



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Examination Report

Action for a Better Community, Inc. –
Weatherization Assistance Program
Funds Provided by the American
Recovery and Reinvestment Act of
2009



OAS-RA-11-21

September 2011



Department of Energy
Washington, DC 20585

September 30, 2011

**MEMORANDUM FOR THE ACTING ASSISTANT SECRETARY FOR ENERGY
EFFICIENCY AND RENEWABLE ENERGY**

A handwritten signature in blue ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Examination Report on "Action for a Better Community, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"
Audit Report Number: OAS-RA-11-21

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an examination of Action for a Better Community's (ABC), implementation of the Weatherization Assistance Program (Weatherization Program). The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Otis & Associates, PC (Otis), to express an opinion on ABC's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. ABC, located in Rochester, New York, is a sub-recipient of the Department's Recovery Act Weatherization funding for the State of New York.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Program received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of New York received \$394 million in Weatherization Program Recovery Act grant funding, of which \$7.45 million was allocated to ABC. The State of New York's Division of Housing and Community Renewal was responsible for administering Weatherization Program grants, including funds provided to ABC.

OBSERVATIONS AND CONCLUSIONS

Otis expressed the opinion that except for the weaknesses described in its report, ABC complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period July 1, 2009 to December 31, 2010. Specifically, the examination found that ABC had not:

- Performed adequate weatherization services on five of the nine single-family homes selected for review;
- Ensured compliance with State of New York policies and procedures related to purchasing;

- Deposited or maintained advance funding received from the Weatherization Program in an interest bearing account, as required by Federal regulation;
- Maintained adequate segregation of duties in the process for determining owner/occupant eligibility for receiving weatherization services;
- Maintained documentation to ensure homes selected for weatherization had not been weatherized after September 30, 1994, with Department Weatherization Program funds; and,
- Maintained documentation supporting authorization and approval of reimbursements.

The report makes recommendations to ABC to improve the administration of its Weatherization Program. ABC provided responses that expressed agreement with most of the recommendations, and provided planned and ongoing actions to address the issues identified. ABC management disagreed with the finding regarding interest-bearing accounts, contending they were in compliance with New York State policies and procedures. We discussed the issue with State of New York officials who told us they will revise their Policy and Procedure Manual to require advances be maintained in interest bearing accounts. In addition to the comments from PEACE, the New York State DHCR provided a response generally concurring with the audit findings and recommendations. DHCR's comments which addressed other ongoing Weatherization Program examinations are included in their entirety in Attachment 2.

RECOMMENDATION

As part of its responsibilities for managing the Weatherization Program, we recommend the Acting Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Ensure appropriate action is taken by the State of New York to improve administration of Recovery Act Weatherization Program funds at Action for a Better Community, Inc.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

We received comments on an official draft report from the Deputy Assistant Secretary for Energy Efficiency and Renewable Energy stating that ABC will be asked to make a number of improvements designed to resolve the identified issues. Additionally, the Department of Energy's (Department) Project Officer and/or Contract Specialist will monitor the progress of ABC during the quarterly review of the Grantee and follow-up will continue until all recommendations have been implemented. The Department's comments are included in their entirety in Attachment 3.

The Department's comments are responsive to our recommendation.

EXAMINATION-LEVEL REVIEW

Otis conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of ABC's policies and procedures, and reviewing applicable Weatherization Program documentation. The procedures also included an analysis of inspection results, records of corrective actions and re-inspections of completed homes/units to ensure any failures were properly corrected. Finally, an analysis of associated cost data was performed to test the appropriateness of payments.

OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances where Otis did not comply, in all material respects, with the attestation requirements. Otis is responsible for the attached report dated September 27, 2011, and the conclusions expressed in the report.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary for Energy
Chief of Staff

Report on Examination Level Attestation Engagement
Of
Action for A Better Community, Inc.
Recovery Act Weatherization Assistance Program Funds

**Performed for the U.S. Department of Energy,
Office of Inspector General**

Under

Contract Number: DE-IG0000018
Work Order Number: 2010-07

By

Otis and Associates, PC

September 27, 2011

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INDEPENDENT ACCOUNTANTS' REPORT

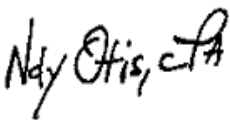
To: Inspector General
U.S. Department of Energy

We have examined Action for A Better Community, Inc.'s compliance with Federal and State laws and regulations, and guidelines applicable to the Weatherization Assistance Program funded by the American Recovery and Reinvestment Act of 2009. Action for A Better Community, Inc., is responsible for operating the Weatherization Assistance Program in compliance with these laws and regulations, and Program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the Comptroller General of the United States; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant American Recovery and Reinvestment Act of 2009 Weatherization Assistance Program guidelines; Federal and State laws and regulations; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. Also, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, except for the weaknesses described in Sections V and VI of this report, Action for A Better Community, Inc., complied, in all material respects, with the aforementioned requirements and guidelines, relative to the Weatherization Assistance Program funded by the American Recovery and Reinvestment Act of 2009 for the period July 1, 2009, through December 31, 2010.



Otis and Associates, PC
Takoma Park, MD

March 25, 2011

SECTION II - BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law on February 17, 2009. The Act authorizes funding to various economic sectors and U.S. Federal departments. The Weatherization Assistance Program (Weatherization Program), under the U.S. Department of Energy (Department), received \$5 billion of funding to achieve the purposes set forth in the Act, including the preservation and creation of jobs, promotion of economic recovery and reducing energy consumption.

The Department's Weatherization Program objective is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. The Department has a special interest in addressing these needs for low-income persons, who are particularly vulnerable, such as the elderly, disabled persons, and families with children, as well as those with high energy usage and high energy burdens. The Weatherization Program is a categorical formula grant program administered by the Department, under a regulatory framework laid out in 10 CFR Part 440, *Weatherization Assistance for Low-Income Persons*. The Recovery Act made significant changes to the grant program administered by the Department. For example, the average per unit cost of weatherizing a home/unit was increased from \$2,500 under the Program, to \$6,500 under the Recovery Act.

