrated their income, such as wage statements, W-2s, and unemployment insurance letters. Income eligibility was annotated on the weatherization application form and documentation was copied and put in the file. In other states, however, the case files did not consistently include appropriate documentation. For example, the checklist on Georgia's application does not include all types of income listed in DOE's guidance, and the 25 files we reviewed did not include evidence that interest or dividend information—specifically listed as income on DOE's guidance—was considered during application. In Florida, the 36 client files we reviewed typically contained the required eligibility information, but there were exceptions. For example, several files were missing required documentation, including proof of a disability (required for priority services) or a copy of a Social Security card, and these problems were not noted by the state field monitors. Similarly, a report issued by the New Jersey Office of the State Auditor found that the process to determine program eligibility in New Jersey was inadequate.¹⁴⁸ The report indicated that auditors could not determine the eligibility of

¹⁴⁸See New Jersey State Legislature, Office of Legislative Services, Office of the State Auditor, *Department of Community Affairs, American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility* (Apr. 1, 2009 to Dec. 4, 2009), 5.

sample households receiving weatherization assistance because of the lack of supporting documentation for income and number of household members and the lack of Social Security numbers maintained by the weatherization agencies. New Jersey auditors identified 12 instances in which applicants with household incomes that exceeded \$100,000 in 2008 were approved because they did not provide complete information about their annual income.

Methodology for Calculating the \$6,500 Maximum Average Varies

Since 2001, the average expenditure limit per home for DOE weatherization was about \$2,500 but was adjusted annually to reflect changes in consumer prices. The Recovery Act increased this limit to \$6,500. According to DOE, recipients are provided flexibility in establishing costs per unit limits, but are responsible for ensuring that local agencies in their territory comply with these limits. DOE guidance indicates that this average expenditure limit may be based on all work performed in a respective state instead of on a unit-by-unit basis. DOE regulations indicate that allowable expenditures to use when calculating this statewide average include labor, materials, and related matters; additionally, cost categories for administration are fixed at no more than 10 percent of the allocation. We found that states used a variety of methods in determining the items included in the calculation, making it difficult to establish that recipients are following DOE's guidance. For example, in New York, state officials determined how many total units to weatherize using Recovery Act funds by taking the state's total allocation, subtracting costs to local agencies for administration, liability insurance, capital expenditures such as for vehicles, and costs for financial audits, and then dividing the remaining allocation by \$6,500. Texas' Recovery Act state weatherization plan indicates that it plans to measure average expenditures per home by dividing the state's total expenditures for program operations by total homes weatherized using Recovery Act funds. In Georgia, the average cost calculation includes materials, labor, and program support, and state officials said agencies have the discretion to include some administrative costs under program support, if amortized. However, the calculation excludes administration, training and technical assistance, and health and safety items. Officials in North Carolina told us that the average amount that local agencies are permitted to spend is up to \$4,000 per home. In Illinois, the maximum cost per home for labor and materials is \$5,200; the remaining \$1,300 is for program support. Mississippi's state agency has directed local agencies to spend no more than \$4,500 to purchase labor and materials for each home. The remaining

\$2,000 per home may be spent on overhead costs, such as program staff salaries, travel, supplies, rent, and utilities.

Worker Training and Certification Requirements Vary among the States

DOE required recipients to address in their weatherization plans how the training of the respective state's current and expanded workforce (employees and contractors) would be conducted. According to DOE, the agency is in the process of developing a national platform for weatherization training and national standards for weatherization certification and accreditation standards program, which it estimates will take about 2 years. DOE's guidance for recipients indicates that training activities and technical assistance should be designed to maximize energy savings; minimize production costs; improve program management and crew and contractor "quality of work;" or reduce the potential for waste, fraud, abuse and mismanagement. The local service providers should be the primary recipients of training and technical assistance activities.

Most of the states that we visited require their weatherization workers to be trained and certified, but requirements varied between states, raising concerns as to whether workers were adequately trained to weatherize homes. In Iowa, for example, all crews and contractors are required to have training in lead paint safe work practices, and all auditors are required to receive training in areas such as basic furnace maintenance; mold, moisture, and ventilation; and combustion health and safety. The state reimburses local agencies for travel, meals, and lodging when workers attend state-sponsored training and the state provides local agencies with non-DOE funds that can be used for crew and contractor training and to obtain other weatherization-related training. In contrast, Texas does not require certification of local agency staff—although training is provided on topics such as heating and cooling systems, Lead Safe Weatherization, manufactured housing, and material installation techniques. In the District, officials told us there is no requirement that contractors receive special weatherization training or certification.

Other states we visited have training and certification requirements that seem less stringent than Iowa but more involved than Texas or the District. In Pennsylvania, for instance, state officials said that workers are required be certified or "on a path to certification" by July 2010. This means that all incumbent and existing weatherization workers would need to submit an application to be approved for certification, or approved with recommended coursework, prior to July 2010 (see fig. 16). In Illinois,

contractors are trained in a 1-week training course, usually offered through the local community college. One week training sessions in Illinois include basics of heat transfer and heat loss, construction fundamentals, residential energy use, energy measures, basic HVAC systems, and weatherization program overviews. According to state officials, the agency that administers the program in New York does not require certification for all weatherization workers, but it does mandate that all workers receive training in specific areas and encourages all local weatherization agencies to provide their workers with appropriate training.

Figure 16: Heating Systems Laboratory, Weatherization Training Center at the Pennsylvania College of Technology in Williamsport, Pennsylvania



Source: GAO.

Weatherization training center at the Pennsylvania College of Technology in Williamsport, Pennsylvania

Extent of Internal Controls Varied Greatly across the States We Visited

DOE has issued guidance requiring recipients of Recovery Act weatherization funds to implement a number of internal controls to mitigate the risk of fraud, waste, and abuse. DOE provides recipients with the discretion to develop and implement these internal controls in accordance with each state's weatherization plan. Local agencies use various methods to prevent fraudulent or wasteful use of Recovery Act funds, such as conducting risk assessments. For example, some local agencies reported that new contractors are subjected to a higher level of scrutiny than more experienced contractors.

The extent to which local weatherization agencies have established controls to ensure compliance with weatherization program and Recovery Act requirements varies greatly by state. While we found that internal controls existed at the local agencies we visited, we often found evidence that local officials did not consistently adhere to them, thereby making it difficult to mitigate the risk of fraud, waste, and abuse. In Florida, for instance, in over half of the 36 client files that we reviewed, we found one or more instances in which work listed as completed was not consistent with the work that was recommended. For example, installation of a new hot water heater, refrigerator, or smart thermostat was either recommended in the audit but not done, or done without a recommendation that it was needed, and the reasons for these actions were not recorded. In 22 of the 29 homes we visited in Florida, we found that all work charged to the program was authorized, performed, and appeared to be of acceptable quality, but for the other 7, some of the authorized improvements were either not completed or of questionable quality. Moreover, we found three potential health or safety issues that had not been addressed.

The state agency in Mississippi found deficiencies at one local agency relating to inventory control, health and safety issues, wage rates required by the Recovery Act's Davis-Bacon provision, and internal controls. In Pennsylvania, we found that the state's program guidelines do not specify how the agencies should manage the work subcontractors perform. For example, according to agency officials at one local agency, most changes are handled verbally, especially if they are minor—that is, below \$100. However, 8 of the 13 client files we reviewed at this agency did not contain any evidence that changes to the work order were authorized. Two of these changes were significant: a total of about \$6,000 in one case and about \$3,000 in another.

