



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

Audit Report

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



Department of Energy
Washington, DC 20585

June 6, 2011

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

George W. Collard

FROM: George W. Collard
Assistant Inspector General
for Audits

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

BACKGROUND

The Department of Energy's Weatherization Assistance Program (Weatherization Program) received \$5 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to improve the energy efficiency of homes, multi-family rental units and mobile homes owned or occupied by low-income persons. Subsequently, the Department awarded a 3-year Weatherization Program grant for \$141.5 million to the State of Wisconsin (Wisconsin). This grant provided an eight-fold increase in funds available to Wisconsin for weatherization compared to the \$15 million that was authorized in Fiscal Year (FY) 2009.

Wisconsin's Department of Administration, Division of Energy Services, administers the Weatherization Program through 20 local agencies. These agencies are responsible for evaluating the energy efficiency of homes, performing weatherization work, and conducting inspections. Typical weatherization services include installing insulation, sealing ducts, tuning and repairing furnaces, and mitigating heat loss through windows, doors, and other infiltration points. Per Wisconsin State law, local intake agencies in each of the State's 72 counties and 8 tribes process applications for all State and Federal energy assistance. These agencies, for the most part, are independent of the State and local weatherization agencies.

Given the significant increase in funding and the demands associated with weatherizing thousands of homes, we initiated this audit to determine if Wisconsin had effectively managed its Weatherization Program. To perform our audit, we analyzed Wisconsin's management of the Weatherization Program and examined the weatherization activities of three local agencies, Ashland County Housing Authority (Ashland), La Casa de Esperanza, and Racine/Kenosha Community Action Agency. The agencies represented 17 percent of the State's total funds and 11 percent of the 20,700 units expected to be completed by March 2012.

CONCLUSIONS AND OBSERVATIONS

We identified opportunities to improve Wisconsin's Weatherization Program in the areas of retaining documentation of applicant eligibility for weatherization services and maintaining separate accounting for Recovery Act spending. Specifically, we found that:

- Wisconsin had not required intake agencies to retain supporting documentation to verify applicant eligibility for Weatherization Program services. State officials informed us that

they had relied on a 1983 Department memorandum stating that "copies of the documents themselves need not be retained." While the Department's current Weatherization Program guidance requires recipients to maintain records documenting the eligibility of applicants for assistance, it does not prescribe the type of documentation to be retained.

- Ashland had not separately accounted for Recovery Act funding. Rather, Ashland accounted for Weatherization Program Recovery Act funds together with weatherization assistance funds received from three additional Federal and State programs. The Recovery Act established a goal of increased transparency and required that recipients separately account for activities funded by the Act. Ashland officials told us that, as a result of our audit, they have modified their accounting system to separately account for Recovery Act expenditures.

Documentation of Eligibility for Weatherization Services

Wisconsin had not required its 80 intake agencies to maintain eligibility documentation such as W-2s, payroll check stubs, or social security benefit statements, to verify applicant eligibility for weatherization services. State weatherization agencies relied on certifications of applicant eligibility prepared by intake workers. State guidance does not specifically require intake agencies to obtain and maintain original documentation such as wage statements. In fact, Wisconsin allows intake either over the phone, via the web or in person. Wisconsin uses a one-stop application process for multiple energy assistance programs for approximately 250,000 applicants each year. The one-stop application is the basis for determining an applicant's eligibility for all of the energy assistance programs in the State. State officials told us that they had relied on 1983 Department guidance requiring agencies to retain intake workers' certifications attesting to the eligibility of recipients but not the source documentation underlying the certification.

The Department's September 2010 and April 2011 guidance on eligibility, issued as a result of a series of Office of Inspector General reports on the implementation of the Weatherization Program, established and reinforced requirements regarding the retention of documentation. Specifically, the September 2010 guidance reminded grantees and subgrantees that "to the maximum extent practicable, proof of income eligibility and the associated documentation should be included in the client file." The guidance further stated that should eligibility be determined by an outside agency such as the Low Income Home Energy Assistance Program or the Department of Housing and Urban Development, then the certification of eligibility completed by the agency would be considered sufficient documentation. The April 2011 guidance re-enforced the requirement that subgrantee files must contain evidence of eligibility and noted that evidence may include "a memorandum from a third party certification office stipulating the income levels of the family and source documentation for each income source listed on the application."