The Department's Office of Inspector General (OIG) contracted with Otis and Associates, PC to perform an Examination Level Attestation engagement on the Recovery Act Weatherization Assistance Program services provided by the State of New York's sub-grantees. Action for A Better Community, Inc., (ABC) is one of four sub-grantees selected for review by the Department's OIG.

Under the Recovery Act, the State of New York's Division of Housing and Community Renewal (DHCR) received an allocation of approximately \$394 million from the Department, for the Weatherization Program. DHCR then allocated about \$7.45 million of this amount to ABC.

ABC is a not-for-profit organization, registered in the State of New York. The organization employs 370 full-time and 13 part-time employees. ABC was incorporated in 1964, as a Community Action Agency in Rochester County and has developed and implemented a multitude of Federal and State programs, using public sector funds.

According to the contract with the State of New York, ABC is required to weatherize a total of 1,037 homes/units between July 1, 2009 and September 30, 2011 under the Recovery Act Weatherization Program. As of December 31, 2010, ABC had weatherized 290 units, at a total cost of \$2,627,231. Of the units completed, 114 units were in 14 multi-family buildings.

The following tables summarize the Weatherization Program's financial data:

PROGRAM FUNDS ALLOCATED TO ABC BY THE STATE OF NEW YORK:

Contract	Amount	Production Goal	Completed
C092242	\$ 4,590,472	639	
Amendment 1	\$ 2,855,153	398	
Total	\$ 7,445,625	1,037	290

PROGRAM COSTS INCURRED BY ABC AS OF DECEMBER 31, 2010

Expense Category	Amount
Direct Material	\$ 624,714
Direct labor	\$ 1,345,526
Program Support	\$ 445,417
Liability Insurance	\$ 41,420
Financial Audit	\$ 10,589
Training and Technical Assistance	\$ 34,740
Administration	\$ 124,825
Total	\$ 2,627, 231

PROGRAM FUNDS RECEIVED BY ABC AS OF DECEMBER 31, 2010

Fund Description	Amount
Initial Advance	\$1,147,618
Monthly Cost Reimbursements	\$1,987,401
Total	\$3,135,019

SECTION III - CLASSIFICATION OF FINDINGS

DEFINITIONS

Each finding is categorized as a Material Weakness, Significant Deficiency, or Advisory Comment, as defined below, for the purposes of this examination:

Material Weakness

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the subject matter will not be prevented or detected.

Significant Deficiency

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that could adversely affect ABC's ability to initiate, authorize, record, process, or report data reliably, in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Advisory Comments

An advisory comment represents a control deficiency that is not significant enough to adversely affect ABC's ability to record, process, summarize, and report data reliably.

SECTION IV - SUMMARY OF FINDINGS

- Finding 1: Substandard weatherization services may have been provided by ABC - Material Weakness
- Finding 2: Purchases made with Program funds did not comply with the State of New York's policies and procedures - Significant Deficiency
- Finding 3: Non-interest-bearing account was maintained for Program funds - Significant Deficiency
- Finding 4: Lack of adequate segregation of duties in the process for determining owner/occupant eligibility for weatherization - Advisory Comment
- Finding 5: Documentation was not maintained to support that the homes/units selected for weatherization had not been weatherized after September 30, 1994 with Department funds - Advisory Comment
- Finding 6: Documentation supporting authorization and approval of reimbursements was not maintained - Advisory Comment

SECTION V - MATERIAL WEAKNESSES**Finding 1: Substandard weatherization services may have been provided by ABC – Material Weakness**

We conducted on-site visits to ten weatherized properties - nine single-family homes; and one multi-family property with ten units to evaluate the quality of the weatherization work performed. We were accompanied by an inspector from the State of New York's Division of Housing and Community Renewal (DHCR). During the on-site visit, the DHCR inspector noted deficiencies in the quality of weatherization services performed on five of the nine single-family homes selected. The DHCR inspector categorized three of the homes/units as having major items requiring call-backs. Specifically, the inspector noted that: additional energy savings could be obtained by insulating the attic knee wall floors and walls in the front of one home; an infrared scan revealed that there were a number of empty wall cavities in the second floor walls on another home/unit; and, there was a large opening in the basement ceiling in another home unit that needed to be sealed. In addition, the DHCR inspector requested that ABC personnel return to another home/unit to address a couple of health and safety issues. In this instance, spray foam was installed around the hot water vent pipe and the dryer vent. According to the DHCR inspector, State code does not allow foam to be used in these instances.

According to the New York State Weatherization Assistance Program Policy and Procedures Manual, sub-grantees, such as ABC, are required to conduct a post-inspection of completed units/homes before presenting them to DHCR for certification. The Manual also requires sub-grantees to inspect the quality and quantity of materials installed; installation standards and quality of work performed; and health and safety tests, at a minimum.

ABC's management stated that its inspectors performed post-inspection on all homes/units weatherized, and that the deficiencies noted during our site visit happened subsequent to their post-inspections. They presented the Building Work Summary, approved by the owners/occupants, as evidence of the quality of the weatherization they had performed on the homes/units. However, the deficiencies noted by the DHCR inspector, who accompanied us to the site visit, such as incomplete installation of insulation, indicated that the post-inspection performed by ABC inspectors was inadequate and that the inspectors may require training. The DHCR inspector stated that the homes/units that we selected for inspection during our site visit did not include any of the homes/units that DHCR had selected and inspected as part of their sample during their certification process for weatherized homes/units presented by ABC for certification.

As a result of the condition noted above, substandard weatherization services may have been provided by ABC and not detected by DHCR. Also, ABC may have billed and received Program funds for substandard weatherization services, to which they were not entitled, thereby resulting in the waste of Weatherization Program funds.

It is important to note that the Department has issued Weatherization Program Notice 11-03 – POLICY REGARDING THE USE OF DOE PROGRAM FUNDS TO PAY FOR CALL-BACK/ADD-ON WORK AFTER REPORTED TO DOE AS A COMPLETED UNIT. The purpose of this Program Notice is to clarify if and when Grantees may charge the Weatherization Program for call-backs once a dwelling has been final inspected and reported to the Department as a completed dwelling unit. This Program Notice clearly states that paying for additional work on homes that have already been reported to the Department is not a permissible use of Weatherization Program funds. This Program Notice affects all units weatherized after January 10, 2011. Therefore, since the above units were reported as completed prior to January 10, 2011, both the Department and DHCR believe that the homes/units noted above will be permitted to use Weatherization Program funds for the call-backs.

