



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

Examination Report

Saratoga County Economic
Opportunity Council, Inc. –
Weatherization Assistance Program
Funds Provided by the American
Recovery and Reinvestment Act of
2009



OAS-RA-12-05

January 2012



Department of Energy
Washington, DC 20585

January 20, 2012

**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 "Saratoga County Economic Opportunity Council, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an examination of Saratoga County Economic Opportunity Council's (SARA) 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 SARA's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. SARA, located in Saratoga Springs, New York, is a sub-recipient of the Department of Energy's (Department) American Recovery and Reinvestment Act of 2009 (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 \$6.89 million was allocated to SARA. The State of New York's Division of Housing and Community Renewal was responsible for administering Weatherization Program grants, including funds provided to SARA.

OBSERVATIONS AND CONCLUSIONS

Otis expressed the opinion that, except for the weaknesses described in its report, SARA 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:

- Documentation supporting the evaluation of subcontractors was not available from SARA;
- Purchases made did not comply with the State of New York's and SARA's policies and procedures;

- A lack of adequate segregation of duties existed in Weatherization Program administration;
- Adequate records were not maintained by SARA to support the quarterly reports, as required by the Weatherization Program;
- Cash advances were not deposited in an interest bearing account, as required;
- A cash advance received by SARA for the Recovery Act Weatherization Program was not properly recorded in the accounting system; and,
- Vehicle and equipment usage, maintenance, and repair records were not maintained by SARA.

The report makes recommendations to SARA to improve the administration of its Weatherization Program. SARA provided responses that expressed disagreement with most of the findings, and/or their associated finding classifications. As a result, SARA provided additional supporting documentation for audit consideration. Otis reviewed the additional supporting documentation provided by SARA and made revisions to specific findings, and/or finding classifications as they deemed appropriate. It is important to note that finding classifications – Material Weakness, Significant Deficiency, and Advisory Comment – are based on auditor judgment and the associated risk or impact in the audit area.

State of New York officials provided responses that indicated SARA would provide additional supporting documentation, as discussed above, to clarify instances of disagreement. Further, New York officials concurred with several of the audit findings and indicated that SARA had opportunities to improve internal controls.

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 Saratoga County Economic Opportunity Council, 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 SARA will be asked to make a number of improvements designed to resolve the identified issues. Additionally, the Department's Project Officer and/or Contract Specialist will monitor the progress of SARA during the quarterly review of the State and follow-up will continue until all recommendations have been implemented.

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 SARA'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.

The 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 December 12, 2011, and the conclusions expressed in the report.

Attachment

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

Report on Examination Level Attestation Engagement
Of
Saratoga County Economic Opportunity Council, 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: 2010-06

By

Otis and Associates, PC

January 12, 2012

Table of Contents

<u>Section</u>	<u>Page</u>
I. Independent Accountants' Report	1
II. Background	2
III Classification of Findings	4
IV. Summary of Findings.....	5
V. Schedule of Findings.....	6
VI. Grantee's Response (Full Text).....	15



OTIS AND ASSOCIATES, P.C.

Certified Public Accountants & Management Consultants

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INDEPENDENT ACCOUNTANTS' REPORT

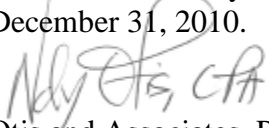
To: Inspector General
U.S. Department of Energy

We have examined Saratoga County Economic Opportunity Council, 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. Saratoga County Economic Opportunity Council, 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 Section V of this report, Saratoga County Economic Opportunity Council, 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

February 25, 2011

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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 reduction in 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 Program services provided by the State of New York's sub-grantees. Saratoga County Economic Opportunity Council, Inc., (SARA) 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 \$6.9 million of this amount to SARA.

SARA is a not-for-profit organization, registered with State of New York, and employs 133 full-time and 30 part-time employees. SARA was incorporated in 1973; and in 1980, was officially recognized as the Community Action Agency for Saratoga County. The organization is governed by a board of directors, which represents the larger community, and consists of local businesses, and government and low-income individuals. The State of New York originally awarded SARA a Weatherization Program contract in the 1970s for Saratoga County, and, in 1998, added the adjoining Schenectady County.

According to the contract with the State of New York, SARA is required to weatherize a total of 982 homes/units between July 1, 2009 and September 30, 2011 under the Recovery Act Weatherization Program. SARA allocated all Recovery Act Weatherization Program funds received during the period covered by our examination, to weatherizing only multi-family units. As of December 31, 2010, SARA had weatherized a total of 322 units in 63 buildings at three apartment complexes, managed by the Schenectady Municipal Housing Authority, at a total

Program cost of \$1,417,293. Of the \$1,417,293 of total Program costs incurred by SARA as of December 31, 2010, \$1,226,446 represents Weatherization Program costs incurred and reported as subcontractors' direct material and labor costs for the multi-unit buildings.

