



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
Michigan



OAS-RA-13-25

June 2013



Department of Energy
Washington, DC 20585

June 18, 2013

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR 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 Audits and Inspections
Office of Inspector General

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 Michigan"

BACKGROUND

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Department of Energy's (Department) Weatherization Assistance Program (Weatherization Program) received \$5 billion to improve the energy efficiency of residences owned or occupied by low-income persons. The Department subsequently awarded a Recovery Act Weatherization Program grant of over \$250 million to the State of Michigan, which included an additional Recovery Act award of nearly \$7 million of Sustainable Energy Resources for Consumers funding. This grant provided roughly 10 times the \$26 million in Department funds available to Michigan for weatherization in Fiscal Year 2009.

The Michigan Bureau of Community Action and Economic Opportunity administers these Recovery Act grants through 31 local community action agencies and a limited purpose organization. These agencies are responsible for determining applicant eligibility, assessing and weatherizing homes, and conducting home inspections. Michigan's goal was to weatherize more than 28,000 homes with Recovery Act funding, providing services to qualified elderly and disabled low-income persons on a priority basis. Through June 30, 2012, Michigan reported weatherizing almost 35,000 homes at a cost of \$221 million.

Given the significant increase in funding and demands associated with weatherizing thousands of homes, we initiated this audit to determine if Michigan, and three of its local agencies – City of Detroit Department of Human Services (Detroit), Area Community Services Employment and Training Council Community Action Agency (ACSET), serving the Grand Rapids area, and Southwest Michigan Community Action Agency (Southwest) – had effectively managed the Weatherization Program. This report focuses on conditions common to the local entities reviewed.

RESULTS OF AUDIT

We identified opportunities for Michigan and the three local agencies reviewed to improve management of the Weatherization Program. Specifically:

- We found persistent problems with the quality of weatherization work within Michigan. Based on our review of 412 state inspection reports for 6 agencies, we noted that more than a third of the homes weatherized (41 percent or 170 homes) required "call-backs" to address faulty workmanship and/or install additional materials. These were homes that had already received a final inspection and had been determined to be completed by the local agencies. Together, the 6 agencies received about a third of Michigan's funding and were expected to weatherize about 11,000 homes. Our interviews with homeowners confirmed the troubling re-inspection statistics – homeowners contacted in 11 of 29 Detroit homes and 4 out of 13 ACSET homes described problems that had either developed subsequent to, or had not been identified as part of the final inspection process and had been referred back to the contractor performing the work. These issues became prevalent because state and local agencies had not analyzed inspection reports to identify and address commonly occurring work deficiencies and contractors that repeatedly under-performed.
- Local agencies in our sample had requested reimbursement for weatherization services that had either not been completed or had never been performed. Detroit, for example, requested reimbursement for the costs of two homes totaling about \$3,500 when services had not been fully completed due, in one case to the death of the occupant, and in the other to an owner who had experienced scheduling conflicts stemming from a change in employment. This occurred because the agencies had not sufficiently reviewed invoices and reconciled them with work orders and inspection reports.
- Eligibility for weatherization services had not always been properly verified. ACSET provided assistance to an applicant who exceeded the income eligibility requirements. In another case, despite information obtained during home assessments indicating the number of residents originally reported in eligibility applications differed from the actual occupants in the home at the time of assessment, Detroit had not re-determined eligibility. In fact, in 25 of the 60 cases reviewed, the number of occupants in the home at the time of assessment had either increased (18 of the 25 cases), decreased, or could not be verified. Because eligibility for weatherization services is based upon the composite income of all occupants, a change in occupancy can render a home ineligible for weatherization services depending on the effect on household income. Additionally, we found that ACSET had not always considered whether dwelling units were designated for clearance or acquisition by Federal, state or local agencies when making eligibility determinations. In total, we questioned about \$112,300 related to potentially ineligible weatherization services. These conditions occurred, in part, because local agencies had not sufficiently reviewed home and client intake applications and had not fully understood Weatherization Program guidance. Additionally, manual recordkeeping activities initially caused Michigan and its local agencies difficulty in

determining initial and on-going eligibility, maintaining inspection and billing files, and evaluating workmanship deficiencies. To its credit, Michigan recognized the issues associated with the lack of automation, and implemented an automated system to capture weatherization activities such as weatherization eligibility determinations.