Recommendations:

We recommend that ABC:

- 1.1 Address weatherization deficiencies noted by the DHCR inspector.
- 1.2 Ensure that its post work inspectors are properly trained to perform post-inspections of weatherized homes/units.
- 1.3 Develop and implement policies and procedures to conform to the new Weatherization Program Notice 11-03 and ensure that future call-backs are not funded with Weatherization Program funds.

Management Comments and Auditors' Analysis

ABC's management concurred with the finding and recommendations, and has revised its post inspection process. ABC's management has also implemented new procedures designed to ensure comprehensive and consistent work quality.

We consider ABC management's action to be adequate.

SECTION VI - SIGNIFICANT DEFICIENCIES

Finding 2: Purchases made with Program funds did not comply with the State of New York's policies and procedures - Significant Deficiency

Our review of a sample of 15 purchases made by ABC showed that ABC did not obtain at least three bids each on two purchases totaling about \$6,200, as required by the State of New York's Weatherization Assistance Program Policies and Procedures Manual. Specifically, we noted that ABC purchased furniture from a supplier for about \$3,500 and \$2,700 of telephone and internet wiring for new office space, without any documentation to support that at least three bids were obtained, or that price comparisons from three vendors were performed. In accordance with the Manual, a minimum of three price quotations must be obtained for purchases of \$2,000 or more in aggregate, or up to \$5,000 over the duration of each annual budget period.

Additionally, for the \$3,500 furniture purchase, no evidence was available indicating that the DHCR regional supervisor had approved the purchase as required by the Manual. This purchase should be reviewed, either as a part of the annual budget approval process, at the start of a budget period, or during the course of the annual budget period.

ABC's management agreed that adequate oversight was not provided over the purchases and that controls in place were not adequate to ensure that purchasing employees comply with the State of New York's purchasing policies and procedures.

As a result of the condition noted above, ABC could not demonstrate that best value was received for the purchases made with Weatherization Program funds. Also, ABC was not in compliance with the applicable purchasing regulations, which increases the risk of waste or abuse.

Recommendation:

2.1 We recommend that ABC develop procedures to ensure that purchasing employees comply with the State of New York purchasing policies and procedures.

Management Comments and Auditors' Analysis

ABC's management concurred partially with the finding and recommendation, and has revised its purchasing policy to require price comparisons from three vendors, and ensure that the approval of the DHCR Regional supervisor is obtained.

We consider ABC management's action to be adequate.

Finding 3: Non-interest-bearing account was maintained for Program funds - Significant Deficiency

ABC received a cash advance of \$1,147,618 from the State of New York Recovery Act Weatherization Program funds, but did not deposit the funds into an interest-bearing account, as required by 10 CFR 600, *Federal Financial Assistance Regulation*. This regulation requires that recipients maintain advance payments of Federal funds in interest-bearing accounts and remit, annually, the interest earned to the contracting officer for return to the Department of Treasury.

ABC's management stated that they were aware of the requirement to establish and maintain an interest-bearing account for funds advanced for the Recovery Act Weatherization Program. However, they did not deposit the advanced funds in an interest-bearing account because they believed that the funds would not have been insured by the Federal Deposit Insurance Corporation (FDIC), if deposited into an interest-bearing account. Also, the State of New York Weatherization Assistance Program Policies and Procedures Manual does not require advances to be put into an interest-bearing account. However, the State of New York Weatherization Assistance Program Policies and Procedures Manual does require interest earned on such funds to be returned to the Treasury.

As a result of the condition noted above, the Federal government did not receive income from interest that could have been generated on advanced funds. Also, the State of New York is not in compliance with the Federal Financial Assistance Regulation, which requires advanced funds to be placed in an interest-bearing account.

Recommendations:

- 3.1 We recommend that ABC establish and maintain an interest-bearing account for cash advances received from the Weatherization Program.
- 3.2 We recommend that the State of New York revise its Weatherization Assistance Program Policies and Procedures Manual to require sub-grantees to place advanced funds in interest-bearing accounts.

Management Comments and Auditors' Analysis

ABC's management concurred with the finding, but contends that it was following guidance provided in the State of New York's Weatherization Assistance Program Policies and Procedures Manual. ABC's management also indicated that the cost of maintaining an interest-bearing account would not justify the benefit of maintaining such account, based on advice from its bank.

We consider ABC management's response to be inadequate. ABC's management should implement the recommended action.

SECTION VII - ADVISORY COMMENTS

Finding 4: Lack of adequate segregation of duties in the process for determining owner/occupant eligibility for weatherization - Advisory Comment

Eligibility determinations made by the ABC employee responsible for accepting Weatherization Program participants' applications were not reviewed and approved by someone other than the employee.

OMB Circular A-133, Compliance Supplement, defines control activities as the policies and procedures that help ensure that management directives are carried out; among these are ensuring that adequate segregation of duties are provided between performance, review, and recordkeeping of a task. Also, according to OMB Circular A-110 Section 21 (b)(3), the sub-grantee's financial management system shall provide effective control over and accountability for all funds, property and other assets.

Management oversight over the activities of the employee responsible for accepting Weatherization Program participants' applications was not adequate to ensure segregation of incompatible duties, such as receiving application and approving eligibility.

As a result of the condition noted above, ineligible participants may have been approved to receive weatherization services to which they were not entitled, thus resulting in waste or abuse of Program funds.

Recommendation:

4.1 We recommend that ABC's management develop a procedure for the eligibility determination that ensures that the eligibility determinations are reviewed by management.

Management Comments and Auditors' Analysis

ABC's management concurred with the finding and recommendation, and has instituted policies and procedures that will ensure adequate segregation of duties in the eligibility determination process.

We consider ABC management's action to be adequate.

Finding 5: Documentation was not maintained to support that the homes/units selected for weatherization had not been weatherized after September 30, 1994 with Department funds - Advisory Comment

ABC used information from New York State automated systems to determine compliance with the requirement to ensure that homes/units being considered for weatherization had not been weatherized after September 30, 1994 with Department Weatherization Program funds. However, no documentation was maintained to support that such a determination was made on the homes/units weatherized; but the ABC personnel responsible for reviewing the information and making determinations on eligibility represented that the reviews were performed.