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

PROGRAM FUNDS ALLOCATED TO SARA BY STATE OF NEW YORK:

Contract	Amount	Production Goal	Completed
C092261	\$ 3,169,279	422	
Amendment 1	\$ 3,730,000	560	
Total	\$ 6,899,279	982	322

PROGRAM COSTS INCURRED BY SARA AS OF DECEMBER 31, 2010

Expense Category	Amount
Direct Material	\$ 650,745
Direct labor	\$ 602,828
Program Support	\$ 45,605
Liability Insurance	\$ 60
Financial Audit	\$ 1,608
Training and Technical Assistance	\$ 4,711
Administration	\$ 12,661
Capital Purchase	\$ 99,075
Total	\$ 1,417,293

PROGRAM FUNDS RECEIVED BY SARA AS OF DECEMBER 31, 2010

Fund Description	Amount
Initial Advance	\$ 792,320
Monthly Cost reimbursements	\$ 1,433,098
Total	\$ 2,225,418

SECTION III - CLASSIFICATION OF FINDINGS

DEFINITIONS

Findings are classified in three categories – Material Weaknesses, Significant Deficiencies, or Advisory Comments, as defined below.

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 SARA'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 Comment

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

SECTION IV - SUMMARY OF FINDINGS

- Finding 1: Documentation supporting the evaluation of subcontractors was not available - Significant Deficiency
- Finding 2: Purchases made did not comply with the State of New York's and Sub-grantee's policies and procedures - Significant Deficiency
- Finding 3: Lack of adequate segregation of duties in Program administration - Significant Deficiency
- Finding 4: Adequate records were not maintained by the Sub-grantee to support the quarterly reports required by the Program - Significant Deficiency
- Finding 5: Non-interest-bearing account was maintained for Recovery funds - Significant Deficiency
- Finding 6: Cash advance received for the Recovery Act Weatherization Program was not properly recorded in the accounting system - Advisory Comment
- Finding 7: Vehicle and equipment usage, maintenance, and repair records were not maintained - Advisory Comment

SECTION V – SCHEDULE OF FINDINGS

Finding 1: Documentation supporting the evaluation of subcontractors was not available - Significant Deficiency

Our review found that some required minimum procurement information such as the criteria for evaluation of subcontractor proposals and documentation of evaluation of the proposals was neither maintained in the contract award files nor available from SARA. More specifically, SARA could not produce information to support the evaluation criteria or methodology for selecting the subcontractors that were awarded the weatherization work totaling approximately \$1,226,446. According to the New York State Weatherization Assistance Program Policy and Procedures Manual, when a request for proposals (RFP) is used for procuring Weatherization services, the minimum acceptable documentation must include: a copy of the RFP that was issued; a statement of how firms to be solicited were identified; a list of firms solicited; a copy of any newspaper advertisements used; each proposal that was received; the criteria for evaluation of the proposals; and, documentation of evaluation of the proposals. This New York Manual also states that the purpose of the evaluation process is to ensure that the Weatherization services are performed by the lowest responsible bidder. A responsible bidder is defined as one likely to do a faithful, conscientious job and to promptly and accurately fulfill the contract. The next step is to establish that the bid is responsible – whether the bid is qualified regarding general provisions, specifications, price, delivery schedule and other essential requirements. The low bid is determined based on the price and other applicable cost factors such as capacity of the bidder and time constraints on service delivery. While we noted that DHCR #27, *Materials Bidding Summary Form*, was completed by SARA for each offer and included in the bid packages showing that bids were received, there was no information in the file to verify that a criteria was in place to evaluate the bidders or that the bidders had been determined to be responsible.

SARA's management considered that the completion of Form DHCR #27 was adequate documentation to support the selection of the subcontractors for contract award since it provided the names of the firms bidding and the bid quotations for materials and labor.

As a result of the condition noted above, SARA could not demonstrate that the lowest responsible bidder had been determined.

Recommendation:

- We recommend that SARA comply with the State of New York's requirements for acquisition of goods and services and maintaining records that adequately support procurement decisions made.

Management Comments and Auditors' Analysis

SARA's management strongly disagreed with the finding, and stated that the subcontractors used a form designed by the State of New York to record and submit their bids, which included the name of the subcontractors, the labor and material cost per task or technique and the building and phase number, if applicable. SARA's management also stated that the procedures followed were in accordance with the

State of New York's Weatherization Assistance Program Policy and Procedures Manual, and that their documents show that both projects were broadly solicited and bid and had adequate documentation supporting the selection of the bid winner. They further stated that the rationale for selecting subcontractors was the lowest responsible bid, as per the State of New York's Weatherization Assistance Program Policy and Procedures Manual.

