



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

Audit Report

The Department of Energy's
Weatherization Assistance Program
under the American Recovery and
Reinvestment Act in the State of
Ohio





Department of Energy
Washington, DC 20585

June 25, 2012

MEMORANDUM FOR THE ASSISTANT SECRETARY, ENERGY EFFICIENCY AND
RENEWABLE ENERGY

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

FROM: Rickey R. Hass
Deputy Inspector General
for Audit Services
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's
Weatherization Assistance Program under the American Recovery and
Reinvestment Act in the State of Ohio"

INTRODUCTION AND OBJECTIVE

Under the American Recovery and Reinvestment Act of 2009, the Department of Energy's Weatherization Assistance Program (Weatherization Program) received \$5 billion to increase the energy efficiency of dwellings owned or occupied by low-income persons. Ohio administers its Recovery Act grant through 58 local agencies. These local agencies are responsible for determining applicant eligibility, evaluating homes to determine appropriate weatherization measures, awarding contracts and assigning in-house crews to weatherize homes, and conducting final inspections of completed homes.

The Department awarded a 3-year, \$267 million Recovery Act weatherization grant to the State of Ohio's (Ohio) Department of Development. Ohio planned to use its Recovery Act funding to weatherize more than 32,000 homes. As of December 31, 2011, Ohio had weatherized 37,566 homes, exceeding its estimated goal, and had expended almost all of its Recovery Act grant funds.

Given the significant increase in funding and demands associated with weatherizing thousands of homes, we initiated this audit to determine whether Ohio had adequate safeguards in place to ensure the Weatherization Program was managed efficiently and effectively.

RESULTS OF AUDIT

Ohio had not always managed its Weatherization Program efficiently and effectively. We identified weaknesses that impacted Ohio's ability to meet the objectives of the Weatherization Program and the Recovery Act. Specifically, Ohio and its local agencies had not always:

- Provided quality weatherization services. In particular, 70 percent of the homes reinspected by Ohio during the period of September 2009 through December 2010, required additional work to meet Ohio's quality standards, even though they had

previously passed local agency inspections. Sixteen percent of those homes had not passed Ohio's reinspection because of major quality of work issues, or a significant number of lesser findings that could compromise the health and safety of the occupants, or the homes' structural integrity. Ohio's Office of Inspector General's November 2011, *Report of Investigation* also noted the high frequency of homes requiring action after Ohio's reinspection. Further, Ohio had not met the annual requirement to reinspect at least 5 percent of each local agency's completed homes. Additionally, Ohio and its local agencies had not developed systems to adequately track and summarize systemic quality of work issues, and crews and contractors that repeatedly underperformed;

- Procured materials, equipment and services in accordance with Federal and State requirements. For example, at one local agency, about 96 percent of 372 items reviewed had not been purchased through a competitive bidding process or supported by cost or price analyses. As a result of these issues, we questioned over \$585,000 in procurement costs at two of the three local agencies reviewed;
- Ensured that recipients were selected for weatherization services based on their priority and that they met income eligibility requirements. In particular, we found that a local agency selected five weatherization applicants before 205 others who had previously been determined to be a higher priority. Another agency relied on income information that was more than 12 months old, even though Ohio required that eligibility be based on the 12 months of income immediately prior to application; and,
- Complied with laws and regulations governing the Weatherization Program, including the Davis-Bacon Act for prevailing wage rates, and Federal requirements governing the remittance of interest earned on Federal fund advances and the reimbursement of allowable costs. As a result of our work, for example, one agency retroactively paid employees approximately \$55,000 in wages. Another agency remitted approximately \$76,000 to Ohio in interest earned on advanced funds. We also questioned \$23,400 in costs charged by another local agency that were not fully supported as required.

The Weatherization Program deficiencies we observed occurred for a number of reasons, including poor final inspections, staffing issues, inadequate oversight by Ohio, and the failure of local agencies to either understand or follow Federal and State requirements. For example, Ohio and its local agencies had not adequately tracked and summarized performance statistics to identify and address commonly recurring problems or contractors and agencies that repeatedly underperformed. As discussed in the body of this report, we also identified areas in which local agencies' and/or Ohio's policies and procedures were not fully consistent with Federal requirements.

It is imperative that the Weatherization Program is managed to ensure Department requirements are met; monies are spent with transparency, accountability and for intended purposes; and, deserving households receive the services to which they are entitled. To their credit, Ohio and local agencies in our review have already begun to take action to correct previously observed weaknesses. We have made a number of recommendations designed to improve Ohio's Weatherization Program.

We analyzed Ohio's management of its Recovery Act Weatherization Program and reviewed the weatherization activities of three local agencies, IMPACT Community Action (IMPACT), the Community Action Partnership of the Greater Dayton Area (Dayton), and Cuyahoga County of Ohio Department of Development (Cuyahoga). In September 2011, we issued separate examination reports on Dayton and Cuyahoga. The reports can be found on our website at <http://energy.gov/ig/calendar-year-reports>. The examinations were performed by Lopez and Company, LLP, an independent public accounting firm under contract with the Office of Inspector General. The results of these examinations have been incorporated into this report to provide a statewide summary of findings. While most Recovery Act funds had now been expended at the time we issued this report, we believe that our recommendations should help Ohio as it transitions its weatherization activities to a post-Recovery Act environment.

Audit work at the three local agencies discussed in this report has been completed. A review of other weatherization activities in Ohio, however, had not been finished by the time this report was issued.