Under the Recovery Act and Departmental requirements, weatherization service providers are required to ensure that homes/units weatherized using Weatherization Program funding after September 30, 1994 do not receive additional weatherization assistance unless the home/unit has been damaged by fire, flood or act of God, and repair or damage to weatherization materials is not paid for by insurance. The Department of Energy's Office of Weatherization and Intergovernmental Programs was very clear that grantees and sub-grantees are required to ensure that a "duplicate application check" is performed for every address deemed eligible to determine that weatherization services had not been provided after September 30, 1994.

Under 10 CFR Part 440, each grantee or sub-grantee receiving Federal financial assistance under the Weatherization Program is required to keep such records as the Department deems necessary, for an effective audit and performance evaluation.

The ABC employee who reviewed the home/unit eligibility information in the State automated systems was not aware that the documentation to support that the homes/units were not weatherized subsequent to September 30, 1994 should have been maintained as proof of verification.

As a result of the condition noted above, ineligible homes/units may have been weatherized in error, resulting in waste or abuse of Program funds.

Recommendation:

5.1 We recommend that ABC maintain documentation showing how the eligibility determination was made for homes/units to be weatherized.

Management Comments and Auditors' Analysis

ABC's management concurred with the finding and recommendation, and has revised its policies and procedures to require that records are maintained that supports eligibility determination.

We consider ABC management's action to be adequate.

Finding 6: Documentation supporting authorization and approval of reimbursements was not maintained - Advisory Comment

During our cash test work, we noted that, in all instances of reimbursements reviewed, the employee who performed the reimbursements did not sign and date the forms used to draw down Recovery Act funds. Hence, we could not determine whether the reimbursements were properly authorized.

The Common Rule, OMB Circular A-102 and OMB Circular A-110 (2 CFR part 215) require non-Federal entities receiving Federal awards, such as ABC, to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and Program compliance requirements. Also, adequate internal control practice requires segregation of duties relating to recording keeping, approval, and custodial functions.

ABC's management stated that they were not aware of the need to implement additional internal control procedures, which would require an employee to sign and date the forms after a reimbursement was performed, to indicate proper authorization of the reimbursement. Also, ABC's Chief Financial Officer stated that there was a lack of management oversight and that it would be corrected in the future.

As a result of the condition noted above, unauthorized reimbursements may have been made by ABC employees, resulting in violation of Weatherization Program laws and regulations.

Recommendation:

6.1 We recommend that ABC establish and maintain control procedures to ensure proper authorization of its monthly cash reimbursements.

Management Comments and Auditors' Analysis

ABC's management concurred with the finding and recommendation, and has revised its funds transfer policy to require the signature of the individual making the transfer.

We consider ABC management's action to be adequate.

SECTION VIII - GRANTEE'S RESPONSE (FULL TEXT)



Jerome Underwood
Board Chair

James H. Norman
President & CEO

July 8, 2011

Mr. George W. Collard
Assistant Inspector General
For Audits
Office of the Inspector General

Re: Draft Report Response on "Examination Level Attestation Engagement of Action for a Better Community, Inc. – Recovery Act Weatherization Assistance Program Funds"

Dear Mr. Collard,

Enclosed please find the response provided by Action for a Better Community, Inc. as referenced above to the U.S. Department of Energy draft audit report developed by Otis and Associates, PC. We appreciate the time and effort it took for this outside review of our critical programs and services. Thank you for affording us the opportunity to respond and to provide additional information as needed.

We appreciate the assistance and cooperation provided during the audit review and look forward to making the recommended changes and enhancements. If you have any questions or need additional information, please contact me, at (585) 295-1732 or tgreen@abcinfo.org.

Sincerely,

Thomas Green
Deputy Director of Technology, Housing and Workforce Development

Cc: Rick Jost, HCR Regional Supervisor

Enclosure



A Community Action Agency Serving Monroe and Ontario Counties
Community Services • Employment & Economic Development • Early Childhood Services/Head Start

Administrative Offices
550 East Main Street
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(585) 325-5116
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E-mail: CAA@ABCInfo.org
Web site: www.ABCInfo.org

Draft Response

Section IV – Summary of Findings

Finding 1: Substandard weatherization services may have been provided by ABC – Material Weakness

Management Response:

ABC has corrected the work scope deficiencies noted in the draft audit report. The aggregate cost of the corrections was approximately \$400.

Additionally, ABC's management has revised its post inspection process and has implemented new procedures designed to ensure comprehensive and consistent work quality, as follows:

1. Per the advice of our DHCR field inspector, infrared cameras have been obtained and issued to all crew and inspection staff.
2. Team leads from each crew have been assigned to pre-post inspect all completed units prior to leaving the job site.
3. The crew foreman will review the quantity of materials, the quality of work and the completeness of each unit and sign off on all completed jobs prior to the final post inspection taking place.
4. ABC will continue to work with DHCR field staff to identify any additional or specialized training they may recommend for our post inspection staff.

ABC has developed and implemented the procedures outline above to conform to the new Weatherization Program Notice 11-03. This will enable us to ensure that future unfunded program callbacks are eliminated.

Finding 2: Purchases made with Program funds did not comply with State of New York's policies and procedures – Significant Deficiency

Management Response:

The two purchases totaling \$6,200 were made from vendors selected based on historical factors including but not limited to: Price, Performance, Quality of Service/ Materials, and Emergency Responsiveness, according to the agency's purchasing policy for "approved vendors", which the agency used occasionally instead of price quotes. Since then, the Agency's policy has been revised to require price comparisons from three vendors only, eliminating the "approved vendors" process.

The \$2,700 purchase was for telephone and internet wiring of new office space and is not a piece of equipment, and hence the requirements of capital equipment as stated in the New York State Weatherization Assistance Program Purchasing Policies and Procedures Manual do not apply. The State budgetary review process allows only equipment to be listed under capital equipment. The \$2,700 purchase was included in the budget as building maintenance and repair.