Based on the SARA response, we revised the finding to reflect that SARA did not maintain the criteria for evaluation of the proposals deemed to be responsible, and documentation of evaluation of the proposals, in the contract files as required by the State of New York's Weatherization Assistance Program Policy and Procedures Manual. SARA's management should implement the recommended action.

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

Our review of a sample of twenty-four purchases made by SARA showed that SARA could not demonstrate that it obtained at least three bids each on two contracts for goods and services, as required by both the State of New York and SARA's acquisition policies and procedures. Specifically, we noted that SARA hired and paid \$28,409 to a contractor for building repairs and maintenance services, but there was no documentation to indicate that at least three bids were solicited, or that multiple offers were received. Also, an equipment purchase of \$4,695 was made without receiving price quotations from at least three vendors, as required.

According to the State of New York's Weatherization Assistance Program Policies and Procedures Manual, a minimum of three written 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. In addition, the Manual requires that for procurement of services, the sub-grantee must maintain a copy of the solicitation; copies of all bids; Form DHCR#26, *Services Bidding Summary*; and the Subcontractor Agreement. Furthermore, the Manual requires that all equipment purchases exceeding \$2,500 be considered as capital equipment purchases, and must be approved by the DHCR regional supervisor. Similarly, according to SARA's Fiscal Policy and Procedures Manual, a minimum of three written price quotations is required for purchases of \$1,000 or more. The objective of these requirements is to ensure, to the maximum extent practicable, open and free competition.

SARA's management stated that it solicited price quotations, through a certified legal advertisement, for building repairs and maintenance services, but received an offer only from the subcontractor to whom SARA later awarded the contract. However, SARA did not document or maintain records of the other vendors solicited, and the results of the solicitation. Also, SARA did not provide written justification and approval in the contract files for awarding the contracts based on a single offer.

As a result of the condition noted above, SARA may have impeded competition, which is a violation of the requirements of the State of New York. Also, SARA could not demonstrate that best value was received for the goods and services purchased with Weatherization Program funds.

Recommendations:

We recommend that SARA:

- Maintain records of vendors solicited and/or offers received.
- Provide written justification and approval for awarding contracts based on a single offer.

Management Comments and Auditors' Analysis

SARA's management indicated that in the future, they will ensure that more extensive documentation is maintained to support purchases made under similar circumstances. However, SARA's management strongly disagreed that the examples given in the Draft Audit Report indicate a material weakness in their system. In the case of the award for building repairs and maintenance, SARA's management stated that a total of three contractors obtained the required information to submit a bid; however, only one bid was ultimately received and evaluated for reasonableness. SARA's management stated that the equipment purchase was researched on the Internet by their Program Director, but that documentation of the other two comparable products researched was not maintained in the purchase file.

We consider SARA's management response to be adequate. Additionally, upon review of follow-up documentation provided by SARA's management, we reclassified this finding from a material weakness to a significant deficiency.

Finding 3: Lack of adequate segregation of duties in Program administration – Significant Deficiency

SARA's Energy Services Director, who is responsible for the Weatherization Program, is heavily involved in the subcontractors' evaluation and selection processes. The Energy Services Director also performs pre-and-post-inspections of homes/units weatherized by the subcontractors, and approves payments. The duties of subcontractors' evaluation, selection, pre-and-post inspections, and payment approval being performed by an individual are incompatible because it places that individual in a position to review, authorize, and approve subcontractors' services and performance.

Also, SARA's Finance and Human Resource Director solely prepares, reviews, and approves the Weatherization Program's monthly and quarterly financial reports.

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. Also, 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.

Management oversight over the activities of the Directors was not adequate to ensure segregation of incompatible duties. SARA's management did not review the responsibilities of these individuals to identify and separate incompatible duties. Also, other personnel within the departments did not have the experience necessary to review the Directors' activities. However, the Directors could have assigned these functions to others and reviewed their work, which makes for an efficient operation.

As a result of the condition noted above, errors that are more than inconsequential may not be prevented or detected in a timely manner. Also, the risk of fraud, waste or abuse of Weatherization Program funds, and inefficiency, is increased.

Recommendation:

- We recommend that SARA's management ensure that related duties are adequately segregated, and that adequate oversight is provided over the activities of the Directors.

Management Comments and Auditors' Analysis

SARA's management strongly disagreed with the finding that there is a lack of adequate segregation of duties in two identified areas of program administration.