MANAGEMENT REACTION

The Department, Ohio, and IMPACT provided responses to our draft audit report. The Department stated it will continue to work with Ohio to implement corrective actions and resolve the issues described in the report. Ohio noted that many of our recommendations have already been addressed. Additionally, Ohio reported that contracts with its local agencies had been amended to correct the most recent Davis-Bacon Act related issues. Ohio also stated that it had reviewed certified payrolls submitted by local agencies and had communicated the correct Davis-Bacon Act rates to IMPACT and all of its local agencies with the expectation of compliance.

IMPACT reported that the deficiencies noted in our report have been addressed and corrected. Dayton and Cuyahoga responded separately to examination reports issued in September 2011. Both Dayton and Cuyahoga agreed with our findings and recommendations.

The comments from management are discussed in more detail in the body of the report, and are included in Appendix 4.

Attachment

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

THE DEPARTMENT OF ENERGY'S WEATHERIZATION ASSISTANCE PROGRAM UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT IN THE STATE OF OHIO

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THE DEPARTMENT OF ENERGY'S WEATHERIZATION ASSISTANCE PROGRAM UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT IN THE STATE OF OHIO

WEATHERIZATION EFFORTS

The State of Ohio's (Ohio) Department of Development administers its \$267 million American Recovery and Reinvestment Act of 2009 (Recovery Act) grant through 58 local agencies. Ohio provides funding directly to 34 of these agencies. For the remaining 24 local agencies, known as "delegate agencies," Ohio utilizes the services of 3 intermediary agencies that distribute Weatherization Assistance Program (Weatherization Program) funds and provide additional oversight. Local agencies are responsible for determining applicant eligibility, assessing homes to evaluate appropriate weatherization measures, awarding contracts and assigning in-house crews to weatherize homes, and conducting final inspections of completed homes.

We analyzed Ohio's management of its Recovery Act Weatherization Program and reviewed the weatherization activities of three local agencies, IMPACT Community Action (IMPACT), the Community Action Partnership of the Greater Dayton Area (Dayton) and Cuyahoga County of Ohio Department of Development (Cuyahoga). In September 2011, we issued separate examination reports on Dayton, *Community Action Partnership of the Greater Dayton Area – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-11-18, September 2011), and Cuyahoga, *Cuyahoga County of Ohio Department of Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-11-19, September 2011). The examinations were performed by Lopez and Company, LLP, an independent public accounting firm under contract with the Office of Inspector General. The results of these examinations have been incorporated into this report to provide a statewide summary of findings.

Ohio had made significant progress in implementing its Weatherization Program. As of December 31, 2011, Ohio had weatherized 37,566 homes, exceeding its estimated goal of 32,000, and had expended almost all of its Recovery Act grant funds. However, Ohio had not always managed its Weatherization Program efficiently and effectively. We found problems with the quality of weatherization work; procurement of materials, equipment and services; prioritization and eligibility of applicants for weatherization services; and, compliance with laws, regulations and Weatherization Program guidelines.

Quality of Weatherization Work

Ohio and its local agencies had not always provided quality weatherization services. For example, of the 837 homes included in our review, 585 homes (70 percent) reinspected by Ohio between September 2009 and December 2010 required further action to meet Ohio's Weatherization Program standards, even though previously passing local agency inspections. This total included 136 homes (16 percent) that did not pass Ohio's reinspections due to a major quality of work problem, or a significant number of lesser findings that, when combined, could compromise the health and safety of the occupants or the homes' structural integrity.

We accompanied local agency staff on final inspections of homes weatherized by the three agencies reviewed. Of the 12 homes inspected, 10 (83 percent) were cited as deficient by local agency staff. These homes needed additional work because of improper air duct sealing, improperly installed exterior siding, use of the wrong carbon monoxide detectors and insufficient weather stripping.

Substandard weatherization work resulted from a combination of program weaknesses at the State and local level, including inadequate final inspections conducted by local agencies, inadequate monitoring by Ohio, insufficient analysis of home inspection results and the lack of resources. Specifically:

- **Final Inspections:** Inadequate local agency inspections resulted in poor quality work going undetected and uncorrected. While the inspections we observed at Dayton, Cuyahoga and IMPACT identified workmanship issues, Ohio's reinspection results, discussed above, showed local agencies throughout the State often passed homes that required further action. In other words, homes deemed to be completed by local agency officials often had significant problems that had not been resolved. We also noted local agencies had not always documented final inspection results to ensure instances of poor workmanship had been corrected. For example, 8 of the 30 weatherization case files reviewed at Cuyahoga were missing required rework forms when rework was identified by inspectors. We observed, and agency inspectors confirmed, they sometimes verbally communicated the need for rework to contractors rather than documenting the deficiencies in the case file as

required. In response to this finding, Cuyahoga officials told us they will ensure that rework forms will be included in inspection files.

Additionally, contrary to Ohio guidance, we found IMPACT had allowed inspectors to perform both the initial home assessment and the final inspection. Ohio guidelines suggest that having final inspections conducted by someone other than the person who did the initial assessment can result in better controls over quality. However, IMPACT inspectors were allowed to perform minor repairs to heating, ventilating and air-conditioning systems and to approve and certify the quality of their own work. In response to our audit, IMPACT reportedly modified its home inspection process to require a crew member not associated with the weatherization of the home to perform the final inspection.