Although Some States Have Implemented Monitoring Systems, Others Are Still in Development

According to DOE officials, its monitoring policy has been significantly strengthened under the Recovery Act. DOE is in the process of hiring staff to provide national oversight to the Recovery Act weatherization program. DOE officials told us that they have increased monitoring of recipients from every two years to quarterly in most cases, and they are planning to hire a contractor to review at least 5 percent of the homes weatherized independent of the state monitoring process. DOE officials told us that each recipient will be assigned a project officer who will review the recipient's fiscal and programmatic reports. Project officers will also be responsible for coordinating site visits to the state and local agencies responsible for weatherization, as well as visiting a sample of projects being weatherized with Recovery Act funds. As part of this enhanced monitoring, DOE's weatherization project officers will be able to track each state's performance using monthly reports submitted by recipients on homes weatherized, funds spent, and other information. DOE also requires state weatherization agencies to conduct on-site monitoring of all weatherization service providers to inspect the management of funds and the production of weatherized homes. These monitoring visits consist of a financial review of the service provider's records pertaining to salaries, materials, equipment, and indirect costs; program reviews of the service provider's records, contracts, and client files; and a production review, consisting of the inspection of weatherized homes by the state agencies and by the service provider. DOE requires that each state agency inspect at least 5 percent of the weatherized homes and each service provider inspect all of the completed homes or homes in the process of being weatherized. If an inspection reveals reporting inconsistencies, quality control issues, or other problems, the state agency is generally required to increase the number of homes monitored and frequency of inspections.

We found that some states in our review, such as Mississippi and New York, have monitoring systems in place that impose additional monitoring requirements beyond those set forth by DOE. Mississippi has three levels of oversight. The first level is conducted by an independent division of the state agency that administers the program; officials from this division told us that they monitor 10 percent of the total number of homes weatherized. The division scrutinizes fiscal and programmatic records to determine, for example, whether community action agencies are meeting Davis-Bacon wage rate requirements and whether activities performed by contractors relate to the appropriate funding source. The second level of review is conducted by regional weatherization coordinators, and includes

monitoring an additional 20 percent of the total number of homes. Weatherization staff from the state's Division of Community Services are responsible for the third level of review, which includes monitoring 10 percent of the homes that were monitored by the regional coordinators, as well as an additional 2.5 percent of homes not reviewed by the regional coordinators. The second- and third-level reviews will include examining local agency files and monitoring contractor performance. New York's state weatherization agency has two sets of inspectors—program inspectors and fiscal inspectors—and both visit each local agency at least once every 2 months. Program inspectors review files to ensure that the local agency has followed program guidelines in determining eligibility and that the work has been properly inspected. Fiscal inspectors perform on-site reviews of agency accounting procedures in which they determine whether funds are properly accounted for and that the agency has proper internal controls in place.

Through active monitoring, some states have imposed more stringent monitoring or terminated contracts for local agencies found to be not in compliance with requirements. In New York, for example, two recipients of Recovery Act weatherization funds have been placed under "special conditions," which means that before any vouchers can be submitted for reimbursement, they must first be reviewed and approved by the on-site fiscal monitor. In Iowa, inspectors identified 12 major and 12 minor findings at one local agency. They found numerous weaknesses in the local agency's oversight of contractors' work, and noted that the work completed on numerous homes did not meet the required state standards. Although Recovery Act funds had not been used, the state agency believed the weaknesses were so serious that it suspended Recovery Act funding to the agency in September 2009. Mississippi also terminated the contract of a local agency, citing substandard performance by staff and contractors. Poor staff performance was attributed to a lack of supervision and oversight by local agency management, as well as the hiring of unqualified staff.

Monitoring systems in other states we visited, however, were not yet complete. In Georgia, for example, the administering agency has contracted with the University of Georgia Cooperative Extension for program oversight to be conducted by 26 monitors—13 desk monitors and 13 field monitors. However, monitoring did not start until March 2010, and 5 of the 26 positions were vacant as of April 1, 2010. As of March 31, 2010, the state agency in Illinois had not inspected any homes at 19 local agencies; these 19 agencies received more than a quarter of the state's weatherization program allocation. Finally, some state agencies have not

been meeting their own monitoring standards in the past. In Pennsylvania, for example, the state agency guidelines indicate program monitoring should be conducted a minimum of twice during the program year. We found, however, that none of the five local agencies whose files we reviewed had been monitored more than once per year, and four of the agencies did not receive an annual monitoring visit during 1 of the past 3 program years prior to the Recovery Act.

States' Methods to Ensure Weatherization Work Is Cost-Effective Vary and Many States Are Only Just Beginning to Measure Long-Term Energy Savings

A long-term goal of the weatherization program is to increase energy-efficiency through cost-effective weatherization work, and DOE relies on its recipients to ensure compliance with this cost-effectiveness requirement. By focusing more on energy savings, DOE can better ensure that the cost-effectiveness of weatherization work can be maximized. Federal regulations require that weatherization materials installed must be cost-effective, resulting in energy cost savings over the lifetime of the measures.¹⁴⁹ This is often reflected in a savings to investment (SIR) ratio of at least 1.0—meaning that the resulting energy savings from the work should be at least equal to the amount spent on the work. DOE leaves to the discretion of recipients how to ensure that their local agencies are in compliance with this measure. To assist in this measure, DOE developed the National Energy Audit Tool (NEAT) to determine the types of weatherization measures that are cost-effective in single-family homes and small multifamily buildings with fewer than five units, and developed the Manufactured Home Energy Audit (MHEA) for mobile homes. In lieu of using the NEAT and MHEA processes, recipients may develop priority lists that must be approved by DOE every 5 years. Recipients that use priority lists must ensure cost-effectiveness by developing separate priority lists for single-family homes, multifamily buildings, and mobile homes.

We found variation in how some local officials are determining what weatherization work should be performed based on consideration of cost-

¹⁴⁹Under 10 C.F.R. § 440.21(d), each individual weatherization material and package of weatherization materials installed in an eligible dwelling unit must be cost-effective. These materials must result in energy cost savings over the lifetime of the measures, discounted to present value, that equal or exceed the cost of materials, installation, and on-site supervisory personnel as defined by DOE. States have the option of requiring additional related costs to be included in the determination of cost effectiveness.

effectiveness.¹⁵⁰ Within Texas, for example, we found some local agencies are using various DOE approved processes; including NEAT, a 12-category priority list, and another energy audit tool. The Texas priority list identifies cost-effective recurring measures that can be performed on eligible homes. The approved measures are grouped by 12 major categories and include measures aimed at reducing air infiltration; sealing ducts; installing attic, sidewall, and floor insulation; replacing refrigerators and water heaters; and installing sun screens on windows. The priority list does not include replacing windows or doors but does state that a maximum of \$400 can be expended on miscellaneous repairs, such as repairing windows. In Texas, we found that by using NEAT, one agency justified spending a significant amount of Recovery Act funding installing new windows and doors, even though these measures produce a much lower payback in terms of reducing the energy costs of low-income recipients (about a 1.4 SIR) and are not included in the priority list. Conversely, another agency in Texas relied on the priority list to support installing basic weatherization measures, such as measures to reduce air infiltration and attic and wall insulation that offered much greater energy savings (some with SIRs of 14 or more) for the money invested than the windows and doors allowed by NEAT. However, based on a comparison of these two approaches, it appears that if Texas emphasized the use of the priority list whenever possible, more energy cost savings would be provided, and at the same time, less money per home would be spent on the installed weatherization measures.

In regards to measuring long-term energy savings, DOE guidance also indicates that local agencies should conduct energy audits before and after completing weatherization work and record the results. DOE has conducted surveys on the amount of energy savings over time from weatherization efforts and is currently in the process of undertaking such a survey. According to DOE officials, the agency is conducting an independent evaluation of energy savings through Recovery Act-funded weatherization and reductions in clients' energy bills. This evaluation, which is being conducted under the supervision of Oak Ridge National Laboratory, uses billing data from before and after the weatherization work took place. It will provide statistics on a regional basis and by

¹⁵⁰In Texas, 18 of the 44 local agencies were using another energy audit, Texas EZ, at the completion of our work. According to Texas officials, the EZ audit tool is being phased out after all the agencies are trained to use the NEAT audit tool. Both energy audit tools work basically the same and are used to calculate a SIR that can, in turn, be used to measure the cost-effectiveness of weatherization measures.

primary heating fuel and housing type. The results are scheduled to be issued in 2012. DOE has indicated it will focus on developing better methods for measuring energy savings in the future by, for example, working with utility companies to gain access to the utility statements of clients whose homes have been weatherized.