SARA's management stated that while it is true that the Energy Services Director is involved in the subcontractor evaluation and selection process, he does not have the ability to subjectively determine the subcontractor selected for any specific project. Additionally, SARA's management indicated that the Energy Services Director is not solely involved in subcontractors' evaluation, selection, and pre-and-post inspections, as a result of additional levels of review.

SARA's management also stated that SARA's Finance and Human Resource Director solely prepares, reviews, and approves the Program's monthly and quarterly financial reports. They indicated these financial reports were compiled from information generated by Program staff other than the Finance/Human Resource Director. The Finance/Human Resource Director generates reports from the accounting system. Although the report form contains no signature lines, the report is reviewed by the Energy Services Director before submittal to DHCR.

Financial reports were reviewed regularly by the Executive Director as well as the Board of Directors on a monthly basis. They believed that the reviews performed by the Energy Services Director, the Executive Director and Board of Directors were adequate to mitigate any risks inherent in the financial reporting process. SARA's management further stated that in order to avoid confusion in the future, they will ensure that each person who reviews the reports signs and dates the report to document that review.

We agree with SARA's management response relative to the proposed future actions over their financial reporting process. However, we do not agree with management's position regarding the functions performed by the Energy Services Director. We still believe real or perceived conflicts

of interest are present based upon our audit observations. Additionally, in response to our Draft Audit Report, DHCR indicated that SARA should change staff responsibilities to improve internal controls. SARA's management should consider the implementation of the recommended action.

Finding 4: Adequate records were not maintained by the Sub-grantee to support the quarterly reports required by the Program - Significant Deficiency

SARA did not maintain supporting schedules to substantiate the full-time equivalent (FTE) employment information reported on its Recovery Act Weatherization Program's quarterly reports. In addition, vendor payment data reported were incorrect. For example, total cumulative expenditures billed by a vendor for the quarter ended December 31, 2010, was reported as \$1,136.03, instead of \$1,136,030.

Also, OMB 9-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, Section 4.2 states that "Sub-recipient: a) owns sub-recipient data, b) initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner, c) implements internal control measures as appropriate to ensure accurate and complete information, d) reviews sub-recipient information for material omissions and/or significant reporting errors, and makes appropriate and timely corrections."

Some of the full-time equivalent employment data used for quarterly Weatherization Program reporting was obtained from subcontractors, verbally, and was not documented elsewhere other than on the report where the data was used. Also data provided by subcontractors was not adequately verified for accuracy. Only one individual is responsible for preparing, reviewing, and approving the reports, which allows for errors to be made and not be detected in a timely manner.

As a result of the condition noted above, errors that are more than inconsequential may not be prevented or detected. Also, misleading and/or inaccurate Program performance data may have been reported to the State of New York and the U.S. Congress.

Recommendation:

- We recommend that SARA ensure that data obtained from subcontractors is verified before being used for reporting purposes. We also recommend that the reports be reviewed for propriety by someone other than the preparer.

Management Comments and Auditors' Analysis

SARA's management disagreed that this finding regarding an informational report rises to the level of a significant deficiency. SARA's management acknowledged that there was a mistake in their reporting; attributing it to the misplacement of a decimal point.

SARA's management also stated that as a result of this finding they have instituted a process which provides for review of the quarterly Weatherization Assistance Program Subgrantee Job Creation/Retention Report, and are implementing procedures to obtain additional supporting documentation from all subcontractors in order to further verify FTE information reported.

We consider SARA management's intended actions to be to be adequate.

Finding 5: Non-interest-bearing account was maintained - Significant Deficiency

SARA obtained a \$792,320 cash advance 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.

SARA's management was unaware of the requirement to establish and maintain an interest-bearing account for funds advanced from the Recovery Act Weatherization Program. 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.

Recommendation:

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

Management Comments and Auditors' Analysis

SARA's management strongly disagreed that that the example provided constitutes a significant deficiency in their system of controls. However, SARA's management acknowledged that the funds were not in interest-bearing accounts as required by Federal Regulation.

SARA's management also stated that current Federal Deposit Insurance Corporation (FDIC) insurance protection extends to an unlimited amount for balances in non-interest bearing accounts, while protection provided for balances in interest bearing accounts is limited to \$250,000, which is below the average balance maintained in their account. The FDIC regulation cited by SARA became effective on December 31, 2010. Section 330.15 of the FDIC's regulation (12 C.F.R. 330.15) that governs the insurance coverage of public unit accounts states that "For the period from December 31, 2010 through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provides separate and

unlimited deposit insurance coverage for accounts that meet the definition of a "noninterest-bearing transaction account." SARA had the advanced funds prior to the Dodd-Frank Act's enactment. If SARA's management believes that compliance with the Federal Regulation requiring that advanced funds be deposited in an interest-bearing account will expose the funds to risk of loss, they should have requested a waiver from the State of New York.