- **Monitoring:** Inadequate monitoring by Ohio also contributed to continued substandard workmanship. During the first 2 years of its Recovery Act Weatherization Program, Ohio had not met the annual requirement to reinspect at least 5 percent of each agency's completed homes. Specifically, we found for program year 2010, which ended March 31, 2011, Ohio had not met the requirement for 15 of its 56 agencies (27 percent). This was an improvement over the previous program year in which Ohio had not met the requirement for 38 of its 56 agencies (68 percent) that provided weatherization services. For example, in program year 2010, Ohio had only reinspected 12 of IMPACT's 611 (2 percent) completed units. In December 2011, Ohio implemented new processes to better calculate the number of units requiring reinspection at each local agency.
- **Tracking and Summarizing Home Inspection Results:** Ohio and its local agencies had not adequately tracked and summarized home inspection results to assess program performance. Neither Ohio nor the local agencies we reviewed had tracked the percentage of homes that did not pass inspections, or adequately summarized major findings from monitoring visits to identify systemic quality of work issues. For example, after reviewing individual Ohio monitoring reports, we were able to identify recurring problems related to substandard workmanship. Based on a sample of nearly 300 units,

which either failed or required rework, we found Ohio had repeatedly required agencies to return to completed homes for the same types of deficiencies. Specifically, 30 percent of the units we reviewed required a callback to seal ductwork and 15 percent required agencies to repair or replace venting for clothes dryers. During home reinspections, Ohio officials also noted issues such as the need to clean and tune gas appliances; insulate walls, attics and piping; and, install temperature and humidity gauges.

We recognize that Ohio tracked certain aspects of its monitoring efforts, including documenting the number of homes reinspected and client files reviewed, success stories at local agencies, and due dates for deliverables. However, even those efforts were not always useful because of reporting inaccuracies. We found that information in the tracking system often differed from that in Ohio's technical and administrative monitoring reports. For example, of the 81 technical monitoring reports we reviewed, 14 contained a different number of homes reinspected than the number reported in Ohio's tracking system.

- **Resources:** Ohio officials told us they had not attained necessary staffing levels to adequately monitor the program until about a year into their Recovery Act implementation. Ohio officials noted that production was higher than anticipated because of lower than projected per home costs, increasing Ohio's and local agencies' workloads. In addition, local agency officials told us it took time to train and certify newly hired inspectors.

Ohio Inspector General Concerns Regarding Workmanship

Consistent with our findings in this area, Ohio's Office of Inspector General (Ohio IG) also reported issues concerning the quality of work in Ohio's Weatherization Program. In its November 2011, *Report of Investigation*, the Ohio IG noted the high frequency of homes requiring action after Ohio's reinspection, noncompliance with the 5 percent reinspection requirement, Ohio's failure to increase the number and frequency of reinspections when evidence arose that agencies were not properly weatherizing homes, untimely monitoring reports and failure to take disciplinary or corrective action toward agencies failing to properly weatherize homes. Additionally, the Ohio IG noted that some of Ohio's technical monitors improperly allowed the agencies to select the

units for reinspection. The Ohio IG made a number of recommendations to correct the deficiencies identified. In its January 2012 response, Ohio reported its concurrence with the recommendations and outlined related corrective actions.

Procurement of Materials, Equipment and Services

Local agencies had not always followed Federal and State procurement requirements. For example, Dayton could not provide evidence that 79 of 119 (62 percent) of the inventory items we sampled, totaling about \$49,400, had either been procured through a competitive bid process or determined to be reasonably priced, as required. Federal and State regulations require a documented cost or price analysis for every procurement action. Additionally, Dayton had not always followed Federal and State procurement guidelines for the selection of service contractors. We found the agency selected six contractors through sole-source procurements without documenting why soliciting bids was not feasible or justifying costs totaling \$21,400. In total, we questioned about \$70,800. Dayton officials told us they were not aware of Federal and State requirements regarding competitive bidding and cost/price analyses. However, as a result of our audit, Dayton is developing new policies and procedures, including those related to bid solicitations.

We had similar concerns at IMPACT where the agency could not always provide documentation evidencing compliance with procurement rules to ensure the best price for materials and services was obtained. Ohio's guidelines require that procurements in excess of \$5,000 be competitively bid unless the requirement is specifically waived by Ohio. However, we found that:

- The agency was unable to provide either bid solicitation or cost/price analysis documentation for 356 material items totaling \$63,300 of the 372 (96 percent) reviewed;
- The agency had not competitively solicited bids for the procurement of spray foam insulation totaling about \$451,800. Instead, from October 2009 through August 2011, the agency split the procurement into 92 smaller purchases. Each purchase was valued at \$4,911.12, an amount just under the \$5,000 threshold required for competitive bidding. In fact, IMPACT made eight separate purchases of spray foam insulation in the same week, including four on the same day. IMPACT reportedly split the procurements because an official did not want to exceed

the \$5,000 threshold which would have required a competitive bidding process. However, splitting transactions violates accountability and transparency requirements of both the Recovery Act and Ohio procurement policies that require free and open competition for large purchases. After we brought this issue to IMPACT's attention, an official told us the agency had requested three quotes for a recent spray foam insulation procurement that resulted in the per unit price decreasing by almost 20 percent and assured us that future procurements would be competitively bid; and,

- IMPACT had not solicited bids for new service contractors in 2010, as required by Ohio policies and procedures. Officials believed new contractor solicitations were not required until the 3-year grant had expired, rather than during each program year.

In total, because Federal and State procurement regulations had not been followed, we questioned IMPACT's purchases totaling about \$515,100.

