



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

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 outdated 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.

April 27, 2010

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

FROM: **KATHLEEN B. HOGAN (508 VERSION NO SIGNATURE)**
 DEPUTY ASSISTANT SECRETARY FOR ENERGY EFFICIENCY
 OFICE 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

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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