Review and retention of income documentation is a significant control in mitigating the risks that ineligible Weatherization applicants will receive services. In the absence of documentation, the risks of fraud and abuse inherent in the Program increase. The importance of retaining documentation verifying income was highlighted in the Government Accountability Office's recent report on [Greater Fraud Prevention Controls are Needed in the Low-Income Home Energy](#)

[Assistance Program](#) (GAO-10-621, June 2010). The review found that LIHEAP is at risk of fraud and improper payments. Specifically, the report noted that about 9 percent of households receiving benefits totaling \$116 million under LIHEAP, in 7 selected states, contained invalid identity information, such as Social Security numbers, names, or dates of birth. Notably, 13 of the 14 states we have reviewed to date retain wage and income source documentation, with Wisconsin the exception.

Accounting for Recovery Act Weatherization Expenditures

Ashland, one of the three local agencies we reviewed, had not separately tracked and accounted for Weatherization Program activities funded by the Recovery Act, as required. Ashland used four funding sources to pay for weatherization expenditures: the Recovery Act Weatherization Program, the Department's regular Weatherization Program, WHEAP, and the Wisconsin Public Benefit Program. Ashland officials told us that they allocated costs among the four funding sources based on weatherization activity. However, Ashland had not reconciled the costs charged to the Weatherization Program to the homes weatherized. Accordingly, we were unable to determine whether Ashland's cost allocation was appropriate and the costs charged to the Weatherization Program were reasonable. As of October 2010, Ashland had spent \$4.4 million in total for weatherization activities associated with the 4 funding sources. Of this amount, Ashland had charged the Weatherization Program approximately \$3 million.

Ashland's accounting system did not comply with Recovery Act provisions and Department policies requiring states and local agencies to separately account for and report Recovery Act expenditures. Additionally, financial and accounting systems are required by Department guidance to be revised as necessary to segregate, track, and maintain Recovery Act funds separate and apart from other revenue streams. Further, Wisconsin's weatherization manual and its contractual agreements with the local agencies required separate accounting for Recovery Act funds. Nonetheless, Ashland officials stated that they were unaware of these requirements.

The State had not identified the lack of separate accounting for Recovery Act funds during its on-site monitoring visits because those visits focused primarily on programmatic rather than financial issues. Wisconsin officials told us that in an effort to supplement its monitoring of financial activities, it had contracted with an independent accounting firm to provide technical assistance and training to local agencies.

In response to our audit, Ashland officials told us that they developed a system to separately account for Recovery Act expenditures. Department officials also told us that, as a result of our finding, they have started to review Ashland's allocation of costs to the Weatherization Program. Pending completion of the Department's review of Ashland's cost allocation, we question the reasonableness of the \$3 million charged to the Weatherization Program's Recovery Act funds.

RECOMMENDATIONS

To achieve the goals of the Recovery Act and the Department's Weatherization Program, we suggest that the Acting Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Determine the appropriate level of documentation required to be retained to support applicant eligibility;
2. Ensure that Wisconsin monitors local agency financial activities in accordance with requirements to separately account for Recovery Act expenditures;
3. Complete the review of Ashland's allocation of costs to the Weatherization Program; and,
4. Recover funds that may be determined to be unreasonable based on the Ashland cost allocation review.

MANAGEMENT COMMENTS

The Department concurred with the findings and recommendations contained in our audit report. Department management responded that the State of Wisconsin had monitored its local agency financial activities and had applied training and technical assistance resources to Ashland and other sub-recipients to strengthen their local accounting systems. Also, the Department reported that it had completed a review of Ashland's updated cost allocation plan and had determined that it will be sufficient to separately account for various funding sources including Recovery Act and regular formula Department funds. Finally, Department management stated that it had reviewed the \$3 million in questioned costs and reduced the Training and Technical Assistance part of the Recovery Act award by \$17,110 to account for an issue with cost allocation.

The State of Wisconsin stated that it was in full compliance with Department rules, regulations and guidance regarding the determination of eligibility. Further, Wisconsin pointed out that Ashland satisfactorily made corrections to its accounting processes to separately account for Recovery Act funds and had developed cost allocation methodologies to prevent future concerns.