In response to our Draft Audit Report, DHCR concurred with the finding and stated they will revise their Policies and Procedures Manual to require that advances of federal funds must be maintained in interest bearing accounts, consistent with federal rules. SARA's management should consider the implementation of the recommended action or request a waiver from the State.

Finding 6: Cash advance received for the Recovery Act Weatherization Program was not properly recorded in the accounting system - Advisory Comment

SARA received a cash advance of \$792,320 from the State of New York, Division of Housing and Community Renewal (DHCR), under the Recovery Act Weatherization Program, and did not properly record and account for the funds in its general ledger.

According to OMB Circular A-110 Section 21 (b), the sub-grantee's financial management system shall provide accurate, current and complete disclosure of the financial results of each Federally-sponsored project or program and records that identify adequately the source and application of funds.

A SARA official stated that the agency was not certain of how to properly record the cash advance, and consulted with their external auditors. The SARA official stated that the auditors advised that a journal entry should be made at the end of each fiscal year, and then reversed at the beginning of each subsequent fiscal year. This does not reflect proper accounting for the funds, as the reversal entry at the beginning of each subsequent fiscal year eliminates the existence of the funds from the accounting system.

As a result of the condition noted above, Weatherization Program funds not recorded in the sub-grantee's accounting system are vulnerable to waste, abuse or fraud. In addition, the sub-grantee's financial records would not accurately reflect the Weatherization Program's financial results.

Recommendation:

- We recommend that SARA ensure completeness of its financial information, and account for the initial cash advance in its accounting system to properly reflect the Weatherization Program's financial results.

Management Comments and Auditors' Analysis

SARA's management strongly disagreed with the finding, and stated that the Draft Audit Report reflects that there was some misunderstanding concerning its accounting systems. They also stated

that the Recovery Act advance funds they received were deposited into a separate account as directed by the State of New York Division of Housing and Community Renewal. They further stated that in order to avoid any possible confusion in the future, they will be sure that both cash on hand and the corresponding deferred revenue are reflected in the general ledger at all times.

SARA's management response to this finding indicates that they are addressing the recommend action. Additionally, as a result of follow-up documentation provided by SARA's management, we reclassified this finding from a material weakness to an advisory comment. We agree with their intended action of ensuring that both cash on hand and the corresponding deferred revenue associated with the advanced funds, are reflected in the general ledger at all times.

Finding 7: Vehicle and equipment usage, maintenance, and repair records were not maintained – Advisory Comment

Although SARA had purchased two vehicles and two pieces of equipment with over \$100,000 of Recovery Act Weatherization Program funds, the agency did not maintain usage, maintenance, or repair records for these items as required. In accordance with Federal financial assistance regulations, SARA should have a control system which meets property management standards, for vehicles and equipment acquired with Federal funds. Such a control system should ensure adequate safeguards to prevent loss, damage, or theft of the vehicle or equipment; and ensure that adequate maintenance procedures are implemented to keep the vehicle or equipment in good condition. Also, the State of New York's Weatherization Assistance Program Policies and Procedures Manual requires that a mileage log (Form DHCR #34 or comparable) be maintained by SARA for each vehicle purchased with Weatherization Program funds or income.

SARA's management stated that equipment usage and vehicle repairs and maintenance logs were not provided to employees because they were not aware that such records are required under the Program. SARA's management also stated that its employees were not aware of the requirement to maintain usage logs for vehicle, which were made available on each vehicle, because they were not trained on how to maintain the vehicle usage logs.

As a result of the condition noted above, SARA could not demonstrate that the vehicles and equipment were used primarily for official purposes. This may have resulted in abuse or misuse of federal funds. Also, SARA was not in compliance with the terms and conditions of its contract with DHCR and applicable property management standards.

Recommendation:

- We recommend that SARA provide vehicle and equipment usage and maintenance logs to its employees, and provide training that would ensure that the employees become aware of the requirement to maintain usage logs for vehicle and equipment purchased with Weatherization Program funds.

Management Comments and Auditors' Analysis

SARA's management concurred with the finding and recommendation. SARA's management stated that they have instituted a system which provides for the tracking of vehicle maintenance and the use of mileage logs for all agency vehicles. Also, employees have been trained in the proper usage of these logs which are reviewed regularly by program management.

We consider SARA management's response to be adequate.

SECTION VI – GRANTEE'S RESPONSE (FULL TEXT)



Saratoga County Economic Opportunity Council, Inc.

Community Action. Helping People. Changing Lives.