Prioritization and Eligibility of Applicants

IMPACT had not selected applicants for weatherization services based on priorities established by Federal and State guidelines. For example, we reviewed case files for 23 applicants whose homes were weatherized in January 2011, and found that 5 applicants had received services before 205 others who had been identified as higher priority. Additionally, 69 of 278 weatherization projects approved for services, as of January 2011, had been waiting for more than 1 year and had higher priority than others selected. The State had established a point system to prioritize applicants in accordance with guidelines. Although IMPACT had determined each applicant's priority points, it had not used the priority points as the basis for selecting applicants for weatherization work. IMPACT officials stated they made an effort to select elderly applicants for priority services. However, we were told that remaining applicants were selected using various selection methods including at random, alphabetically, or "first-come, first-served." None of these methods ensured that services were allocated based on priorities established by Federal and State guidelines.

Both Federal and State guidelines require agencies to prioritize applicants categorized as elderly, disabled, families with children,

high residential energy users, and households with a high energy burden. Although Ohio had developed and published adequate prioritization guidelines for its local agencies, it had not ensured that IMPACT had implemented these guidelines for the application selection process. Without a sound and consistent applicant prioritization and selection process, services may not be provided to individuals whom the Weatherization Program was most intended to serve. In response to our audit, an IMPACT official told us that the process has been revised and applicants are now being selected based on priority points.

Additionally, we found that Cuyahoga applicants may have been approved for weatherization services based on outdated income information. Cuyahoga relied on income information maintained by Ohio for determining applicant eligibility. In 12 of the 30 files we reviewed, eligibility was calculated using income information that was more than 12 months old, even though Ohio requires that eligibility be based on the 12 months of income immediately prior to application. For the remaining 18 applicant files, we were unable to make an income eligibility determination because Ohio did not have the documentation. Under guidance issued by the Department, Ohio was not required to retain documentation. Cuyahoga agreed with the finding and plans to adjust its current policy to reverify an applicant's income if more than 8 months have elapsed since the date of Ohio's verification.

Compliance with Laws, Regulations and Program Guidelines

Ohio and its agencies had not always ensured compliance with applicable laws, regulations and program guidelines including the Davis-Bacon Act; Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*; Federal Financial Assistance Regulations; Recovery Act; and, Ohio Weatherization Program guidelines.

Davis-Bacon Act Wage Requirements

IMPACT had not paid weatherization crews prevailing wages in accordance with the Davis-Bacon Act. During the period March 2010 to March 2011, we found 33 of the 38 weatherization crew members were paid, in aggregate, approximately \$100,000 less than what was required according to certified payrolls. The Recovery Act requires that all laborers employed on projects funded by the Recovery Act be paid prevailing wages in accordance with the Davis-Bacon Act. In addition, wages must be paid on a weekly basis and documented through certified payroll records.

Davis-Bacon Act errors were caused by a number of issues. According to a July 2010 Department monitoring report, Ohio's contracts with its local agencies had not been amended to include the latest Davis-Bacon Act wage revisions. For example, Ohio's contract with IMPACT was not formally amended to reflect the latest Davis-Bacon Act wage revisions until September 2010, even though higher wage rates went into effect about 6 months earlier. Instead, Ohio communicated the updated Davis-Bacon Act rates via email, with an expectation that its local agencies comply with the new prevailing wage requirements. However, IMPACT failed to revise its wages and continued to underpay workers. Although Ohio had reportedly reviewed IMPACT's certified payrolls to ensure compliance with Davis-Bacon Act requirements, they had not detected the discrepancies in the workers' wages.

IMPACT officials reported that as a result of our work, they had retroactively paid affected employees approximately \$55,000 and adjusted wages going forward. Officials told us that after reviewing their records, they determined that 13 of the 33 employees had been misclassified on the certified payrolls. Specifically, one employee was not a weatherization worker and 12 employees should have been classified at a lower-wage category, one comparable to the level of weatherization work actually performed. After adjusting for the misclassification of employees, IMPACT recalculated and determined that the aggregate underpayment to employees was approximately \$55,000 instead of our original estimate of \$100,000 based on certified payrolls. We did not evaluate the appropriateness of IMPACT's reclassification of employees, an action that should be reviewed by Ohio. We notified the U.S. Department of Labor of IMPACT's lack of adherence to the Davis-Bacon Act requirements and were informed that no further action was necessary.

Labor Cost Distribution

Dayton had not ensured that administrative personnel labor costs were adequately documented. Specifically, not all timecards had been signed by employees or approved by appropriate supervisory personnel, as required by Federal regulations. OMB Circular A-122 requires that reports reflect an after-the-fact determination of actual employee activity and be signed by the individual employee or a responsible, knowledgeable supervisor. However, based on our review of 19 timecards for 5 administrative employees, we found:

-
- Fourteen timecards lacked employee signatures or supervisory approval; and,
 - Time cards for three employees did not appear to reflect actual work activity. For multiple periods, timecards with similar numbers of hours were charged to the Weatherization Program.

Consequently, we questioned \$23,400 in administrative labor costs charged to the Weatherization Program.

This issue occurred because Dayton's policies and procedures related to timecard preparation and supervisory review did not comply with OMB Circular A-122 that requires all timecards have employee signatures or approvals by appropriate supervisory personnel. Officials believed they were only required to sign timecards once a month even though submitted twice a month. As a result of our audit, Dayton reportedly implemented policies and procedures requiring all timecards to be signed by employees and supervisors.

Interest Earned on Advanced Funds

As of June 30, 2011, Ohio had not collected and remitted to the U.S. Department of the Treasury (U.S. Treasury) more than \$130,000 in interest earned on funds advanced for weatherization activities. For example, Cuyahoga, the largest interest earner in Ohio, had accumulated more than \$76,000 in interest. In July 2011, after we brought the issue to their attention, Cuyahoga officials corrected the error and remitted the interest earned. Federal regulations require state and local governments to remit interest greater than \$100 at least quarterly, and nonprofit agencies to remit interest greater than \$250 annually. Despite Ohio's own policy on remitting interest annually, Ohio officials told us they believed interest should be remitted at the end of the grant period.