- One local agency misreported jobs created and saved by not reporting jobs retained. Local agency officials told us they had not been sufficiently trained on reporting requirements.

Similar to issues we identified in a series of reports on Weatherization Programs in other states, this report offers valuable lessons learned related to identifying and addressing systemic quality problems. Overall, we questioned \$115,800 for reimbursement of weatherization services (See Appendix 1 for a Summary of Questioned Costs) that had not been completed or verified as completed or were potentially ineligible. As we have observed a number of times, problems in this area limit the effectiveness of the Weatherization Program, and increase the risk of health and safety impacts on recipients of services. We made a number of recommendations designed to improve the Weatherization Program in the areas of quality of work, financial monitoring and eligibility determination.

We have issued separate reports on ACSET and Southwest for conditions that we considered to be specific to those entities. To help fulfill the responsibilities of auditing the local entities of Michigan's Weatherization Program, we contracted with Lani Eko & Company, CPAs, PLLC (Lani Eko), an independent certified public accounting firm. Lani Eko's reports include:

- Examination Report on *Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-23, June, 2013); and
- Examination Report on *Southwest Michigan Community Action Agency – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-24, June, 2013).

Lani Eko was responsible for conducting these examinations 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 Office of Inspector General monitored the progress of the examinations and reviewed the reports and related documentation. Our review disclosed no instances in which Lani Eko did not comply, in all material respects, with the attestation requirements. Lani Eko is responsible for the examination reports and the conclusions expressed in these reports.

MANAGEMENT REACTION

The Department and Michigan provided responses to our draft audit report. We provided Detroit the opportunity to review and provide feedback on the report. However, we did not receive comments from Detroit because the agency responsible for the Weatherization Program had

ceased to exist and Michigan had already initiated program closeout procedures for sub-grant. The Department concurred with our recommendations and credited Michigan for the positive actions taken in response to our recommendations. Michigan has reportedly taken action to correct many of the problems discovered, including improving local agency training, developing a trend analysis tool for use in technical monitoring, and implementing billing process improvements. Michigan did not agree with our citation of questioned costs and reported having taken action to address the issues cited in our report.

ACSET and Southwest responded separately to their examination reports. Both provided responses that were in general agreement with the recommendations and provided completed, planned and ongoing actions to address the issues identified. Specifically, ASCET contended that it was in compliance, in all material respects, with the elements of the Department's Weatherization Program under the Recovery Act and has corrected any omissions or errors in procedure or reporting through the implementation of new and/or enhanced procedures. Southwest Michigan reportedly implemented process improvements and corrective actions to address the specific recommendations identified in Lani Eko's report. ASCET and Southwest comments were included and addressed in separate reports prepared by Lani Eko.

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

Attachments

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

REPORT ON THE DEPARTMENT OF ENERGY'S WEATHERIZATION ASSISTANCE PROGRAM FUNDED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT FOR THE STATE OF MICHIGAN

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THE DEPARTMENT OF ENERGY'S WEATHERIZATION ASSISTANCE PROGRAM FUNDED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT FOR THE STATE OF MICHIGAN

Background

The State of Michigan had not always ensured that its Weatherization Assistance Program (Weatherization Program) activities funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act) were performed efficiently and effectively. In particular, our work at state and local agency levels identified weaknesses in managing the quality of workmanship, assuring completion of work and assessing eligibility. In total, we questioned about \$115,800 for work that had not been, or could not be verified as completed, and for weatherization services provided to both ineligible and potentially ineligible applicants and homes.