Julie Hoxsie
Executive Director

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• Community Services Dept.
• Dress for Work
• Energy Services Dept.
• Latino Community
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• Wheels for Work
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Saratoga Springs, NY 12866
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Region 1 Office**
• Ballston Spa
• Clifton Park
• Galway
• Waterford
Milton Terrace Primary School
200 Wood Road
Ballston Spa, NY 12020
518.884.7270 - phone
518.884.2899 - fax
711 - TDD

**SCEOC Head Start Program
Region 2 Office**
• Corinth
• Greenfield
• Saratoga Springs
• Schuylerville
• South Glens Falls
• Stillwater
Saratoga Springs High School
3 Blue Streak Blvd., Room C125
Saratoga Springs, NY 12866
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July 18, 2011

George W. Collard
Assistant Inspector General
For Audits
Office of Inspector General
Department of Energy
Washington, DC 20585

Dear Mr. Collard:

Enclosed is Saratoga County Economic Opportunity Council's response to the draft audit report that we received in June. We have made every attempt to respond to the findings as succinctly as possible. We ask that you carefully consider all of the information, including the attachments.

Additionally, we ask that in consideration of our response and documentation, that the report be revised.

Please do not hesitate to contact me with any questions or concerns you may have. I can be reached at 518-587-3158.

Sincerely,


Julie Hoxsie
Executive Director

www.saratogaecoc.org

Finding 1: Regarding cash advance received for the Recovery Act Weatherization Program was not properly recorded in the accounting system

We strongly disagree that our method of accounting for funds advanced under the program indicates a material weakness in our system. The Draft Audit Report reflects that there was some misunderstanding concerning our accounting systems. We deposited the ARRA advance into a separate account as directed by a NYS Division of Housing and Community Renewal memorandum, (name recently changed to NYS Homes and Community Renewal) dated August 21, 2009 titled **ARRA Funds to Require Separate Bank Account (Attachment # 1)**. Weatherization ARRA expenditures were made from our main account and coded to denote Weatherization ARRA expenditures to identify adequately the source and application of funds. Attached is the statement of financial position from the agency wide audited Financial Statements for the period ending December 31, 2009 (**Attachment # 2**). It lists deferred revenue as \$1,337,290. The following page, (**Attachment # 3**) is a detail of Deferred Revenue. It reflects that the Weatherization ARRA was in a separate account, \$792,320 was received as an advance and \$16,400 was spent thru 12/31/09, leaving a balance of deferred revenue of \$ 775,920 at 12/31/09 in the deferred revenue account. As expenditures were made out of the main account, reports were produced to document these expenditures and then an amount equal to these expenditures was transferred out of the ARRA designated account and into the main account to reimburse the expense. As additional grant funds were received, they were deposited directly into the designated ARRA account, as required. The activity in the designated ARRA bank account was monitored using an excel spreadsheet and was reconciled to the corresponding bank statement on a monthly basis. Additionally, the (ARRA) audit team was supplied with an account detail of the separate Weatherization ARRA account. It is our procedure that at the end of each year all activity, from all our accounts is reflected on the general ledger. While the cash balance and corresponding deferred revenue were not reflected on the general ledger, this simply reflects the timing of year end closing journal entries which had not been completed at the time of the (ARRA) auditors visit. Weatherization ARRA funds are properly maintained in a separate bank account, all expenditures are properly approved and recorded, funds on hand are reconciled each month and proper controls are in place to safeguard these funds. In order to avoid any possible confusion in the future, we will be sure that both cash on hand and the corresponding deferred revenue are reflected in the general ledger at all times.

Finding 2: Documentation supporting the selection of subcontractors was inadequate