We also noted Ohio's policy regarding remittance of accrued interest was not fully compliant with Federal requirements. Specifically, Ohio policy required all local agencies, including local governments such as Cuyahoga, to remit interest over \$250 on an annual basis. While Federal regulations allow nonprofit organizations to remit interest annually, local governments are required to remit interest greater than \$100 on a quarterly basis. In response to our audit, both Ohio and Cuyahoga reported that policies had been revised for consistency with Federal regulations.

Jobs Reported

Two agencies we reviewed had misreported jobs created. For example, because an official inadvertently double counted jobs, IMPACT reported creating about 36 more jobs with Recovery Act funds than had actually been created. Cuyahoga underreported weatherization labor hours on 13 projects and about 700 hours of work contracted to a local certified public accounting firm. Cuyahoga lacked formal policies and procedures and was not aware that the firm's labor hours should have been included in reports submitted to Ohio. The Recovery Act requires recipients to report the number of jobs created and retained using Recovery Act funds. In response to our audit, Cuyahoga reported that it had corrected its *Jobs Created and Retained Reports* to include all hours worked and paid for with Recovery Act funds.

Client Follow-up Program

Local agencies had not always followed up with weatherization clients, as required, to reinforce energy efficiency actions previously agreed upon by the clients. Our review of 60 IMPACT and Dayton files, for example, found that staff had followed up with clients in only one instance. Ohio requires local agencies to contact 25 percent of its clients and document results. Follow-up is important to ensure energy gains are realized from actions such as lowering thermostat levels, using less hot water in baths and showers, and changing the furnace filter once a month during the winter.

Ohio's administrative monitoring visits to IMPACT in April 2010, and again in March 2011, underscore our concerns about IMPACT's client follow-up practices. As a result of Ohio's March monitoring visit, IMPACT officials agreed that client follow-up surveys would be mailed to all clients and the returned survey results would be placed in the clients' files. Proper implementation of the follow-up program would help ensure clients reduce energy consumption.

In response to our audit, both IMPACT and Dayton informed us that changes have been made to better track and document follow-up with weatherization clients.

Path Forward

Substandard weatherization work can pose health and safety risks to occupants, hinder production and increase costs. It is imperative that the Weatherization Program is managed to ensure Department requirements are met; monies are spent with transparency, accountability and for their intended purposes; and, deserving households receive the services to which entitled. Individually and collectively the problems we identified have the practical effect of limiting the achievement of overall Weatherization Program goals. While Ohio and local agencies have taken action designed to correct previously observed weaknesses, lingering problems remain. Additional action is needed to preserve the integrity of the Weatherization Program.

RECOMMENDATIONS

To address the deficiencies we observed during our audit, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Take necessary action to ensure that Ohio:
 - a. Reinspects at least 5 percent of the completed homes weatherized by each local agency annually;
 - b. Tracks and summarizes its monitoring results to identify systemic work quality issues and takes appropriate corrective action;
 - c. Takes corrective action on violations of Federal and State procurement rules, including splitting purchases to avoid soliciting bids;
 - d. Reviews IMPACT's actions to reclassify and adjust worker wages to ensure all necessary actions have been taken;
 - e. Monitors all local agencies for Davis-Bacon Act compliance and amends grant agreements in a timely manner, to include Davis-Bacon Act wage revisions; and,
 - f. Revises its policy on local agency remittance of interest on advances to be consistent with Federal regulations and ensures interest earned

on Federal advances of funds is returned to the U. S. Treasury as required.

2. Take necessary action to ensure that Ohio requires its local agencies to:
 - a. Ensure a separation of duties between the initial home inspector, persons performing weatherization work, and the final inspector to allow for a more effective home weatherization process;
 - b. Analyze home inspection results to identify contractors, inspectors and crew members who repeatedly underperform and take corrective action for systemic problems;
 - c. Procure materials, equipment and services according to Federal and State guidelines;
 - d. Prioritize recipients of weatherization services according to Federal and State guidelines;
 - e. Monitor and revise certified payrolls as needed to ensure weatherization crews and contractors are paid the appropriate prevailing wage;
 - f. Ensure all jobs created and retained are accurately reported to Ohio; and,
 - g. Implement a client follow-up program, as mandated by Ohio to ensure that follow-up contact with previous clients is performed and documented.
3. Resolve identified questioned costs. See Appendix 3 for a summary of questioned costs referenced in our report.

**MANAGEMENT AND
AUDITOR COMMENTS**

The Department, Ohio and IMPACT provided responses to our draft audit report while Dayton and Cuyahoga responded separately to examination reports issued in September 2011. All responses are included in their entirety in Appendix 4. We revised our report as appropriate to address comments received. A summary of key comments and our responses is provided in the following section.

Management Comments (Department)

The Department concurred with our recommendations and stated it will continue to work with Ohio to implement corrective actions and resolve the issues described in the report. For example, the Department plans to monitor Ohio's progress during an upcoming monitoring visit and obtain written confirmation from Ohio that outstanding issues are remedied. In addition, the Department is working with Ohio to review and resolve all questioned costs.

Auditor Response to Department Comments

The Department's comments were responsive to our recommendations.