Finding 3: Non-interest –bearing account was maintained for Program Funds – Significant Deficiency

Management Response:

ABC confirmed with its bank, M&T Bank, that a non-interest bearing account, including the amount of approximately \$1 million expected to be held in the ARRA account during the period of the grant, would be covered by FDIC. If these funds had been put into an interest-bearing account, then the account would require collateralization to protect the funds from loss in case of bank failure. The cost of such collateralization, especially for one account, would exceed any possible interest earned, which was estimated at less than one-half of one percent. In the interest of protecting these Federal funds, the decision was made to deposit the funds in a non-interest bearing account fully covered by FDIC.

Further, ABC acted in accordance with guidance provided by the State of New York Weatherization Assistance Program Policies and Procedures Manual.

Finding 4: Lack of adequate segregation of duties in the process of determining owner/occupant eligibility for weatherization - Advisory Comment

Management Response:

ABC management has instituted a policy and procedure which dictates that the Weatherization Office Manager must review, approve, and sign each accepted and completed application prior to the start of any weatherization services being rendered. In the event that the Weatherization Office Manager has to be cross functional and perform the intake on a client application, the duty to review, approve, and sign off on the application would then pass onto the Weatherization Director.

Finding 5: Documentation was not maintained to support that the homes/units selected for weatherization had not been weatherized after September 30, 1994 with Department funds – Advisory Comment

Management Response:

The State provided database only provides historical data back to 2001. ABC has elected to maintain a database which contains historical weatherization data dating back to 1994.

ABC has maintained a level of confidence in our current system because properties receiving weatherization services are maintained in the State provided database. Once these units are weatherized and presented, only the State representatives have access to alter any information contained in the file. This provides an electronically documented record of all units receiving weatherization services since 2001 and eliminating the possibility of any unauthorized re-weatherization work on units.

Since the audit ABC management staff has instituted a policy of printing and signing off on the selected address range from each of the 3 systems currently being used to check the previous weatherization status of units prior to any work beginning.

Finding 6: Documentation supporting authorization and approval of reimbursement was not maintained – Advisory Comment

Management Response:

The finding makes reference to the ABC internally developed forms used to document reimbursements from the ARRA funds to the operating account to cover payroll and ARRA expenses. This form shows the amount of the proposed transfer, lists the expenses to be covered, and is signed by the preparer. Next on the form is the signature of the CFO, approving the transfer. Finally the transfer was made by a third person, the Assistant Controller, who indeed did not sign the form at the time of the auditor's review.

ABC has revised its transfer form, which now requires the signature of the individual making the actual transfer.



ANDREW M. CUOMO
GOVERNOR

DARRYL C. TOWNS
COMMISSIONER/CEO

NEW YORK STATE
DIVISION OF HOUSING
& COMMUNITY
RENEWAL

July 22, 2011

HOUSING
TRUST FUND
CORPORATION

STATE OF
NEW YORK MORTGAGE
AGENCY

NEW YORK STATE
HOUSING FINANCE
AGENCY

NEW YORK STATE
AFFORDABLE HOUSING
CORPORATION

STATE OF
NEW YORK MUNICIPAL
BOND BANK AGENCY

TOBACCO SETTLEMENT
FINANCING
CORPORATION

Mr. George W. Collard
Assistant Inspector General for Audits
Office of the Inspector General
U. S. Department of Energy
Washington, DC 20585

Re: Draft Audit Reports of NYS Weatherization Assistance Program

Dear Mr. Collard:

HCR staff has received and reviewed the draft reports prepared on behalf of your office for Action for a Better Community, Inc., People's Equal Action and Community Effort, Inc. and Saratoga County Economic Opportunity Council, Inc.

Our written comments on the findings are enclosed. Please be aware that this is an updated and corrected response to the previous document we sent to you on July 14, 2011.

Overall, we feel that the reports fairly and accurately reflect New York State Homes and Community Renewal's policies and review activities. However, we have identified some areas where communication between field audit staff and subgrantees did not permit a complete or accurate response. In those cases we have attempted to provide additional explanations, or suggest alternative approaches to the findings.

I would like to thank you for the professionalism and courtesy shown by Adam Mitchell, Jonya Strnisha and Darryl Wittenburg from your office. If you have any questions about the enclosed, please do not hesitate to contact me.

Sincerely,

Thomas O. Carey
Weatherization Program Director

By:

Dan Henkin
Manager
Weatherization Fiscal Compliance Unit

cc: Darryl Wittenberg, DOE, Adam Mitchell, DOE, Jonya Strnisha, DOE,
Dan Buyer, Jon Brown, Dan Henkin

25 Beaver Street, New York, NY 10004

nyshcr.org

**New York State Homes and Community Renewal (HCR)
Weatherization Assistance Program (WAP)
US Department of Energy Office of the Inspector General
Draft Response to WAP American Reinvestment and Recovery Act (ARRA)
Audit Findings
July, 2011**

Subgrantee: People's Equal Action and Community Effort, Inc. (PEACE)

Findings:

- 1) **List of previously weatherized multi-family projects was not maintained for use in determining eligibility for re-weatherization (Significant Deficiency).**

The audit found that PEACE did not maintain a list of previously-weatherized multi-family buildings, to facilitate compliance with program requirements that projects assisted after September 30, 1994 may not receive additional weatherization assistance.

HCR Response:

We concur with the audit finding regarding PEACE's process for tracking previously-weatherized buildings. Chapter 6 of the HCR Policies and Procedures Manual (PPM) clearly states that units weatherized after September 30, 1994 may not be assisted again without the prior approval of HCR. HCR provides subgrantees with access to a database of previously assisted projects, so they can building eligibility.

PEACE has a system in place to ensure that single-family (1-4 unit) buildings it assists are tracked to ensure compliance with this requirement. It is our understanding that PEACE has now implemented a system to also verify that multi-family buildings were not previously assisted.

- 2) **Interest earned on cash advance was not properly identified and separately accounted for in general ledger (Significant Deficiency).**

The auditors noted that PEACE earned more than \$3,000 in interest on WAP ARRA funds, but did not separately identify the interest in its general ledger.