We strongly disagree that the documentation in our files does not adequately support the selection of subcontractors under the program. We do comply with NYS's requirement for acquisition of goods and services. It is stated in the finding that , " Some of the required information such as each subcontractor's proposal that was received was not included in the contract award files and SARA could not produce this information. Therefore, we could not confirm that the information included on the DHCR # 27, showing subcontractors' bids on materials and labor was complete and accurate." The subcontractors used a form designed by NYS to record and submit their bids, which included the name of the subcontractor, the labor and material cost per task or technique and the building and phase number, if applicable (**Attachment #4 A-F**). These forms were prepared by the subcontractors themselves and submitted as part of their bid packages. These forms, along with all other items submitted by the subcontractors as part of their bid packages are included in our project files. Our procedure was as follows: The contents of both bid packets were approved by DHCR before distribution, the legal ads were placed in the largest 4 area newspapers, The Daily Gazette, The Post Star, The Saratogian and the Times Union. The Lincoln/Steinmetz ad ran 3 days, stating the procedure to receive a bid package(**Attachment #5-A**). The MacGathan ad ran in these same four newspapers for 4 days (**Attachment #5-B**). For the Lincoln/Steinmetz project, nine (9) bidders attended the contractors meeting to discuss the scope and specifications of the work, the timeframe and oversight. All nine signed in to document attending the bidders' conference (**Attachment #6A**). Four (4) bidders attended the contractors conference for the MacGathan project, and likewise signed in (**Attachment # 6B**). For the Lincoln/Steinmetz project four bids were received. On November 12th, 2009, three of the four bidders came to the bid opening and signed in to document their attendance, in addition to two DHCR officials who were also in attendance (**Attachment# 7A**). For the MacGathan project, three bids were received; all three bidders came to the bid opening and signed in, in addition to one DHCR representative (**Attachment # 7B**). The rationale of selecting of subcontractors was **the lowest responsible bid**, as per the NYS Weatherization Policy and Procedure Manual. As required, all bids contained the bid sheet, non-collusive bid forms, proof of insurance and reference and qualifications forms. The procedures followed were in accordance with NYS Weatherization Assistance Program Policy and Procedures Manual. Our documents show that for both projects, we broadly solicited for bids and had adequate documentation supporting the selection of the bid winner.

were reported as \$1,136.03 instead of \$ 1,136,030. We acknowledge that this was a mistake of a misplaced decimal point. However, since only amounts above \$25,000 were to be reported, a reasonable person would question the reported amount as a decimal point error. As a result of this finding we have instituted a process which provides for review of the quarterly Weatherization Assistance Program Subgrantee Job Creation/Retention Report, (the primary purpose of which is the reporting of the total number of ARRA funded WAP jobs created/retained during each fiscal quarter and vendor payments over \$25,000), which is required to be filed quarterly under program guidelines. The report is prepared quarterly by the Director of Finance and is reviewed by the Executive Director or the Fiscal Supervisor and initialized prior to submission. Additionally we are implementing procedures to obtain additional supporting documentation from all subcontractors in order to further verify FTE information reported by them each quarter.

Finding 6: Non-Interest-bearing account was maintained for program funds

We strongly disagree that the example provided constitutes a significant deficiency in our system of controls. By placing ARRA funds in a separate account we fulfilled the requirement for the NYS Weatherization Assistance Program. While it is true that the use of an interest bearing account is required under federal guidelines, it is also true that advances of federal funds must be deposited and maintained in insured accounts whenever possible. Current FDIC insurance protection extends to an unlimited amount for balances in non-interest bearing accounts, while protection provided for balances in non-interest bearing accounts is limited to \$250,000, which is below the average balance maintained in the account. Additionally, during the program period, interest rates paid in interest bearing accounts has hovered near 0%. Therefore the amount of interest earned in such an account during the period would have been insignificant. 10 CFR 600 states that advances must be put in an interest bearing account unless, "the best reasonably available interest bearing account would not be expected to earn interest in excess of \$ 250 per year in cash balances." (10 CFR 600-Attachment #14)

Finding 7: Vehicle and equipment usage, maintenance, and repair records were not maintained

We have instituted a system which system which provides for the tracking of vehicle maintenance and the use of mileage logs for all agency vehicles. Employees have been trained in the proper usage of these logs which are reviewed regularly by program management. Agency vehicles are always kept in Saratoga EOC's private parking lot. All vehicles return to our main location each business day, the keys handed in and locked up overnight.



ANDREW M. CUOMO
GOVERNOR

DARRYL C. TOWNS
COMMISSIONER/CEO

NEW YORK STATE
DIVISION OF HOUSING
& COMMUNITY
RENEWAL

July 22, 2011

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

Findings:

- 1) 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.

- 2) 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.

HCR Response to DOE Draft Audit Findings
Page 2

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 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.

3) 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.

4) 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 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

HCR Response to DOE Draft Audit Findings
Page 3

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.

5) 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.

6) 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.

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 to DOE Draft Audit Findings

Page 4

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.



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 Saratoga County Economic Opportunity Council,
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 Saratoga County Economic Opportunity Council, Inc. (SARA) 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 (Recovery Act).

In response to DOE's concerns and corrective action plans, Saratoga 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: Cash advance received for the Recovery Act Weatherization Program was not properly recorded in the accounting system.

Recommendation: We recommend that SARA ensure completeness of its financial information, and account for the initial cash advance in its accounting system to properly reflect the Program's financial results.

The section of 10 CFR 600 that is applicable to Non-Profit Organizations, Subpart B, includes a number of provisions that establish standards for financial management systems. Specifically, see 10 CFR 600.120 (Purposes of Financial and Program Management), 10 CFR 600.121 (Standards for Financial Management Systems) and 10 CFR 600.122 (Payment). 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)].