While some states are actively measuring energy savings, others are only just beginning to do so. Without such data, assessment of program effectiveness based upon energy savings will not be possible. Some states, such as New York and Iowa, are actively measuring energy savings. In its Recovery Act state plan submitted to DOE, New York estimated the energy savings for the 2009 program year, both on an annual basis and after 15 years. Iowa engages a private consultant each year to assess program costs and results. The most recent assessment, completed June 1, 2009, found first-year client fuel savings averaged \$388. Other states have plans to measure energy savings. The Pennsylvania state agency, for example, has entered into an agreement with Pennsylvania State University to prepare an annual report that will include, among other things, an analysis of the energy savings for the homes weatherized by each weatherization agency and an analysis of the cost-effectiveness of the individual weatherization measures. One local agency in the state was working with utility companies to obtain 13 months of energy statements for clients whose homes had been weatherized to measure energy savings over time. Georgia is implementing a statewide Web-based reporting tool expected to be in place by July 2010 that will provide real-time information about energy savings in weatherized homes. In addition, monitors will educate clients on energy savings tips and track the results of those efforts. Each of the three local agencies we visited in Georgia already collects copies of energy bills as part of the application process. Mississippi also plans to measure energy savings in weatherized homes by comparing homeowner-supplied energy bills 12 months before weatherization efforts begin to bills from the subsequent 12 months.

Weatherizing Multifamily Units Presents New Concerns and Program Officials Are Still Developing Expertise

Multifamily housing units present new concerns for agencies administering the program. DOE officials have acknowledged that multifamily projects are distinct from the weatherization of single-family homes. For example, in a study prepared for DOE's Office of the Weatherization and Intergovernmental Program in 2007, the department's Oak Ridge National Laboratory noted that program funds are used primarily for weatherization of single-family homes and evaluating the performance of multifamily residences is more complex. Although weatherizing multifamily buildings can improve production numbers quickly, state and local officials have found that expertise with multifamily

projects is limited and that they lack the technical expertise for weatherizing large multifamily buildings. We also found that state agencies are not consistently dividing weatherization costs for multifamily housing with landlords. Finally, state agencies can feel compelled to focus upon multifamily units as a way to quickly increase their production numbers.

Some state and local officials with whom we spoke acknowledged their limited expertise with multifamily projects. Officials from one local agency in Pennsylvania told us that 2 years ago, they discovered that there were no energy auditors in the state who were familiar with auditing multifamily projects. They noted that the state agency's guidance neither addresses audits nor includes a priority list for multifamily housing. North Carolina does not have an approved energy audit program or priority list to complete multifamily units, and Georgia is in the process of developing an approach to weatherize multifamily units. Iowa officials told us that they are currently developing guidelines for local agencies to pursue weatherization of multifamily buildings if they wish. They said they are not certain that they have the technical expertise for weatherizing large multifamily buildings and believed that a local agency would have to contract with an engineer or other expert to run an audit. According to state officials, it is unclear whether any Iowa local agencies will tackle a building larger than five floors because their audit tool is not appropriate for those buildings.

In contrast to most of the other states we visited, New York weatherizes a large number of multifamily dwellings. In its approved plan, the state agency in New York estimated that multifamily projects would constitute over half of its units weatherized using Recovery Act funds. But New York officials acknowledged that many factors delay the completion of multifamily projects. For example, while all local weatherization agencies in the state are approved to conduct energy audits of one- to four-family homes, only 6 out of 65 local agencies are approved to conduct their own audits of multifamily projects. The remaining agencies must contract with a state-approved entity. Local agencies' demand for more energy audits as a result of the influx of funding from the Recovery Act has created a backlog, resulting in delays in starting projects. The state agency is in the process of training local agencies to allow them to conduct their own energy audits of multifamily projects, but according to state officials, this process takes at least 1 year. The state agency hopes to have over 30 local agencies approved to do multifamily energy audits by the end of the year.

Multifamily housing weatherization also disrupts normal reporting of production. According to state officials, units in a multifamily project

cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted by the local weatherization agency. At one agency we visited in New York, over 100 one- to four-family homes had been weatherized by March 1, 2010. The director noted that in March, two multifamily projects totaling 300 units would be completed, raising the agency's production from 100 to over 400 in just 1 month.

Finally, state agencies are not consistently sharing weatherization costs for multifamily housing with landlords. In New York, the state agency's policies indicate that the owners of a multifamily project must contribute to the overall cost of the project. This contribution typically covers 25 percent of the project's cost, but the exact terms of the ownership participation are up for negotiation. In Texas, however, owners of multifamily rental properties are not required to make any contribution to weatherization project costs. Similarly, Iowa state officials said that its current state policy does not require landlords to contribute to weatherization costs.

Despite the lack of familiarity with weatherizing multifamily units, states can feel compelled to focus upon them as a way to quickly increase their production numbers. For example, the Texas state agency that administers weatherization at the state level recognized that achieving its weatherization target will be dependent upon increased attention to weatherizing multifamily units. Moreover, Texas state officials told us DOE encouraged the weatherization of multifamily units. However, Texas state officials also recognize that they and staff in their local agencies have limited experience and training on weatherizing multifamily units. The state agency's on-site inspections of 27 multifamily units weatherized by one local agency found that the work completed on 13 units was not acceptable and return visits to correct workmanship deficiencies would be required. These findings were consistent with our own observations at one multifamily site. Accordingly, they have been working with DOE to develop critically-needed training.

Conclusions

The weatherization program requires cooperation and coordination between numerous federal, state, and local agencies. Together, these entities face challenges in meeting increased production targets while ensuring program requirements are being met in a consistent manner. We have identified a number of concerns related to the program's implementation, including (1) ensuring the eligibility of clients, (2) calculating maximum average cost per unit, (3) establishing training and certification for workers, (4) installing and enforcing internal controls at local agencies, (5) monitoring of the work, and (6) developing and

implementing standards for measuring the cost-effectiveness of weatherization work. Furthermore, although weatherizing multifamily units is considered a way to quickly increase the number of weatherized homes, it presents new concerns for agencies administering the program, including a lack of technical expertise for weatherizing large multifamily buildings, inconsistencies in cost-sharing arrangements with landlords, and a tendency to rely upon the weatherization of multifamily units as a way to quickly increase production numbers.

Recommendations for Executive Action

Given the concerns we have raised about whether program requirements are being met, we recommend that DOE, in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that

- establishes best practices for how income eligibility should be determined and documented and issues specific guidance that does not allow the self-certification of income by applicants to be the sole method of documenting income eligibility.
- clarifies the specific methodology for calculating the average cost per home weatherized to ensure that the maximum average cost limit is applied as intended.
- accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, which is currently expected to take 2 years to complete.
- develops a best practice guide for key internal controls that should be present at the local weatherization agency level to ensure compliance with key program requirements.
- sets time frames for development and implementation of state monitoring programs.
- revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.

-
- considers and addresses how the weatherization program guidance is impacted by the introduction of increased amounts of multifamily units.

In addition, given that state and local agencies have felt pressure to meet a large increase in production targets while effectively meeting program requirements and have experienced some confusion over production targets, funding obligations, and associated consequences for not meeting production and funding goals, we recommend that DOE clarify its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting program requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to DOE for review and comment. In its response, DOE officials generally agreed with our recommendations and indicated that they will take steps to develop and clarify program guidance related to the issues GAO raised. DOE also provided technical comments reflecting recent agency actions and achievements, which we incorporated, as appropriate.