HCR Response:

HCR concurs with the audit finding that interest was not returned but does not agree that PEACE did not separately identify the interest in their general ledger. HCR wishes to provide an important clarification. The HCR PPM contains a requirement that interest earned on advances of federal funds must be remitted to the federal treasury, but the manual does not specify that

HCR Response to DOE Draft Audit Findings

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advances must be maintained in interest bearing accounts. However, the written agreement between HCR and subgrantees includes a clause that seems to conflict with this language, and subgrantees have been instructed by HCR to treat interest earned on advances as program income. In this case, PEACE followed HCR instructions, and accounted for interest earned following their established internal procedures.

PEACE has accumulated \$4,489.46 in interest as of May 31, 2011, and is prepared to return the appropriate amount of interest earned to HCR, for deposit to the US Treasury, upon request.

3) Post-inspection was not performed on additional work done to correct weatherization deficiencies (Significant Deficiency).

The audit noted two instances (out of ten units in the sample) where subgrantee crews returned to units following final inspection to correct minor deficiencies.

HCR Response:

The audit report does not indicate whether the two units in question had been reported to HCR as completed prior to the return visit. HCR's PPM states that a post-inspection of each completed dwelling unit must be performed before presentation to HCR for certification (i.e., before reported as completed). It is our understanding that PEACE has a process in place to properly deal with reinspection and correct reporting of any job that requires a return visit for further weatherization.

HCR released a revision to the PPM earlier this month that incorporates DOE's recent clarification of its rules concerning the use of DOE funds for return work which HCR has reported to DOE as complete, though there is no indication in the audit report that that is what happened in the two instances noted.

PEACE has informed HCR that in both units cited by the auditor as requiring additional work, the additional work involved minor adjustments to furnace installations that the subgrantee's own employees had initially performed. The additional work was also performed by PEACE's own workers. In one case, the additional material cost was \$10.77; in the other, \$75.32. PEACE has indicated that since the work was initially performed by its own employees and corrected by its own employees, post-inspection of the additional work by another PEACE employee was determined not to be necessary or cost effective.

The audit report classified this as a significant deficiency. Due to the relatively minor nature of the finding, and the subgrantee's explanation that the additional work was for small inexpensive adjustments to work previously

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performed by its own crews, we feel this would be more appropriately classified as an advisory comment.

4) Inadequate documentation of post-inspection on Building Work Summary (Advisory Comment).

The audit report includes an advisory comment that PEACE is not listing individual weatherization measures that are completed for each unit on the Building Work Summary, which is signed by assisted households to certify the work that was done.

HCR Response:

We concur with this finding. Although the PPM allows subgrantees with a computerized inventory-tracking system to attach reports generated by that system to the BWS, if the system has been approved by HCR, it is a "best practice" to provide owners and tenants with full information about the work that was done. PEACE had been attaching an in-house form generated by their inventory tracking system to the BWS; it is our understanding that they are now listing the measures on the BWS itself rather than attaching their own form.

Subgrantee: Saratoga County Economic Opportunity Council, Inc. (Saratoga)

Findings:

- 1) **Cash advance received for the ARRA WAP was not properly recorded in the accounting system (Material Weakness).**

The audit review includes a finding that Saratoga improperly recorded a \$792,320 advance of ARRA funds paid by DHCR (now HCR).

HCR Response:

The subgrantee disputes this finding. We believe they will provide evidence that the ARRA advance was deposited into a separate account, as instructed by HCR, and tracked according to established auditing principles.

HCR's fiscal representatives provide training and guidance on deficiencies discovered during monitoring. Fiscal representatives are available for subgrantee assistance, and Saratoga could have consulted with HCR for direction as to how to properly record the initial cash advance, if they had questions. However, Saratoga has provided evidence that the advance was in fact deposited in a separate account and properly tracked, and it is not clear than any deficiency existed that would have required the assistance of HCR staff.

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- 2) **Documentation supporting the selection of subcontractors was inadequate (Material Weakness).**

The audit review includes a material weakness for failure to maintain adequate documentation to support selection of subcontractors. Saratoga awarded bids for work totaling \$1,226,446, and provided the required *Materials Bidding Summary Form* (Form DHCR #27), but the auditors could not verify the sources of the information included on the form.

HCR Response:

The subgrantee disputes this finding. We believe they will provide detailed information to support their position.

HCR's PPM states that the subgrantee must keep all bidding records on file for HCR review. While completing the Materials Bidding Summary Form (#27) is not a substitute for this requirement, it is our understanding that Saratoga did maintain all of the required documentation, except for the envelopes in which the bids were submitted; and that envelopes received by bidders are now also being kept. Additionally, HCR had a representative attend the bid opening in question, and he observed that Saratoga followed correct procedures.

- 3) **Purchases made did not comply with HCR and subgrantee acquisition policies and procedures (Material Weakness).**

The auditors reviewed 24 purchases made by Saratoga, and found two instances where the subgrantee did not obtain at least three bids on contracts for goods and services. The combined value of these two contracts is approximately \$33,000.

HCR Response:

The subgrantee disputes this finding. HCR does not feel that this finding is appropriately classified as a material weakness. Given the costs involved, and the additional information that Saratoga will provide, we feel it should be removed or classified as an advisory comment.

A \$4,695 equipment purchase was mistakenly classified as a WAP expenditure, but was in fact a fee-for-service activity purchase. Saratoga's records have been corrected to reflect this.

In another instance, the auditors found that Saratoga could not provide documentation to substantiate the procurement process to award a \$28,409 contract for building repairs and maintenance. Saratoga has documentation that shows that they solicited bids, and expected three bids based on contractor interest, but ultimately only received one bid and awarded the

HCR Response to DOE Draft Audit Findings
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contract based on that bid. The PPM that was in effect at the time allowed this procedure, but it has since been revised to add stricter procurement rules. Subgrantees must keep all bidding records on file for HCR review, including the solicitation and copies of all bids. Also, the subgrantee must maintain a bidder list of at least five bidders; if fewer than five bidders responded to the solicitation, the subgrantee must obtain names from another source. Finally, the PPM now requires that non-competitive procurements in which only one bid is received are subject to HCR approval prior to award.

4) Lack of adequate segregation of duties in program administration (significant deficiency).

Saratoga's energy services director has multiple duties that include oversight of the evaluation and selection of subcontractors, pre- and post-inspection of assisted units, and approval of payments. This combination of duties places one individual in a position to review, authorize and approve subcontractor selection and performance.