During the next scheduled quarterly visit, the DOE Project Officer and/or Contract Specialist will review the operational changes implemented by Saratoga to address the improper handling of the cash advance received from the Grantee and determine if further action is required.

Within the next 30 days, 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.

Finding 2: Documentation supporting the selection of subcontractors was inadequate.

Recommendation: We recommend that SARA comply with the State of New York's requirements for acquisition of goods and services and maintaining records that adequately support procurement decisions made.

DOE reviewed relevant excerpts from the on-line version of the NYS WAP Policies and Procedures Manual, and concurs with the auditor's findings - e.g., see page 188 from the aforementioned manual, under the heading "Solicitation - Invitation to Bid;" see also 10 CFR 236(b)(9), which requires that Grantees and Subgrantees "maintain records sufficient to detail the significant history of a procurement". The Project Officer issued a concern during her monitoring trip of October 25-29, 2010, via the monitoring report issued on November 23, 2010, and instructed the Grantee to rewrite the procurement section of the Policies and Procedures Manual and to provide training to Grantee staff and to all of the Subgrantees. The manual was changed and reissued on July 7, 2011.

The DOE Project Officer and the New York State (NYS) IG identified weaknesses in NYS procurement practices statewide. Training was provided by DOE the week of December 13, 2010 and included topics focused on procurement regulations, competition, methods of procurement, cost analysis, contract awards, cash management, and other related topics. The DOE Project Officer and/or Contract Specialist will review the state-level monthly fiscal reports for Saratoga and confer with the Grantee during the next scheduled quarterly visit to determine if further action is required.

Finding 3: Purchases made did not comply with the State of New York's and Subgrantee's policies and procedures.

Recommendation: Ensure that at least three bids are received before awarding contracts; or provide written justification and approval for awarding contracts, based on a single offer. Also maintain records of vendors solicited or offers received.

DOE reviewers and the New York State IG identified weaknesses statewide in the procurement area. Procurement training was provided the week of December 13, 2010 by DOE. The DOE Project Officer and/or Contract Specialist will review the state-level monthly fiscal reports for Saratoga and confer with the Grantee during the next scheduled quarterly visit to determine if further action is required.

DOE has 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 Project Officer issued a concern during her monitoring trip of October 25-29, 2010, via the monitoring report issued on November 23, 2010, and instructed the Grantee to rewrite the procurement section of the Policies and Procedures Manual and to provide training to Grantee staff and to all of the Subgrantees. The manual was changed and reissued on July 7, 2011. The Project Officer will follow-up during the next scheduled quarterly monitoring visit to determine if the recommended training took place.

Finding 4: Lack of adequate segregation of duties in Program administration.

Recommendation: We recommend that SARA's management ensure that related duties are adequately segregated, and that adequate oversight is provided over the activities of the Directors.

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.

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 DOE Project Officer will review the Grantee's fiscal monitoring checklist to be created to ensure that fiscal monitors are checking all required items, including internal controls.

Finding 5: Adequate records were not maintained by the Sub-grantee to support the quarterly reports required by the Program.

Recommendation: We recommend that SARA ensure that data obtained from subcontractors is verified before being used for reporting purposes. We also recommend that the reports be reviewed for propriety by someone other than the preparer.

During the next schedule quarterly visit, the DOE Project Officer and/or Contract Specialist will review the monthly fiscal information retained by Saratoga and confer with the Grantee determine if further action is required.

Finding 6: Non-interest-bearing account was maintained for Recovery funds.

Recommendation: We recommend that SARA establish and maintain an interest-bearing account for cash advances received from the Program. We also 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 will recommend that the Grantee include a section regarding the handling of advances and interest in their Policy and Procedures Manual.

The DOE Project Officer and/or Contract Specialist will review the fiscal records for Saratoga 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.

Finding 7: Vehicle and equipment usage, maintenance, and repair records were not maintained.

Recommendation: We recommend that SARA provide vehicle and equipment usage and maintenance logs to its employees, and provide training that would ensure that the employees become aware of the requirement to maintain usage logs for vehicle and equipment purchased with Weatherization Program funds.

10 CFR 600.134 (applicable to Non-profit organizations) and 10 CFR 600.232 (applicable State & Local Governments) specify requirements pertaining to equipment, including, but not limited to, definitions, title, usage, inventory, record keeping, and disposition. Within the next 30 days, the DOE Project Officer will determine if the Grantee is in compliance with the above regulations.

The DOE Project Officer and/or Contract Specialist will review the state-level monthly fiscal records for Saratoga during the next scheduled quarterly visit and determine if further action is required.

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