Management Comments (State)

Ohio noted two concerns related to the conclusions expressed in the report. Ohio suggested we revise the report to reflect recent improvements and provided comments on the State's compliance with the Davis-Bacon Act. Specifically, Ohio reported that contracts had been amended to reflect the most recent Davis Bacon Act wages, and was later revised to automatically adopt the U.S. Department of Labor's most recent updates to the Davis Bacon Act wages. Ohio requested that we update the report to note that it had communicated the correct Davis-Bacon Act rates to IMPACT and all local agencies, with an expectation that the local agencies comply with these requirements. Further, it was stated that certified payrolls submitted to Ohio had been reviewed.

Auditor Response to State Comments

Ohio's comments were generally responsive to our findings and conclusions. As suggested, we revised the report to note that Ohio stated that it had already addressed many of our recommendations and had communicated Davis-Bacon Act wage rates to local agencies. Despite its monitoring efforts, however, Ohio had not detected the underpayments made to many IMPACT workers over a period of 1 year.

Management Comments (Local Agencies)

IMPACT responded that all deficiencies noted in the report had been addressed and corrected. Actions reportedly taken by IMPACT included segregating initial assessment and final inspection duties, complying with Federal and State procurement

requirements, improving applicant selection, retroactively paying workers prevailing wages, and revamping the client survey process. IMPACT also noted that there were delays in establishment of Davis-Bacon Act prevailing wage rates. Finally, it acknowledged that it may have misunderstood the formula used to calculate jobs, due to its complexity.

In regard to findings on its procurement process, Dayton stated that its procurements were approved by the State and that in some cases, the issue was lack of documentation rather than not following proper procurement procedures. However, Dayton officials outlined the corrective actions it was taking to address procurement issues, such as writing a policy and procedure manual and finalizing an open bidding process to select subcontractors in accordance with Federal and State regulations. Further, Dayton stated it had developed a new system of tracking and reporting job progress, had implemented policies and procedures requiring all timecards be signed and had begun tracking client follow-up reports.

Cuyahoga also noted actions that it was taking to address findings regarding its Weatherization Program. Specifically, Cuyahoga, stated that it had implemented a policy to re-verify applicants' income as appropriate, revised its policy to pay interest quarterly, developed a tracking system to evaluate contractor performance and made improvements in its Davis-Bacon Act reporting.

Auditor Response to Local Agencies' Comments

Local agency comments and actions taken were responsive to our recommendations. Each local agency was reportedly taking action to address the issues identified in our report. However, IMPACT did not address our findings that inspectors were allowed to perform minor repairs to heating, ventilating and air conditioning systems and to approve and certify the quality of their own work. We reiterate the need to ensure a separation of duties between persons performing weatherization work and the those conducting final inspections. We agree with IMPACT's statement concerning delays in establishing the initial prevailing wage rates for the Weatherization Program; however, this initial delay had no effect on IMPACT's failure to accurately pay its workers according to revised Davis-Bacon Act wages from March 2010 to March 2011.

Appendix 1

OBJECTIVE

The objective of the audit was to determine whether the State of Ohio (Ohio) had adequate safeguards in place to ensure that the Weatherization Assistance Program (Weatherization Program) was managed efficiently and effectively.

SCOPE

The audit was conducted between December 2010 and February 2012. In performance of our audit, we analyzed Ohio's Department of Development Management of the Weatherization Program and reviewed the weatherization activities of IMPACT Community Action in Columbus, OH. Additionally, we contracted with Lopez and Company, LLP (Lopez), an independent public accounting firm, to conduct examinations of the weatherization activities of the Community Action Partnership of the Greater Dayton Area (Dayton) in Dayton, OH, and Cuyahoga County of Ohio Department of Development (Cuyahoga) in Cleveland, OH.

METHODOLOGY

To accomplish our objective, we:

- Interviewed officials from Ohio and local agencies;
- Reviewed laws, regulations, policies and procedures pertaining to the Weatherization Program;
- Reviewed prior Office of Inspector General (OIG) and U.S. Government Accountability Office (GAO) reports, and other related reports on the Weatherization Program;
- Accompanied Ohio and local agency officials on home inspections, and reviewed past Ohio monitoring reports that evaluated the quality of weatherization work and compliance with Ohio's Weatherization Program standards;
- Evaluated local agencies for compliance with the Davis-Bacon Act, prioritization and eligibility of weatherization applicants, and justification for procurements of weatherization materials, equipment and contractor services;
- Assessed Ohio's progress towards meeting annual monitoring requirements and its general administration of the Weatherization Program; and,
- Assessed whether jobs created and retained were accurately reported and whether local agencies were in compliance with Ohio's client follow-up program.

Appendix 1 (continued)

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. Accordingly, the audit included test of controls and compliance with laws and regulations to the extent necessary to satisfy the objective. In particular, we assessed the implementation of the *GPRRA Modernization Act of 2010* as it relates to the audit objective and found that the Department of Energy (Department) had established performance measures related to the use of the American Recovery and Reinvestment Act of 2009 (Recovery Act) funds for the Weatherization Program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We conducted a limited reliability assessment of computer-processed data and deemed the data sufficiently reliable to achieve our audit objective.

In conducting our audit, we relied on the work of Lopez. Lopez's examinations were conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the GAO; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Weatherization Program Federal and Ohio laws, regulations and program guidelines, and performing such other procedures considered necessary in the circumstances. We performed procedures that provided a sufficient basis for using Lopez's work, such as reviewing the qualifications and independence of Lopez and its staff; reviewing Lopez's examination plans, documentation and reports; and, performing a limited amount of testing of Lopez's work. We determined that the scope, quality and timing of the examination work performed were adequate for reliance in the context of our audit objective. Lopez's complete examination reports for Dayton and Cuyahoga can be found on our website at <http://energy.gov/ig/calendar-year-reports>.