While Housing Agencies Met the Recent Recovery Act Obligation Deadline, HUD Has Not Finalized Its Strategy for Monitoring Recovery Act Funds Going Forward

The Recovery Act required the U.S. Department of Housing and Urban Development (HUD) to allocate \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. HUD allocated Capital Fund formula dollars to 3,134 public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with housing agencies, obligated these funds on March 18, 2009. Public housing agency officials said they are using these funds to support a variety of improvement projects at public housing sites, including roofing and gutter work, replacing windows and doors, rehabilitating unit interiors, and replacing heating, cooling, and hot water systems.

The Recovery Act required that housing agencies obligate 100 percent of their formula grant funds within 1 year of when the funds became available to them and directed HUD to recapture funds not obligated at that time and to reallocate them to housing agencies in compliance with the obligation requirement. According to HUD officials, all housing agencies met the March 17, 2010, formula grant obligation deadline by either obligating all of their funds by March 17, 2010, or rejecting or returning a portion of their formula grant funds. The Recovery Act also required that housing agencies expend 60 percent of their formula grant funds within 2 years from when the funds became available and expend



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United States Government Accountability Office
Washington, DC 20548

June 30, 2010

Mr. Don Thompson
Executive Director
Mississippi Department of Human Services
750 North State Street
Jackson, MS 39202

*Subject: Independent Oversight of Recovery Act Funding for Mississippi's
Weatherization Assistance Program*

Dear Mr. Thompson:

The American Recovery and Reinvestment Act of 2009 (Recovery Act) assigns GAO a range of responsibilities to help promote accountability and transparency.¹ One of the act's recurring requirements includes having GAO conduct bimonthly reviews of selected states' and localities' use of funds made available under the act.² GAO's review of the use of Recovery Act funding in Mississippi this year included the Weatherization Assistance Program. The Weatherization Assistance Program, administered by the Office of Energy Efficiency and Renewable Energy within the U.S. Department of Energy (DOE), enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating equipment, air circulation fans, and air-conditioning equipment. For a full description and requirements of the Weatherization Assistance Program, see appendix XVIII of GAO-10-605SP.

As part of our overall review of the weatherization program in Mississippi, we visited community action agencies responsible for weatherization activities located in Columbia, D'Lo, McComb, and Meridian. In our review of client files, and other data provided by the Division of Community Services (DCS) personnel and one community action agency, we found several problems at the community action agency, which we shared with DCS. We also identified issues concerning the quality of oversight of the program by Mississippi Department of Human Services' (MDHS) Division of Program Integrity (DPI), which we have discussed with MDHS officials. This correspondence confirms the substance of our conversations with DCS and MDHS officials. Accordingly, we are reporting on (1) the extent that the state monitoring program provides sufficient oversight of community action agencies to ensure that the agencies expend Recovery Act funds effectively while preventing

¹ Pub. L. No. 111-5, 123 Stat. 115 (Feb 17, 2009).

² Recovery Act, div. A, § 901, 123 Stat. 191

fraud, waste and abuse, and (2) the extent that local agencies have sufficient internal controls in place to ensure that the agencies expend Recovery Act funds effectively while preventing fraud, waste and abuse. We conducted this performance audit from January 2010 through May 2010 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program—which DOE is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes. DOE allocated \$49.4 million in Recovery Act funding to Mississippi for its Weatherization Assistance Program. This represents a large increase in funding over prior years when the state’s allocation typically ranged from \$1.5 million to \$2 million. The increased funding will allow more than 5,000 homes to be weatherized in Mississippi. As of March 31, 2010, 2,460 or 45 percent of planned homes had been weatherized. The program is scheduled to be completed March 30, 2012.

DCS, a division within MDHS, is responsible for administering these funds and overseeing the weatherization activities of the nine sub grantees or community action agencies responsible for weatherizing homes. In order to ensure that these funds are expended appropriately and efficiently, DOE requires that DCS monitor the programmatic and fiscal operations of community action agencies.

In March 2009, DOE established requirements for the use of Recovery Act funds for the Weatherization Assistance Program.³ As such, DCS is required to conduct comprehensive monitoring of each community action agency at least once a year. This is to include a review of client files and community action agency records, as well as the inspection of at least 5 percent of the weatherized units or units in the process of being weatherized. While not required, DOE strongly encourages the inspection a higher percentage of units.

DCS Monitoring Efforts Identified Mismanagement in the Weatherization Program

DCS has implemented a monitoring plan that generally exceeds the requirements established by DOE. In its Recovery Act training and technical assistance review plan, DCS states that it plans to monitor more than 22 percent of all homes completed. As of March 31, 2010, DCS has monitored 33 percent, and has set a goal for itself to monitor 40 percent of all homes completed from April 2010 through the end of the program. It was during the course of monitoring community action agencies’ weatherization activities that DCS identified significant mismanagement by one community action agency, Southwest Mississippi Opportunity (SMO).

³ Weatherization Program Notice 09-1B, Department of Energy, March 12, 2009.

DCS determined that SMO failed to provide adequate oversight of contractors weatherizing homes and SMO program staff. Specifically, DCS determined that SMO staff did not perform adequate inspections of homes weatherized and that 23 of 40 homes weatherized by SMO contractors exhibited poor workmanship. DCS also determined that SMO was 188 homes behind schedule. Other problems identified by DCS included incomplete client files and a lack of qualified staff. DCS subsequently terminated its subgrant with SMO because of SMO's failure to take corrective action as directed by DCS.

During the course of GAO's review of SMO's client files we determined, and DCS concurred, that SMO paid contractors in excess of the levels established by DCS. The Director of DCS told us that the amount paid for labor should not exceed 110 percent of material costs. GAO determined that SMO had paid contractors between 200 percent and 400 percent of material cost. Because these actions did not correspond with DCS policy, DCS has required that SMO reimburse more than \$38,000 in Recovery Act funding to DCS. DCS subsequently modified its guidelines for community action agencies regarding labor costs, raising the rate from 110 percent to 125 percent. The new rate is significantly lower than that paid by SMO.

During our review of client files we also found that the reporting of labor costs by community action agencies visited were not uniform, and, in some cases, labor costs were unclear, and we could not determine what work those costs reflected. In response DCS has implemented a uniform labor invoice form to be included in all client files, which should aid in future file reviews.

Independent Monitoring of the Weatherization Assistance Program Can Better Assure the Program's Integrity

MDHS' DPI is responsible for performing independent reviews of all federal grants received by MDHS that are administered by its divisions such as DCS. For the Recovery Act Weatherization Assistance Program, MDHS requires DPI to monitor fiscal and programmatic records. In addition, DPI has established a policy to inspect 10 percent of homes completed by each community action agency.

DPI monitors visited SMO in early December 2009 and inspected the files and homes of 10 clients, as well as SMO's fiscal and program operations. DPI's visit coincided with DCS' ongoing review of SMO which resulted in termination of SMO's Recovery Act Weatherization Assistance Program. DPI monitors did not identify any problems with SMO's fiscal and program operations although SMO had paid contractors in excess of levels established by DCS. MDHS officials stated that DPI monitors did not find problems with the 10 homes inspected because their visit was performed after the initial problems were found and corrected. However, DPI officials previously stated that they were unaware that DCS had directed SMO to discontinue home weatherization because of poor workmanship. A draft report prepared by DPI stated that there were no significant adverse findings noted during its review of SMO.

Given the large increase in funding for the Weatherization Assistance Program we believe there is a need for vigorous and independent oversight of the program to ensure that Recovery Act funds are spent efficiently and effectively. Based on the findings discussed above we believe that the Weatherization Assistance Program

would benefit by ensuring that DPI reviews are sufficiently thorough to ensure that special attention is paid to weatherization financial and program files in an effort to identify problems such as those found at SMO. Similarly, we believe that MDHS should ensure that DPI coordinates the results of their reviews of weatherization activities by community action agencies with DCS.