HCR Response:

The subgrantee disputes this finding. However, HCR agrees that Saratoga should change staff responsibilities to improve internal controls. Also, HCR feels that this finding should be classified as an Advisory Comment based on the additional information that Saratoga has provided.

The work specifications for the buildings assisted with WAP ARRA funds were developed from energy audits performed by independent auditors. The work specifications determine what work is performed: their development did not involve the Energy Services Director. The Director did not conduct inspections. However, Saratoga did rely on a representative of the building owner to conduct inspections, which is a role that should be performed by the subgrantee, or an independent entity under contract to the subgrantee, not by the building owner.

5) Adequate records were not maintained by the subgrantee to support the quarterly reports required by the program (Significant Deficiency).

Saratoga did not maintain supporting schedules to substantiate the employment information reported to HCR, and in one case reported incorrect vendor information.

HCR Response:

HCR concurs. Subgrantees are required to follow Office of Management and Budget guidance in preparing 1512 reports. Data included in the reports is subject to review by HCR fiscal and program staff. Each quarter, HCR sends each subgrantee detailed reporting instructions approximately three weeks

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before the report is due. Before the report is submitted, HCR staff is also available to answer subgrantee questions to make sure they report accurately and in the manner in which they've been instructed. HCR adds quality control generally ensures a high degree of accuracy in 1512 reporting, but this system ultimately depends on subgrantee compliance with established procedures.

The cumulative expenditures error cited was a typographical error. The subgrantee has since correct the error and HCR has submitted the corrected report to the federal government.

6) Non-interest bearing account was maintained for program funds (Significant Deficiency).

The auditors noted that Saratoga not deposit funds in an interest-bearing account, as required by federal regulations.

HCR Response:

HCR concurs and will revise its PPM to require that advances of federal funds must be maintained in interest bearing accounts, consistent with federal rules. HCR will also revise the form of the written agreements between HCR and subgrantees to remove a clause that seems to conflict with this rule. We wish to again clarify that subgrantees have been instructed by HCR to treat interest earned of advances as program income. In this case, Saratoga followed HCR instructions.

Saratoga maintains that the amount of interest they would have expected to earn on advances was less than the \$250 threshold and so they would not have been required to maintain funds in an interest-bearing account.

7) Vehicle and equipment usage, maintenance and repair records were not maintained (Advisory Comment)

Saratoga did not maintain these required records for new vehicles purchased with ARRA funds.

HCR Response:

HCR concurs with this finding. The PPM requires that a mileage log (Form #34) be maintained for each vehicle purchased with WAP funds. HCR monitoring staff assigned to SARA indicates the agency kept vehicle maintenance logs (which are not required by HCR), but did not keep mileage logs. We will ensure that they follow this requirement in the future.

Subgrantee: Action for a Better Community, Inc. (ABC)

Findings:

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1) Substandard weatherization services may have been provided by ABC (Material Weakness).

The auditors accompanied an HCR field inspector on visits to ten buildings assisted by ABC, including nine single-family dwellings and one 10-unit building. The HCR inspector observed work deficiencies in five units, including three that required ABC to have work crews return to perform additional work.

HCR Response:

HCR concurs with this finding. HCR field monitor staff have previously evaluated the need for improvement in work performed by ABC, and had already taken steps to address this situation when the audit began. In the annual evaluation of ABC, field staff noted that ABC “needs improvement” in the audit, crew operations and post-inspection categories. HCR staff has provided additional training to ABC’s crews, and has increased monitoring of the work they complete. HCR will provide additional training as needed. We believe that ABC’s performance has already improved since we provided increased oversight and training. HCR staff inspects a large percentage of subgrantees’ work to minimize the possibility that weatherization funds will be used to pay for inadequate services – HCR is required to inspect 10% of the completed units presented for certification; in reality we inspect much more, approximately 20%.

ABC reports that they have corrected the deficiencies found in these units, at a total cost of \$400. Also, ABC has adopted additional internal procedures to improve oversight and provide additional technical capacity to staff conducting inspections of assisted units.

Finally, all subgrantees have been informed of the “no call-backs” policy in DOE notice WPN 11-03, and the PPM has been revised to reflect this significant change in direction on the part of DOE.

2) Purchases made with Program funds did not comply with NYS’ policies and procedures (Significant Deficiency).

The auditors reviewed 15 purchases made by ABC, and found two instances where the subgrantee did not obtain at least three bids on contracts for furniture and equipment. The combined value of these two contracts is approximately \$6,200.

HCR Response:

HCR concurs with this finding. However, given the circumstances and amounts involved, we feel it would be more appropriately classified as an advisory comment.

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The PPM has clear guidelines for procurement, as the audit notes. In addition, a full-day mandatory procurement training was conducted for all subgrantees in December, 2010. The revised PPM includes clear guidelines for procurement, and additional training will be provided to ensure that all subgrantees consistently follow HCR rules. ABC has changed their internal procedures to require multiple bids on purchase exceeding \$2,000.

3) Non-interest bearing account was maintained for program funds (Significant Deficiency).

The auditors noted that ABC did not deposit funds in an interest-bearing account, as required by federal regulations.

HCR Response:

ABC disputes this finding. While HCR concurs and will revise its PPM to require that advances of federal funds must be maintained in interest bearing accounts, we feel the concerns raised by ABC have merit. ABC maintains that depositing the large advance of funds provided (approximately \$1,000,000) into an interest-bearing account would have put those funds at risk or resulted in additional costs, since an interest-bearing account of that amount would require collateralization to protect the funds.

HCR will also revise the form of the written agreements between HCR and subgrantees to remove a clause that seems to conflict with this rule. We wish to again clarify that subgrantees have been instructed by HCR to treat interest earned on advances as program income. In this case, ABC followed HCR instructions.

4) Lack of adequate segregation of duties in the process for determining owner/occupant eligibility for weatherization (Advisory Comment).

The audit found that staff determinations of applicant eligibility were not reviewed or approved by supervisory personnel.

HCR Response:

HCR concurs, and will monitor ABC's internal procedures to make sure that they have followed adequate management oversight.

5) Documentation was not maintained to support the homes/units selected for weatherization had not been weatherized after September 30, 1994 with WAP funds (Advisory Comment).