Identifying and Resolving Issues with the Quality of Work

Based on our sample of inspection reports prepared by Michigan between January 2010 and July 2011, 170 of 412 (41 percent) homes weatherized by 6 local agencies, required a "call-back" to correct faulty work, install additional materials and/or re-inspect work. The homes had previously passed final inspection by the local agencies. Common deficiencies included incomplete home insulation and failure to ensure homes were sealed to the required range. In one extreme case, the contractor had not repaired attic water leaks, a measure required to protect insulation, and had not tuned, repaired or replaced a furnace emitting elevated levels of carbon monoxide.

We observed similar issues when we accompanied state and local officials on a review of homes previously inspected. Specifically:

- During our on-site visits to 29 homes weatherized by the City of Detroit Department of Human Services (Detroit), 11 homeowners described issues that had developed subsequent to, or were not identified as part of the final inspection process, and were confirmed by state and local inspectors who accompanied us during the home visits. These included potential health and safety issues. In one case, contractors had failed to vent a client's dryer, a required health and safety measure in Michigan to prevent the accumulation of highly combustible lint. Within this same household, contractors failed to detect a gas leak, creating a fire hazard. The issues were brought to the contractor's attention and corrected the day following our review.
- When we accompanied state and local officials to 13 homes weatherized and inspected by Area Community Services Employment and Training Council Community Action Agency (ACSET), additional repair and re-work items were identified at 5 homes. Additionally, four of these occupants expressed dissatisfaction with the work. State and local inspectors confirmed the issues and referred their concerns to its contractors for correction.

Despite the fact that issues with the quality of work were prevalent, Michigan and its local agencies had not analyzed inspection reports to identify commonly occurring weatherization deficiencies and contractors that repeatedly under-performed. The ongoing and recurring nature of inspection findings suggested that identifying the root cause would be beneficial to, among

other things, developing corrective action plans and enhancing training. Local officials told us contractors received state mandated training, but were not provided specific ongoing training on recurrent quality of work issues. State officials told us they understand the importance of trend analysis and have encouraged subgrantees to proactively identify systemic problems. However, the agencies in our review corrected quality of workmanship issues only on a case-by-case basis. As a result, Detroit officials told us they were unaware of the chronic nature of weatherization re-work needed and the number of instances of underperforming contractors.

The importance of identifying under-performing contractors and commonly recurring problems cannot be overstated. Our work indicated that 2 of 13 Detroit contractors and 2 of 8 ACSET contractors were responsible for many of the workmanship issues identified after post inspections. In fact, the two Detroit contractors had completed work on almost half of the additional re-work items identified during our post-inspection visits. Similarly, the 2 ACSET contractors performed work on 11 of the 12 homes requiring re-work. In two of these instances at Detroit and three at ACSET, contractors were required to return at least twice to make all needed corrections.

Reimbursement Requests

Two local agencies we reviewed had requested reimbursement for work that had not been performed. Federal and state regulations require local agencies to ensure weatherization work is completed and inspected prior to counting homes as completed and requesting reimbursement. Specifically:

- Of the 60 Detroit homes we reviewed, officials could not provide documentation confirming that contractors had properly reduced the amounts billed on two homes by \$3,500 for repairs that had never been completed due to the death of one occupant and scheduling conflicts with the other occupant.
- ACSET had requested reimbursement for 12 of 45 homes reviewed prior to ensuring initial weatherization services had been provided, and subsequent re-work performed, had met weatherization quality of work standards. Subsequent to our review, ACSET released work orders to the contractors that performed weatherization services in dwelling units in which workmanship issues were identified during physical site visits. These repairs were performed without cost to ACSET. Additionally, ACSET provided completed Findings Reports as evidence that rework was completed.

In total, we questioned approximately \$3,500 in reimbursements made for work that had not been or could not be verified as completed.