Agency Comments and Our Evaluation

MDHS provided us with written comments on a draft of this correspondence. The comments are enclosed.

MDHS concurred with our finding that SMO paid contractors beyond acceptable levels as set by DCS and agreed with our statement that DCS required SMO to reimburse \$38,000 in Recovery Act funding. MDHS also provided updated information regarding the \$16,000 of disallowed costs incurred by SMO. MDHS stated that these funds have been accounted for and thus SMO is not required to refund them. Our correspondence has been amended accordingly.

MDHS commented on our characterization of DPI and DCS interaction regarding the review of SMO. We stated that DPI officials told us that they did not coordinate their review of SMO with DCS and were unaware of the problems discussed above, referring to problems DCS found at SMO. MDHS stated that we did not explain that DPI does not coordinate regular monitoring visits with any funding division in order to maintain independence of the funding division's relationship with the subgrantee. While a level of independence between DPI and DCS may be necessary it should be noted that because DPI did not coordinate with DCS, DPI was unaware of issues with SMO that were so significant as to warrant terminating home weatherization by SMO. In addition, because DPI was unaware of these problems it prepared a draft report that stated there were no significant adverse findings noted during its review of SMO. We have amended our correspondence to reflect the fact that DPI should coordinate the results of their weatherization monitoring activities with DCS to ensure that reports are thorough and accurate.

MDHS disagreed with our statement that DPI did not identify any of the problems that DCS identified. According to MDHS the reason DPI did not find any problems in the homes was because they had already been corrected. We amended our correspondence to reflect MDHS' concern. However, we continue to believe that all home inspections should include a thorough review of program files because, as we note, SMO had paid contractors far above levels established by DCS. Notably, 5 of the ten homes inspected by DPI had overpayments of between 300 percent and 400 percent of material costs, which indicates that DPI's inspections need to be more robust.

We are sending copies of this report to DOE's National Energy Technology Laboratory in Pittsburgh, Pennsylvania; Mississippi's Office of the State Auditor; and Mississippi's Recovery Act Coordinator, Office of the Governor. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John K. Needham". The signature is fluid and cursive, with a long horizontal line extending to the right.

John K. Needham

Director
Acquisition and Sourcing Management Issues

Enclosure

Comments from Mississippi Department of Human Services



STATE OF MISSISSIPPI
HALEY REEVES BARBOUR, GOVERNOR
DEPARTMENT OF HUMAN SERVICES
DON THOMPSON
EXECUTIVE DIRECTOR

June 18, 2010

Mr. John K. Needham, Director
Acquisition and Sourcing Management Issues
U.S. Government Accountability Office
Washington, D.C. 20548

Re: Independent Oversight of Recovery Act Funding for Mississippi's Weatherization Assistance Program

Dear Mr. Needham:

This correspondence is in response to your June 2010 letter regarding the Mississippi Department of Human Services, Division of Community Services' (DCS) and Division of Program Integrity's (DPI) supervision and monitoring of Mississippi's Weatherization Assistance Program. The Government Accountability Office (GAO) conducted a performance audit from January 2010 through May 2010 by visiting various community action agencies responsible for weatherization activities in Mississippi. As a result of GAO's findings and concurrent with the aforementioned letter, the state continues its efforts to provide sufficient oversight of this program. Listed below are responses and improvement plans currently in progress to address the state's monitoring and implementation abilities:

1. On page three of the GAO Draft Report session entitled DCS Monitoring Efforts Identified Mismanagement in the Weatherization Program, it states that the Director of DCS quoted that the amount paid for labor should not exceed 110 percent of material costs. DCS subsequently increased the labor costs guidelines for community action agencies, raising the rate from 110 to 125 percent of material costs. Therefore, the amount paid for labor should not exceed 125 percent of material costs. It was determined by GAO that Southwest Mississippi Opportunity (SMO) paid contractors between 200 and 400 percent of material costs. These actions did not correspond with DCS policy.

2. In the same paragraph on page three, the report states that as a result of the overpayment of material costs to SMO contractors, DCS required SMO to reimburse more than \$38,000 in Recovery Act funding. The Executive Director of SMO also provided documentation of \$16,000 of expenses incurred to rework homes that had not been weatherized properly. After a

Mr. Needham
June 18, 2010
Page two

review of these expenditures, DCS learned that they were coded incorrectly. Therefore, it was determined that the disallowed cost was \$1,998.44 and the remaining \$14,001.56 was eligible expenditures. DCS ceased processing Requests for Cash in December of 2009 and no additional requests were processed because of the problems that were identified at SMO. This action minimized additional costs from being incurred by SMO in finalizing weatherized homes and operational costs. At this time, SMO is not required to refund DCS because all available funds were accounted for.

3. GAO stated on page three of the draft report under the heading Independent Monitoring of the Weatherization Assistance Program Can Better Assure the Program's Integrity that DPI monitored SMO in December 2009. DPI officials told GAO that "they did not coordinate their review of SMO with DCS and were unaware of any problems." This is true; however, it was not explained that DPI does not coordinate regular monitoring visits with any funding division in order to maintain independence of the funding division's relationship with the subgrantee.

4. The same paragraph on page three of the draft report states that "DPI did not identify any of the problems that were identified by DCS during the same period." This monitoring visit of the work performed on the homes would warrant no problems because this visit was performed after the initial problems were found and corrected. Therefore, the monitors would not have been expected to find any problems. DPI agrees that the monitors did not pick up on the fiscal problems noted by DCS.

5. Communication between the DCS and DPI has been substantially increased to ensure the accountability of the ARRA Weatherization funds and these divisions will continue to work together cooperatively on new guidelines, policies, ideas and challenges.

We appreciate this opportunity to provide input to your draft report. Please contact Sollie Norwood, Director of Community Services at (601) 359-4768 or sollie.norwood@mdhs.ms.gov or Laura Griffin, Director of Program Integrity at (601) 359-4900 or laura.griffin@mdhs.ms.gov if you have questions or need additional information.

Sincerely,



Don Thompson

DT:lb

cc: Jim Elgas, Senior Analyst, Mississippi Team
Sollie Norwood
Laura Griffin

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U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Preliminary Audit Report

Management Controls over the
Commonwealth of Virginia's Efforts
to Implement the American
Recovery and Reinvestment Act
Weatherization Assistance Program



OAS-RA-10-11

May 2010



Department of Energy
Washington, DC 20585

May 26, 2010

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND
RENEWABLE ENERGY

George W. Collard

FROM: George W. Collard
Assistant Inspector General
for National Security and Energy Audits
Office of Inspector General

SUBJECT: INFORMATION: Preliminary Audit Report on "Management Controls
over the Commonwealth of Virginia's Efforts to Implement the
American Recovery and Reinvestment Act Weatherization Assistance
Program"

BACKGROUND

The Department of Energy's (Department) Weatherization Assistance Program received \$5 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to improve the energy efficiency of homes, multi-family rental units and mobile homes owned or occupied by low-income persons. Subsequently, the Department awarded a three-year Weatherization Assistance Program grant for \$94 million to the Commonwealth of Virginia (Virginia). This grant provided more than a ten-fold increase in funds available to Virginia for weatherization over that authorized in Fiscal Year (FY) 2009. Corresponding to the increase in funding, the Recovery Act increased the limit on the average amount spent to weatherize a home (unit) from \$2,500 to \$6,500.