Management's actions are responsive to our recommendations. The Department's response, along with the State's and Ashland's comments, are included in their entirety in Attachment 2.

Attachments

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

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the State of Wisconsin had effectively managed its Weatherization Assistance Program (Weatherization Program).

SCOPE

This audit was performed between April 2010 and April 2011, at Wisconsin's Department of Administration in Madison, Wisconsin. We performed site visits to a local agency and to a large multi-family unit facility overseen by the State. Further, an independent public accounting firm under contract with the Office of Inspector General conducted site visits to two local agencies.

METHODOLOGY

To accomplish the audit objective, we reviewed and analyzed:

- Applicable Federal and state laws, regulations, and guidance pertaining to the Weatherization Program under the American Recovery and Reinvestment Act of 2009 and Wisconsin's Weatherization Program;
- Wisconsin's State Plan for the Weatherization Program and the grant agreement with the Department of Energy;
- Applicant eligibility requirements and processes in place to approve applicants for weatherization services;
- General ledger and chart of account information to verify cost allowability and to trace expenditures to the corresponding source of funding;
- Pertinent Weatherization Program files and reports including weatherization measures installed in homes; and,
- The quality of weatherization work performed by three local agencies.

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 that the evidence obtained provides a reasonable basis for our findings based on our audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer processed data to accomplish our audit objective.

We held an exit conference on May 25, 2011.

RELATED REPORTS

Office of Inspector General Reports

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), 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. Although not found in every state, these audits have identified issues in areas such as poor quality of weatherization services, inspections and re-inspections, inadequate inventory controls, and questioned costs resulting from the ineffective administration of the weatherization grants. Our series of audit reports include the following:

- Audit Report "[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 1, 2011)
- Audit Report "[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 30, 2010)
- Audit Report "[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 1, 2010)
- Audit Report "[The State of Illinois Weatherization Assistance Program](#)" (OAS-RA-11-01, October 14, 2010)
- Audit Report "[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 11, 2010)
- Preliminary Audit Report "[Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program](#)" (OAS-RA-10-11, May 26, 2010)
- Special Report "[Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act](#)" (OAS-RA-10-04, February 19, 2010)
- Audit Report "[Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois](#)" (OAS-RA-10-02, December 3, 2009)

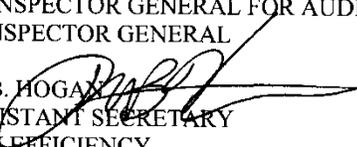
MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

April 19, 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: Management response to the Office of Inspector General's Report
entitled "The Department of Energy's Weatherization Assistance
Program in the State of Wisconsin under the American Recovery
and Reinvestment Act"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's Draft Audit Report "The Department of Energy's Weatherization Assistance Program in the State of Wisconsin under the American Recovery and Reinvestment Act" and concurs with the report's recommendations. The Department of Energy is strongly committed to ensuring that each of the grantees under the Weatherization Program performs high quality work that meets the goals of the Recovery Act.

In response to DOE concerns and corrective action plans, the State of Wisconsin has made a number of improvements in how they implement the weatherization program. However, as this report shows, there is work still to be done. During on-site quarterly visits, the DOE project officer will assess how the State is progressing in meeting the audit recommendations. The Department will continue to aggressively monitor progress in the areas identified by the Inspector General.

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



Printed with soy ink on recycled paper



SCOTT WALKER
GOVERNOR
MIKE HUEBSCH
SECRETARY
Division of Energy Services
Post Office Box 7868
Madison, WI 53707-7868
Voice (608) 266-8234
Fax (608) 267-6931

April 15, 2011

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

RE: State of Wisconsin response to the Draft Report on "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Wisconsin".

Dear Mr. Collard,

Following is Wisconsin's response and comments to the audit performed by your office of the Weatherization Assistance Program in Wisconsin beginning in April of 2010.

Recommendations

There are no recommendations or corrective action requested by the Inspector General of the State of Wisconsin.

The following comments are Wisconsin's feedback to the conclusions and observations found in our report.