ABC used the HCR data base to determine whether units were previously assisted, but did not maintain documentation to support those determinations.

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HCR Response:

HCR concurs. ABC has since adopted procedures to maintain documentation of eligibility determinations. HCR will work with ABC to make sure they have access to all available data to support this procedure.

6) Documentation supporting authorization and approval of reimbursements was not maintained (Advisory Comment).

Reimbursements performed by ABC employees were not properly signed and dated.

HCR Response:


ABC disputes this finding. HCR fiscal staff found that ABC had adequate financial procedures and internal controls in place. These reimbursements did have signatures of supervisory personnel and other internal controls. ABC has since adopted more stringent procedures to improve internal controls.



Department of Energy
Washington, DC 20585

August 5, 2011

MEMORANDUM FOR: GEORGE W. COLLARD
ASSISTANT INSPECTOR GENERAL FOR AUDITS
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN 
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to the Office of Inspector General's Draft Audit
Report of Action for A Better Community, Inc.

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's Draft Audit Report of Action for A Better Community, Inc. (ABC) and concurs with the report's recommendations. The Department of Energy (DOE or Department) is strongly committed to ensuring that each of the grantees under the Weatherization Assistance Program (WAP) performs high quality work that meets the goals of WAP and the American Recovery and Reinvestment Act of 2009.

In response to DOE's concerns and corrective action plans, ABC will be asked to make a number of improvements designed to resolve the issues discovered by the Inspector General's audit team. The DOE Project Officer and the Contract Specialist will monitor the progress of ABC during the quarterly review of the Grantee. This follow-up will continue until all recommendations by the Inspector General have been implemented.

Additional responses are included below that address the specific recommendations in the draft report:



Finding 1: Substandard weatherization services may have been provided by ABC.

Recommendation:

1.1 Address weatherization deficiencies noted by the DHCR inspector.

1.2 Ensure that its post work inspectors are properly trained to perform post-inspections of weatherized homes/units.

1.3 Develops and implements policies and procedures to conform to the new Weatherization Program Notice 11-03 and ensure that future call-backs are not funded with Weatherization Program funds.

The DOE Project Officer will recommend that the state provide technical assistance to the final inspectors and accompany the inspectors on a greater number of final inspections. The Project Officer will also recommend that the state itself visit a larger sample of homes prior to certifying or have the Institute for Building Technology and Safety (IBTS), a monitoring subcontractor to New York State (NYS), monitor a larger sample of homes weatherized by ABC, if possible. Currently the state is monitoring a larger percentage than DOE requires. The Project Officer will monitor the state's involvement with ABC to improve their work during the quarterly review of the Grantee.

Finding 2: Purchases made with Program funds did not comply with the State of New York's policies and procedures.

Recommendation: We recommend that ABC develop procedures to ensure that purchasing employees comply with the State of New York purchasing policies and procedures.

The DOE Project Officer has already reviewed relevant excerpts from the on-line version of the NYS WAP Policies and Procedures Manual, and concurs with the auditor's findings. The procurement-related mandates applicable to these particular purchases can be found on page 200 (Small Purchase Procurement) and page 199 (Capital Equipment Purchase) within that manual. The Grantee has been made aware of the discrepancies uncovered by the Inspector General and is responsible for resolving the issue with ABC.

The DOE Project Officer and/or the Contract Specialist will review fiscal records for ABC and determine if further action is required. Since ABC reports their activities to the Grantee on a monthly basis, the Project Officer and/or Contract Specialist will review a sampling of these reports each quarter until the issue is resolved.

Finding 3: Non-interest-bearing account was maintained for Program funds.

Recommendation:

3.1 We recommend that ABC establish and maintain an interest-bearing account for cash advances received from the Program.

3.2 We recommend that the State of New York revise its Weatherization Assistance Program Policies and Procedures Manual to require sub-grantees to place advanced funds in interest bearing accounts.

Consistent with the information provided in the IG report, DOE agrees that federal regulations require that non-profit organizations [with just a few exceptions as per 10 CFR 600.122(k)] maintain advance payments of funds in interest-bearing accounts. However, it should also be noted that interest amounts of up to \$250 per year may be retained by the (non-profit) recipient for administrative expenses [see 10 CFR 600 122(l)].

The DOE Project Officer and/or Contract Specialist will review the state-level monthly fiscal records for ABC during the next scheduled quarterly visit and determine if further action is required. The Project Officer and/or Contract Specialist will also recommend to the state that interest-bearing accounts and the handling of interest be part of the state's fiscal monitoring tool.

The DOE Project Officer will recommend that the Grantee include a section regarding the handling of advances and interest earned in their Policy and Procedures Manual within the next 30 days.

Finding 4: Lack of adequate segregation of duties in the process for determining owner/occupant eligibility for weatherization.

Recommendation: We recommend that ABC's management develop a procedure for the eligibility determination that ensures that the eligibility determinations are reviewed by management.

10 CFR 600.236(b)(3) provides that "Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, *real or apparent*, would be involved." The consolidation of procurement, administrative and fiscal authority in a single individual does not provide for the level of checks and balances required by state and federal regulations.

The Project Officer has already informed the Grantee that the broad category of Internal Controls is part of the Grant Terms and Conditions and must be included in fiscal monitoring; however, the distinct items that need to be examined are not listed. Within

the next 30 days, the Project Officer will request that these items be added to the list of items checked during state monitoring visits for the Subgrantees.

Finding 5: Documentation was not maintained to support that the homes/units selected for weatherization had not been weatherized after September 30, 1994 with Department funds.

Recommendation: We recommend that ABC maintain documentation showing how the eligibility determination was made for homes/units to be weatherized.

During the next schedule quarterly visit, the DOE Project Officer and/or Contract Specialist will review the operational changes implemented by ABC to address the re-weatherization issue and determine if further action is required.

Finding 6: Documentation supporting authorization and approval of reimbursements was not maintained.

Recommendation: We recommend that ABC establish and maintain control procedures to ensure proper authorization of its monthly cash reimbursements.

During the next scheduled quarterly visit, the DOE Project Officer and/or Contract Specialist will review the operational changes implemented by ABC to address the lack of proper expenditure documentation and determine if further action is required.

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