Virginia's Department of Housing and Community Development (DHCD) administers the Recovery Act grant through 22 local community action agencies. These agencies (sub-grantees) are responsible for determining applicant eligibility, weatherizing homes, and conducting home assessments and inspections. Typical weatherization services include installing insulation; sealing ducts; tuning and repairing furnaces; and, mitigating heat loss through windows, doors and other infiltration points. Virginia plans to use its Recovery Act Weatherization funding to weatherize about 9,193 units over the life of the grant – a significant increase over the 1,475 housing units that were planned to be completed in FY 2009. Given the significant increase in funding and the demands associated with weatherizing thousands of homes, we initiated this audit to determine if Virginia had adequate safeguards in place to ensure that the Weatherization Program was managed efficiently and effectively.

CONCLUSIONS AND OBSERVATIONS

The State of Virginia's DHCD had not implemented financial and reporting controls needed to ensure Weatherization Program funds are spent effectively and efficiently. Specifically, DHCD had not:

- Performed on-site financial monitoring of any of its sub-grantees under the Recovery Act;

- Reviewed documentation supporting sub-grantee requests for reimbursements to verify the accuracy of amounts charged;
- Periodically reconciled amounts paid to sub-grantees to the actual cost to weatherize units;
- Maintained vehicle and equipment inventories as required by Federal regulations and state and Federal program directives; and,
- Accurately reported Weatherization Program results to the Department.

Exacerbating weaknesses in DHCD's financial controls, the Department's most recent program monitoring visit to Virginia, made in 2008 before passage of the Recovery Act, did not include a required financial review. Hence, the financial control weaknesses discussed above were not detected and had not been addressed. As described in this report, these control and reporting weaknesses increase the risk that Recovery Act objectives may not be achieved and that fraud, waste or abuse can occur and not be detected in this critically important program.

Financial Controls

Despite the increase in funding, DHCD had not made any on-site financial monitoring visits to its 22 sub-grantees under the Recovery Act. In fact, Virginia had not conducted financial monitoring in the past 18 months. Virginia's Recovery Act and prior year Weatherization Program State Plans, as approved by the Department, required DHCD to conduct on-site monitoring visits at least annually to sub-grantees to review, among other things, their financial activities. Such on-site visits are especially important to verify the accuracy of sub-grantee costs, since DHCD does not require sub-grantees to provide supporting documentation when they submit their requests for reimbursement of costs incurred to weatherize homes. Using the sub-grantee data, DHCD creates sub-grantee invoices that are processed for payment. Because of the lack of supporting documentation and inadequate financial monitoring, the accuracy of DHCD's payments to sub-grantees could not be verified. As result of our review, Virginia officials informed us that they are now requiring sub-grantees to submit supporting documentation with their requests for reimbursement. We plan to follow-up on these claims when we conduct test work at the community action agency level.

In addition to the lack of documentation supporting claims, DHCD allowed sub-grantees to submit invoices for reimbursement based on their average cost to weatherize units. However, DHCD had not performed periodic reconciliations of actual costs to the average amounts claimed by sub-grantees. Given the anticipated increase in the volume of Recovery Act transactions, such reconciliations will be especially important to ensure that the amount paid to sub-grantees, based on an average cost per unit estimate, accurately reflects the sub-grantees actual cost to weatherize units. Further, the reconciliations will help Virginia ensure that sub-grantees do not exceed the \$6,500 limit on the average cost to weatherize a unit.

Finally, DHCD had not maintained vehicle and equipment inventories as required by the Department, Virginia's weatherization program guidance, and Federal regulations. According to Federal regulations and Weatherization Program requirements, vehicles and equipment

purchased with Federal funds that cost more than \$5,000 must be recorded and reported as Program assets. Despite these requirements, no inventory information existed. In the absence of such information, we requested that the Department and DCHD use their procurement systems to identify vehicles and equipment that met the \$5,000 threshold, and we were subsequently provided with a list of such items. We contacted one sub-grantee and determined that the list was incomplete. We ultimately identified two vehicles and a piece of equipment valued at over \$88,000, in total, that neither DHCD nor the Department were aware of.

The absence of inventory records hinders the ability of the Department and Virginia to determine whether sub-grantee requests for purchases of additional equipment and vehicles are reasonable and allowable and to determine whether disposal of such equipment is in accordance with Federal regulations. Under the Weatherization Program, vehicles and equipment must either continue to be used for weatherization efforts or be made available to other organizations, subject to Department approval. The risk that assets will not be properly safeguarded increases significantly in the absence of records.

Reporting

The number of weatherized homes DHCD reported to the Department differed significantly from the number of homes reported by sub-grantees. DHCD's quarterly report to the Department indicated that 316 homes had been weatherized during the period July 1, 2009, through September 30, 2009. In contrast, DHCD's sub-grantee reporting database showed that sub-grantees had submitted data indicating that 978 homes had been weatherized during the same reporting period.

Reporting weaknesses resulted from untimely sub-grantee reporting, a lack of reconciliation of databases, and DHCD's inability to automatically update information provided to the Department. The Department requires grantees to report weatherization information 30 days after the end of each quarter. To meet the deadline, DHCD requires sub-grantees to report weatherization information 10 days after the end of the quarter. For the period July 1, 2009, through September 30, 2009, 10 of 22 sub-grantees missed the DHCD reporting deadline of October 10, 2009. Given the late filings, DHCD officials told us that they decided to use disbursement records as a basis for reporting the number of weatherized homes. Subsequent sub-grantee reports, however, identified the previously mentioned 978 units as having been completed by September 30, 2009. DHCD had not reconciled production numbers reported by sub-grantees to the numbers extracted from disbursement records. Further, DHCD had not provided the updated information to the Department because it did not have on-line access to the Department's systems.

Accurate quarterly reporting is especially important since, at the time of our review, DHCD did not have the technical capability to remotely access the database used by the Department to maintain up-to-date records on the number of homes weatherized with Recovery Act funds. DHCD had physically relocated and had failed to set up modem access to the Department's systems. As a result, DHCD made a one-time quarterly submission to the Department and did not update its production records until the end of the next reporting quarter. DHCD officials reported that access issues have been resolved.

Resources

The weaknesses we identified were, in large part, attributable to insufficient staffing and a lack of adequate reporting systems. At the time of our review, DHCD only had one full-time person assigned to the Weatherization Assistance Program. Although this individual was supported by part-time administrative staff assigned to other economic development programs, and a part-time technical monitor, no financial monitor was assigned to the Weatherization Program effort. Lacking a financial monitor, DHCD was unable to evaluate the accuracy of sub-grantee invoices and ensure that financial controls were in place at the sub-grantee level. DHCD recognized staffing deficiencies and planned to hire five additional staff – including a full-time financial monitor. However, Virginia's state-wide budget crisis resulted in delayed implementation of the DHCD hiring plan. The hiring plan was not approved by the Governor until September 2009. Since that time, officials report that DHCD has hired five additional staff, including a full-time financial monitor.

DHCD also did not have the reporting systems needed to handle the significant demands of the Recovery Act. Program officials noted that Virginia's sub-grantee reporting database was out-dated and that it did not have the capability to report the level of detail needed to comply with Recovery Act reporting requirements. To its credit, DHCD plans to purchase a new web-based system to improve its ability to report cost and production information.

Finally, Department officials reported that limited staff and competing demands had an impact on the extensiveness of Federal monitoring efforts. The Department also intends to increase the number of project officers it has on board to oversee the Weatherization Program so that the frequency and quality of on-site monitoring can be improved.

RECOMMENDATIONS

To achieve the objectives of the Recovery Act, it is important that the Department and Virginia have effective financial and reporting controls. Virginia has the opportunity to improve the health and safety of low-income citizens as well as significantly reduce their energy consumption. Unless the weaknesses identified in this report are addressed, the risk of failing to achieve Recovery Act goals, along with the risks of fraud, waste and abuse, will increase.