Documentation of Eligibility for Weatherization Services

The State of Wisconsin wishes to be clear that it is fully in compliance with Department of Energy rules, regulation and guidance regarding determination of eligibility for assistance under the weatherization program. This is supported by repeated "On-Site Monitoring Reports" issued by the DOE Project Officer. In the most recent report dated April 7, 2011 he states: "The project officer further needs to reinforce the fact that he reviewed the application and eligibility processes and forms in great detail as part of the 2008 (pre-ARRA) monitoring visit and the report for the visit clearly validated the Wisconsin process at that time as well as now."

Specifically, the State of Wisconsin utilizes a third party statement of eligibility for the Low Income Home Energy Assistance Program (LIHEAP) to verify eligibility for weatherization. This allowance is found in §10 CFR 440.22 (a) (3).

§10 CFR 440.22 Eligible dwelling units.

WISCONSIN IS OPEN FOR BUSINESS
Wisconsin.gov

April 15, 2011
Page 2 of 2

- (a) A dwelling unit shall be eligible for weatherization assistance under this part if it is occupied by a family unit:.....
- (3) If the State elects, is eligible for assistance under the Low-Income Home Energy Assistance Act of 1981, provided that such basis is at least 125 percent of the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget.

The Department of Energy issued further guidance in September of 2010 that states: "if income eligibility is determined by an outside agency or program, such as the U.S. Department of Health and Human Services' Low Income Home Energy Assistance Program (LIHEAP), then copies of the eligibility documentation can be a statement of LIHEAP eligibility... included in the client file." Wisconsin maintains electronic verification of LIHEAP eligibility in every weatherization file.

Accounting for Recovery Act Weatherization Expenditures

Wisconsin has monitored local agency financial activities to ensure compliance with requirements to separately account for Recover Act expenditures.

The State of Wisconsin engaged a Certified Public Accountant, Dana Chabot, to review the fiscal activities and practices of Ashland County Housing Authority (ACHA) to ensure the agency is responsibly accounting for its weatherization funds including compliance with the ARRA requirement to segregate funds. It is the opinion of the CPA that ACHA is in compliance with ARRA requirements. Specifically Mr. Chabot states, "I find no reason to believe that costs incurred between October 2009 and September 2010 and recovered using ARRA funds, as restated based on the revised cost allocation policy, are questionable."

Wisconsin's DOE Project Officer, Michael Peterson, concurred with the findings and opinion of Dana Chabot based on his March 2011 on-site monitoring visit to ACHA.

The Division and the DOE Project Officer, as stated in the April 7, 2011 on-site report, are satisfied, that ACHA, satisfactorily made corrections to their accounting processes to separately account for ARRA funds and developed cost allocation methodologies to prevent future concerns. As such, it is the opinion of the State and the DOE Project Officer there are not questioned costs associated with ACHA weatherization program.

We appreciate the opportunity to provide feedback and comment on the Draft Report on "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Wisconsin". If you have any questions please contact Susan Brown, Deputy Administrator at (608) 266-2035.

Sincerely,



Christopher Schoenherr, Administrator
Division of Energy Services

cc Susan Brown, Deputy Administrator



Ashland County Housing Authority

P.O. Box 349 – Mellen, WI 54546

Phone 715-274-8311

Fax: 715-274-4303

John Richard Penn, Chairman

Denise M Lutz, Executive Director

April 12, 2011

Office of Inspector General (IG-1)

Attn: George W. Collard

Department of Energy

Washington, DC 20585

Dear Mr. Collard:

This is in response to Draft Audit Report we received in an e-mail on April 6, 2011.

The Ashland County Housing Authority agrees with the Department of Energy's findings and has since made significant changes since our monitoring visit during the week of June 14, 2010.

We have corrected the necessary deficiencies with our account system to separately account for Recovery Act Expenditures.

In October 2010 we have made adjustments to re-allocated expenses according to our revised Cost Allocation Plan. We have also have had several visits from the Department of Administration, Madison and Department of Energy to review our procedures and adjustments to make sure we are in compliance with all ARRA requirements.

If you need additional information please contact me.

Sincerely,

A handwritten signature in black ink that reads "Denise M. Lutz". The signature is written in a cursive, flowing style.

Denise M. Lutz,
Executive Director

Ashland County Housing Authority

CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?
5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name _____ Date _____

Telephone _____ Organization _____

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Felicia Jones at (202) 253-2162.

This page intentionally left blank.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page
<http://www.ig.energy.gov>

Your comments would be appreciated and can be provided on the Customer Response Form.