Department officials waived an exit conference. We held an exit conference with State of Ohio officials on May 7, 2012.

RELATED REPORTS

Under the American Recovery and Reinvestment Act of 2009, the Office of Inspector General has initiated a series of audits designed to evaluate the Department of Energy's Weatherization Assistance Program's internal control structures at the Federal, state, and local levels. During our audits, we have noted similar findings such as deficiencies in agencies' initial assessments and final inspections and poor quality in the work of contractors and in-house crews. However, it must be noted that these issues do not exist in all the states we have reviewed. Our series of reports include the following:

- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of New York*](#) (OAS-RA-12-07, March 2012)
- Examination Report on [*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)
- Examination Report on [*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)
- Examination Report on [*People's Equal Action and Community Effort, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-20, September 2011)
- Examination Report on [*Cuyahoga County of Ohio Department of Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-19, September 2011)
- Examination Report on [*Community Action Partnership of the Greater Dayton Area – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-18, September 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee*](#) (OAS-RA-11-17, September 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the Commonwealth of Virginia*](#) (OAS-RA-11-14, August 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act in the State of Indiana*](#) (OAS-RA-11-13, August 2011)

Appendix 2 (continued)

- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Missouri*](#) (OAS-RA-11-12, August 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia*](#) (OAS-RA-11-09, June 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Wisconsin*](#) (OAS-RA-11-07, May 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the Capital Area Community Action Agency – Agreed-Upon Procedures*](#) (OAS-RA-11-04, February 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed-Upon Procedures*](#) (OAS-RA-11-03, November 2010)
- Audit Report on [*Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program*](#) (OAS-RA-11-02, November 2010)
- Audit Report on [*The State of Illinois Weatherization Assistance Program*](#) (OAS-RA-11-01, October 2010)
- Audit Report on [*The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds Under the American Recovery and Reinvestment Act*](#) (OAS-RA-10-13, June 2010)
- Preliminary Audit Report on [*Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program*](#) (OAS-RA-10-11, May 2010)
- Special Report on [*Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act*](#) (OAS-RA-10-04, February 2010)
- Audit Report on [*Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*](#) (OAS-RA-10-02, December 2010)

SUMMARY OF QUESTIONED COSTS

In our report on the Community Action Partnership of the Greater Dayton Area (Dayton), *Community Action Partnership of the Greater Dayton Area–Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009* (OAS-RA-11-18, September 2011), we previously questioned costs of \$94,200 related to procurement of equipment, materials and services; and, deficiencies in employee timecards. In this report, we question an additional \$515,100 in costs related to procurement activities at IMPACT Community Action (IMPACT), for an overall State of Ohio total of \$609,300. The following table provides a summary of costs previously questioned in our report on Dayton, and the additional costs we questioned in this report.

Finding	Questioned Costs
Lack of Cost or Price Analysis and Competitive Bidding for Equipment and Materials – Dayton	\$49,400
Lack of Justification for Sole-Source Contracts – Dayton	\$21,400
Deficiencies in Administrative Timecards – Dayton	\$23,400
<i>Total Questioned Costs - Dayton</i>	<i>\$94,200</i>
Lack of Cost or Price Analysis for Materials in Inventory - IMPACT	\$63,300
Split purchases to Circumvent Threshold for Competitive Bidding – IMPACT	\$451,800
<i>Total Questioned Costs - IMPACT</i>	<i>\$515,100</i>
Total Questioned Costs for State of Ohio	\$609,300

MANAGEMENT COMMENTS




Department of Energy

Washington, DC 20585

April 9, 2012

MEMORANDUM FOR: RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

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

SUBJECT: Response to Office of Inspector General Draft Audit Report on "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Ohio."

The Office of the Inspector General (OIG) makes three recommendations for DOE's oversight of the Ohio Weatherization Assistance Program (Weatherization Program). The OIG's recommendations address administrative compliance issues found at WAP Subgrantees as well. DOE concurs with the OIG's recommendations and has already been working with the State of Ohio to ensure implementation of the necessary corrective actions to resolve these issues.

OIG Recommendation 1: Take necessary action to ensure that Ohio:

- a. Performs technical monitoring of at least 5 percent of the completed homes weatherized by each local agency annually;
- b. Tracks and summarizes its monitoring results to identify systemic work quality issues and takes appropriate corrective action;
- c. Takes corrective action on violations of Federal and Ohio procurement rules, including splitting purchases to avoid soliciting bids;
- d. Reviews IMPACT's actions to reclassify and adjust worker wages to ensure all necessary actions have been taken;
- e. Monitors all local agencies for Davis-Bacon Act compliance and amends grant agreements in a timely manner, to include Davis-Bacon Act wage revisions;
- f. Revises its policy on local agency remittance of interest on advances to be consistent with Federal regulations and ensures interest earned on Federal advances of funds is returned to Treasury as required.

DOE Response: DOE concurs with all elements of the recommendation. The DOE Project Officer will monitor the progress of Ohio's implementation of these recommendations in the following manner:

- a. During the next scheduled monitoring visit in May/June, the Project Officer will review Grantee monitoring reports of the Subgrantees to determine the number of homes inspected during the staff



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reviews and ensure that the minimum inspection rate of 5% is being met. The Project Officer will also review the Grantee's tracking system to ensure that monitoring findings are being recorded and resolved in a timely manner.