To ensure the success of the Weatherization Assistance Program, we recommend that the Department's Assistant Secretary for Energy Efficiency and Renewable Energy (EERE) ensure that:

1. Virginia establishes financial and reporting controls, including:
 - a. Conducting on-site monitoring of sub-grantee financial activities as required by its approved Weatherization Program State Plan;
 - b. Reviewing prior sub-grantee billings and seeking reimbursement for any amounts erroneously charged;
 - c. Periodically reconciling the amount of funds invoiced and reimbursed to sub-grantee's actual costs;

- d. Maintaining inventories of vehicles and equipment; and,
- e. Correcting identified production reporting weaknesses.

2. Federal project officers responsible for monitoring grantees include financial reviews and evaluations of reporting capability in their on-site monitoring visits.

In addition to our work at DHCD, we also plan to evaluate the sufficiency of internal controls at a sample of Virginia's community action agencies. Because of the importance of improving the effectiveness of the Weatherization Program, we are issuing this preliminary report discussing the adequacy of Virginia's controls over Recovery Act funds used to weatherize housing units. Our final report will be issued upon completion of work at Virginia's community action agencies.

MANAGEMENT COMMENTS

The Department's Office of Energy Efficiency and Renewable Energy provided a response to our report that included planned actions to address our recommendations. Specifically, management indicated it will take action to assist Virginia in correcting weaknesses in its financial and reporting controls. Management noted that it will update its monitoring procedures to address the issues and recommendations contained in this report.

EERE's response and planned corrective actions are responsive to our recommendations. Management's comments are provided in their entirety in Attachment 2.

Attachments

cc: Deputy Secretary
Under Secretary of Energy
Chief of Staff
Director, Office of Risk Management
Team Leader, Office of Risk Management, CF-80
Audit Resolution Specialist, Office of Risk Management, CF-80
Audit Liaison, Office of Energy Efficiency and Renewable Energy, EE-3A
Audit Liaison, Golden Field Office
Audit Liaison, National Energy Technology Laboratory

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Commonwealth of Virginia (Virginia) can provide assurance that the goals of Weatherization Assistance Program, as stated in the American Recovery and Reinvestment Act of 2009 (Recovery Act), will be met and accomplished efficiently and effectively.

SCOPE

This interim report contains the results of an audit performed between July 2009 and March 2010 at Department of Energy (Department) Headquarters in Washington, D.C., and the National Energy Technology Laboratory (NETL) in Pittsburgh, Pennsylvania. We also performed audit work at Virginia's Department of Housing and Community Development in Richmond, Virginia. We made site visits to two community action agencies located in Richmond and Charlottesville, Virginia, and visited a home while weatherization work was being performed.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable laws, regulations, and guidance pertaining to the Weatherization Assistance Program under the Recovery Act; as well as laws, regulations and guidance applicable to Virginia's Weatherization Program;
- Held discussions with Energy Efficiency and Renewable Energy, NETL and Virginia officials to discuss current and ongoing efforts to implement the requirements of Weatherization Assistance Program under the Recovery Act; and,
- Reviewed Community Action Agency financial information and reports from Virginia's Weatherization Program to determine the accuracy of the number of homes weatherized.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We considered the establishment of Recovery Act performance measures, which included certain aspects of compliance with the Government Performance and Results Act of 1993, as necessary to accomplish the objective. We conducted a limited reliability assessment of computer-processed data and we deemed the data to be sufficiently reliable to achieve our audit objective.

We held an exit conference with Department officials on May 26, 2010.



Department of Energy

Washington, DC 20585

April 27, 2010

MEMORANDUM FOR GEORGE COLLARD
 ASSISTANT INSPECTOR GENERAL FOR PERFORMANCE AUDITS
 OFFICE OF THE INSPECTOR

FROM: KATHLEEN B. HOGAN 
 DEPUTY ASSISTANT SECRETARY FOR ENERGY EFFICIENCY
 OFFICE OF TECHNOLOGY DEVELOPMENT
 ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to the Office of Inspector General Draft Report on the Audit of
 "The Commonwealth of Virginia's Efforts to Implement the American
 Recovery and Reinvestment Act Weatherization Program."

The Department of Energy's (DOE) Office of Energy Efficiency and Renewable Energy appreciates the opportunity to review and comment on the results of the audit performed on "The Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Program."

DOE's responsibility is to provide program management and monitoring of the Weatherization Assistance Program (WAP) to ensure that regulations, guidance and requirements are followed by the recipient. Under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5), DOE modified the federal monitoring protocol. The DOE monitoring plan was finalized and updated on March 3, 2010, and can be located at <http://www1.eere.energy.gov/wip/pdfs/owip-monitor-plan.pdf>. DOE has hired eighteen (18) Project Officers to date and will hire another ten (10) Project Officers within the next sixty (60) days. These staff persons are assigned to specific states and are responsible for continued contact, oversight, desk auditing, and on-site monitoring of grantee and sub-grantee activities. DOE also developed a prescriptive monitoring procedural manual to be used by the Project Officers during their desk audits and on-site visits. All monitoring activities being conducted by DOE are critical to ensuring that each grantee executes the program in a manner that minimizes waste, fraud, and abuse. The DOE monitoring manual has already been put into practice. The manual is a living document and will be updated to address all of the recommendations brought forth in the IG Draft Report on Virginia.

The recommendations of the Office of the Inspector General are listed below in bold font. DOE is providing a summary of its present and future management and oversight activities. These actions serve to ensure that Virginia has identified and executed appropriate corrective actions to address the weaknesses in its' financial and reporting controls.

1. Virginia establishes financial and reporting controls, including:

a. Conducting on-site monitoring of sub-grantee financial activities as required by its approved Weatherization Program State Plan;

- The DOE project officer is scheduled to monitor the Commonwealth of Virginia on April 26-30, 2010. The project officer will review the number and types of on-site monitoring visits Virginia has completed of their 22 sub-grantee agencies. The project officer will visit, along with the State representative, Rappahannock Area



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Agency on Aging and Williamsburg-James City County Community Action Agency during the April 26-30, 2010 monitoring review.

- The contracting officer will begin the desktop financial monitoring on April 26, 2010, in conjunction with the project officer on-site monitoring visit
- DOE will require Virginia to submit dates that financial monitoring was conducted and a sample of financial monitoring reports for review.
- The Weatherization Assistance On-Site Monitoring Checklist will be completed by May 14, 2010.

b. Reviewing prior sub-grantee billings and seeking reimbursement for any amounts erroneously charged;

- During the on-site monitoring visit on April 26-30, the DOE project officer will ensure that Virginia has established and is using a process for reviewing sub-grantee billings.
- The DOE project officer will ensure that Virginia has established a process for identifying and collecting erroneously charged reimbursements.
- DOE monitoring will include a verification of systems and processes to ensure accuracy in billing and reimbursement. The project officer will review the billing and reimbursement process in subsequent monitoring visits.

c. Periodically reconciling the amount of funds invoiced and reimbursed to sub-grantee's actual costs;

- The DOE monitoring will include verification that state processes include a periodic reconciliation of invoices and reimbursements.

d. Maintaining inventories of vehicles and equipment;

- The DOE project officer will provide technical assistance to Virginia in order to connect the State with other grantees to provide best practices on inventory control and management systems.

e. Correcting identified production reporting weaknesses.

- The State program manager has indicated that there are flaws in the database system that can create duplicate production numbers. During the on-site monitoring visit on April 26-30, the DOE project officer will review the database system to understand its output and to validate that the grantee has taken appropriate measures to ensure that database deficiencies have been appropriately identified and corrected. The goal is to ensure that data generated by the production reporting system are reliable. Virginia has plans to purchase a new database system. The grantee will update the project officer on the status of securing the new database system during the monitoring visit.

2. Federal project officers responsible for monitoring grantees include financial reviews and evaluations of reporting capability in their on-site monitoring visits.

- The project officer and contract officer monitoring processes will be coordinated to ensure financial reviews are completed and the project officer will evaluate the reporting systems and accuracy during on-site monitoring.
- Project officer already reviews and will continue to review monthly and quarterly reports in a timely manner to ensure these reports meet the requirements of DOE.

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4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?
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ARRA MONITORING, READINESS, AND GREEN LIGHT AND GREEN LIGHT 2 VISITS AND CALLS, AND NEPA VISITS

Abbreviated Monitoring for Recovery Act Work Completed		
Texas	WAP	April 6-9, 2009
Tennessee	WAP	April 7-9, 2009
West Virginia	WAP	April 7-9, 2009
Arizona	WAP	April 8-10, 2009
Ohio	WAP	April 7-9, 2009
District of Columbia	WAP	April 8-10, 2009
South Carolina	WAP	April 13-14, 2009
Illinois	WAP	April 13-16, 2009
Michigan	WAP	April 13-17, 2009
North Carolina	WAP	April 15-17, 2009
Iowa	WAP	April 21-23, 2009
Pennsylvania	WAP	April 21-23, 2009
Wisconsin	WAP	April 21, 2009
Minnesota	WAP	April 22-23, 2009
Indiana	WAP	April 27-30, 2009
Kentucky	WAP	May 4-8, 2009

Readiness Visits w/HQ Completed		
Guam	WAP	June 15-19, 2009
CNMI	WAP	June 20-24, 2009
Hawaii	WAP	June 27-30, 2009
American Samoa	WAP	July 1- 5, 2009
New York	WAP	July 26, 2009
New Jersey	WAP	August 3, 2009
Pennsylvania	WAP	August 5, 2009
Louisiana	WAP	August 5-7, 2009
North Carolina	WAP	August 11, 2009
Missouri	WAP	August 26, 2009
Michigan	WAP	August 31, 2009
Indiana	WAP	September 1, 2009
Puerto Rico	WAP	September 2, 2009
California	WAP	September 7-10, 2009
Navajo	WAP	October 1, 2009
South Carolina	WAP	October 5, 2009
Tennessee	WAP	October 6, 2009
Virgin Islands	WAP	October 19, 2009
Nevada & Western States Meeting	WAP	November 3-6, 2009
Washington	WAP	November 13, 2009

LIGHT 2 VISITS AND CALLS, AND NEPA VISITS

WAP Green Light Completed

District of Columbia	WAP	November 6, 2009
California	SEP&WAP	November 16, 2009
Pennsylvania	SEP & WAP	November 17, 2009
Washington	SEP&WAP	November 17-18, 2009
Wyoming	WAP	November 17, 2009
New Jersey	WAP	November 18, 2009
Michigan	SEP&WAP	November 18-20, 2009
Indiana	WAP	November 18, 2009
North Carolina	WAP	November 30, 2009
Tennessee	WAP	December 10, 2009

WAP Greenlight 2 Conference Calls

Pennsylvania	WAP	March 16, 2010
Delaware	WAP	March 16, 2010
Ohio	WAP	March 18, 2010
Mississippi	WAP	March 22, 2010
California	WAP	March 23, 2010
Idaho	WAP	March 24, 2010
Kentucky	WAP	March 29, 2010
Michigan	WAP	March 30, 2010
Illinois	WAP	March 30, 2010
Rhode Island	WAP	March 30, 2010
Connecticut	WAP	March 31, 2010
Puerto Rico	WAP	March 31, 2010
Vermont	WAP	March 31, 2010
Arkansas	WAP	April 1, 2010
Virginia	WAP	April 2, 2010
Wisconsin	WAP	April 5, 2010
Virgin Islands	WAP	April 5, 2010
New York	WAP	April 6, 2010
Florida	WAP	April 6, 2010
District of Columbia	WAP	April 7, 2010
Alabama	WAP	April 7, 2010
North Carolina	WAP	April 8, 2010
New Hampshire	WAP	April 8, 2010
Tennessee	WAP	April 8, 2010
Maine	WAP	April 9, 2010
Oklahoma	WAP	April 15, 2010

LIGHT 2 VISITS AND CALLS, AND NEPA VISITS

Technical Assistance Visits

Completed

Navajo Nation	WAP	December 14-16, 2009
New York, Maine	WAP	December 15-16, 2009
Virginia	WAP	January 19-20, 2010
Maryland	WAP	January 21, 2010
Georgia	WAP	January 21-22, 2010
Tennessee	WAP	February 8-9, 2010
Pennsylvania	WAP	February 8, 2010
New Jersey	WAP	February 24, 2010

Monitoring for Non-Recovery Act Work

None scheduled at this time

Monitoring for Recovery Act Work

Completed

Arizona	WAP Monitor	April 8-10, 2009
Wisconsin	WAP Monitor	October 27-29, 2009
Illinois	WAP Monitor	November 18-20, 2009
Louisiana	WAP Monitor	December 7-11, 2009
Minnesota	WAP Monitor	January 19-22, 2010
Missouri	WAP Monitor	January 19-22, 2010
Florida	WAP	January 31-February 5, 2010
Kansas	WAP Monitor	February 8-11, 2010
Michigan	WAP Monitor	February 8-12, 2010
Arizona	WAP Monitor	February 12-15, 2010
New Mexico	WAP Monitor/QA	February 16-19, 2010
Iowa	WAP Monitor	February 22-25, 2010
Mississippi	WAP	March 1-4, 2010
Utah	WAP Monitor/QA	March 15-19, 2010
So. Dakota	WAP Monitor/QA	March 7-12, 2010
Indiana	WAP Monitor/QA	March 8-11, 2010
Washington	WAP Monitor/QA	March 8-12, 2010
Texas	WAP Monitor/QA	March 8-12, 2010
Colordao	WAP Monitor	March 10-11, 2010
New Jersey	WAP	March 15-18, 2010
New York	WAP	March 15-19, 2010
North Carolina	WAP	March 15-19, 2010
Delaware	WAP	March 21-25, 2010
Arkansas	WAP	March 22-26, 2010
Maine	WAP	March 22-26, 2010
Maryland	WAP	March 22-26, 2010
Wyoming	WAP Monitor/QA	March 22-26, 2010
Ohio	WAP Monitor/QA	March 22-26, 2010

LIGHT 2 VISITS AND CALLS, AND NEPA VISITS

Monitoring for Recovery Act Work

Scheduled

Minnesota	WAP QA	March 29-April 2, 2010
Idaho	WAP Monitor/QA	March 29-April 2, 2010
Alaska	WAP Monitor/QA	March 29-April 3, 2010
Wisconsin	WAP Monitor/QA	March 29-April 9, 2010
Illinois	WAP QA	April 4-9, 2010
Nebraska	WAP Monitor/QA	April 5-8, 2010
Missouri	WAP Monitor/QA	April 13-16, 2010
Alabama	WAP	April 12-16, 2010
California	WAP Monitor/QA	April 19-23, 2010
Oregon	WAP Monitor/QA	April 19-23, 2010
Massachusetts	WAP	April 26-30, 2010
Virginia	WAP	April 26-30, 2010
Oklahoma	WAP Monitor/QA	April 26-30, 2010
Illinois	WAP Monitor/QA	April 26-30, 2010
Kansas	WAP Monitor/QA	May 3-7, 2010
Michigan	WAP QA	May 10-14, 2010
Arizona	WAP Monitor/QA	May 10-14, 2010
Texas	WAP Monitor/QA	May 17-21, 2010
Michigan	WAP Monitor/QA	May 24-28, 2010
American Samoa	WAP Monitor/QA	May 24-28, 2010
Hawaii	WAP Monitor/QA	May 24-28, 2010
Montana	WAP Monitor/QA	May 3-7, 2010
Utah	WAP Monitor/QA	June 14-18, 2010
Guam	WAP Monitor/QA	June 14-18, 2010
Northern Marianas	WAP Monitor/QA	June 14-18, 2010
North Dakota	WAP Monitor/QA	June 7-11, 2010