- b. Within the next 30 days, the Project Officer will request written confirmation that the Grantee has revised its procurement policies to include all federal and state requirements and that these policies have been distributed to all subgrantees.
- c. Within the next 30 days, the Project Officer will request written confirmation that all outstanding issues related to Davis-Bacon Act wage classifications at IMPACT (the subgrantee located in Columbus) are remedied. The Project Officer will also review the Grantee's monitoring of Davis-Bacon Act compliance request documentation that all subgrantee agreements include Davis-Bacon Act wage revisions.
- d. Within the next 30 days, the Project Officer will review the Grantees policies for tracking and remitting interest earned on advances to ensure consistency with Federal regulations.

OIG Recommendation 2: Take necessary action to ensure that Ohio requires its local agencies to:

- a. Ensure a separation of duties between the initial home inspector, persons performing weatherization work and the final inspector to allow for a more effective home weatherization process;
- b. Analyze home inspection results to identify contractors, inspectors and crew members who repeatedly underperform and take corrective action for systemic problems;
- c. Procure materials, equipment and services according to Federal and Ohio guidelines;
- d. Prioritize weatherization recipients according to Federal and Ohio guidelines;
- e. Monitor and revise certified payrolls as needed to ensure weatherization crews and contractors are paid the appropriate prevailing wage;
- f. Ensure all jobs created and retained are accurately reported to Ohio; and,
- g. Implement a client follow-up program as mandated by Ohio to ensure that follow-up contact with previous clients is performed and documented.

DOE Response: DOE concurs with all aspects of the recommendation. During the next monitoring visit scheduled in April/May, the DOE Project Officer will ensure Ohio implements the necessary strategies and oversight to address each of the above-referenced findings. Issues related to Davis-Bacon Act compliance and procurement are already addressed in DOE's Response to Recommendation #1. Within 60 days, the Grantee will be required to provide DOE with a revised monitoring plan that addresses all aspects of procurement, customer file documentation related to service delivery and prioritization of customers. The revised monitoring plan must also include a section on fiscal accountability that reviews separation of duties within the administration of the WAP grant and in the field for work acceptance.

OIG Recommendation 3: Resolve identified questioned costs.

DOE Response: DOE agrees with this recommendation and is working with the Grantee and the Golden Field Office Contract staff to review and resolve the identified questioned costs. At this time, final determination of these costs has not been established. The Project Officer and the Contract Officer will work to finalize all questioned costs for the three local agencies identified in this report.

As always, DOE thanks the OIG for its recommendations and will continue to work with the Grantee to implement all corrective actions and resolve these findings in a timely manner.

Correspondence to Mr. Hass
April 2, 2012
Page 2

the certified payrolls submitted to Development by sub-grantees had been reviewed, as noted in Attachment 6 - August 5, 2010/*Response to Monitoring Report*. In light of this information, we would request that you update the report to note that Development had communicated the correct Davis-Bacon rates to IMPACT and all sub grantees, with an expectation that the sub-grantees comply with these requirements pursuant to the terms of their respective agreements with Development.

3. Notice Addresses: In order to ensure timely delivery to the intended recipient, we respectfully request that future communication regarding this audit and any future audits of Development's Home Weatherization Program be sent to the following individuals at Development:

<u>Name</u>	<u>Email Address</u>
• William Murdock Chief, Community Services Division	William.Murdock@development.ohio.gov
• Karen Fabiano Assistant Chief, Community Services Division	Karen.Fabiano@development.ohio.gov
• Diane Lease Chief Legal Counsel and Chief Ethics Officer	Diane.Lease@development.ohio.gov
• Nick Sunday Deputy Chief, Office of Community Assistance	Nick.Sunday@development.ohio.gov
• Don Skaggs Assistant Deputy Chief, Office of Community Assistance	Don.Skaggs@development.ohio.gov

Thank you again for the opportunity to provide comments on the draft report. If you could confirm that that we will have an opportunity to respond to the recommendations once the audit report is issued, I would appreciate that. Thank you again for your consideration.

Sincerely,



William Murdock
Chief, Community Services Division

Enclosures

cc: Christiane Schmenk, Director, Ohio Department of Development
Diane Lease, Chief Legal Counsel and Chief Ethics Officer
Karen Fabiano, Assistant Chief, Community Services Division
Nick Sunday, Deputy Assistant Chief, Office of Community Services
Don Skaggs, Assistant Deputy Chief, Office of Community Services
Greg Loendorf, Auditor-in-Charge, Office of Inspector General, US Dept. of Energy



IMPACT Community Action - Headquarters
700 Bryden Road
Columbus, OH 43215-1097
Phone: 614-252-2799
Fax: 614-453-1453

March 24, 2012

Mr. Rickey R. Hass
Deputy Inspector General
For Audits and Inspections
Office of Inspector General
1000 Independence Avenue, SW
Room 5A193
Washington, DC 20585

Dear Mr. Hass:

Enclosed with this letter please find Impact Community Action's response to the Draft Audit Report on the Department of Energy's Weatherization Program under the American Recovery and Reinvestment Act in the State of Ohio. It should be noted that staff changes have occurred within the IMPACT Weatherization Department and after consultation with Mr. Loendorf and other members of your staff over the past 2-3 months, corrective actions have been implemented to correct the program deficiencies that were cited in the report.

We have organized our response in the order in which the program deficiencies appear in the draft report. The draft report acknowledges several of the corrective actions we implemented prior to the issuance of this report. We have implemented corrective actions to address all of the program deficiencies that appeared in the report.

Please do not hesitate to contact me should you have additional questions upon receipt of this transmittal.

Sincerely,

Robert "Bo" Chilton, CEO

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