These situations occurred because the agencies had not sufficiently reconciled invoices with work orders and inspection reports. Michigan requires that local agencies use the invoice to verify actual work completed prior to payment to the contractor. Local agencies relied on the invoicing column of the Inspection Work-Order Cost-Center form without comparing the work performed to the actual invoice submitted. Also, while each local agency was subject to an

annual state fiscal review, financial monitors primarily considered agency level labor, materials, support and administrative costs, while state technical monitors primarily considered unit level activities and transactions.

Eligibility for Weatherization Services

The three local agencies we reviewed provided weatherization services to both ineligible and potentially ineligible applicants and homes. Specifically:

- Applicant eligibility:
 - Despite information obtained during home assessments indicating the number of residents originally reported in eligibility applications differed from the actual occupants, the Detroit had not re-determined eligibility. The Department of Energy (Department) stipulates that evaluation of eligibility must be based on total occupancy and requires reimbursement of "Department of Energy funds provided to pay the cost of weatherizing a unit if it is determined that the family unit occupying the residence was not eligible for weatherization assistance at the time such services were provided." In 25 of the 60 cases we reviewed, the number of occupants in the home at the time of assessment had either increased (18 of the 25 cases), decreased, or could not be verified. Because eligibility for weatherization services is based upon the composite income of all occupants, a change in occupancy can render a home ineligible for weatherization services depending on the effect on household income. We were unable to conclude on whether the homes were eligible for weatherization services at the time they were provided because income had not been re-determined, and consequently questioned about \$106,000 in weatherization repairs. Given the fact that the Detroit had documented differences between the number of occupants reported in the original application, and those residing in the home just prior to weatherization, we believe it should have determined the eligibility of the unit prior to proceeding.
 - Of the 45 cases reviewed, ACSET provided weatherization services to a family residing in a single-family dwelling whose income was above Michigan's ceiling. A family is income eligible if its combined income, based upon the number of occupants and the income earned by those occupants, does not exceed the greater of 200 percent of the Federal poverty level or 60 percent of the state median income. In this case, ACSET provided services even though an applicant's income exceeded the 200 percent poverty ceiling of \$44,100 by \$3,818. Accordingly, we questioned \$6,300 paid to weatherize the apparently ineligible unit. Following the audit team's identification of the ineligible applicant, ACSET reallocated the weatherization costs associated with this client to Michigan's Energy Optimization Fund.
- Home Eligibility:
 - One local agency had not complied with regulations regarding the eligibility of units designated for acquisition or clearance. Specifically, ACSET weatherized four units without the owners certifying and without verifying whether the units had been

designated for clearance (demolition) or acquisition by a Federal, state or local Government agency. Federal regulations prohibit the weatherization of units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling unit would be scheduled to be completed. Subsequent to our review and upon notification of this finding, ACSET contacted the four applicants and obtained current tax records indicating the applicants still have ownership of the homes that received weatherization services.

In total, we questioned about \$112,300 in costs for weatherization services provided to both ineligible and potentially ineligible applicants and homes. Problems with applicant and home eligibility occurred because local agencies had not: (1) sufficiently reviewed home and client intake applications; (2) compared the number of occupants in a home prior to weatherization to those originally reported; and, (3) fully understood Weatherization Program guidance.

Further, because weatherization activities have, for the most part, been recorded manually, local agencies and Michigan have had difficulty determining initial and ongoing eligibility, maintaining inspection and billing files, and evaluating workmanship deficiencies statewide. To its credit, Michigan has recognized the issues associated with the lack of automation, and was, at the time of our audit, addressing electronic information storage needs. In July 2011, Michigan began the implementation phase of its data management system, *DBS FACS Pro*, to capture weatherization activity, including income eligibility determinations and assessing weatherization needs.

Reporting the Number of Jobs Created and Retained

Contrary to Recovery Act requirements, one of the local agencies reviewed, Southwest Michigan Community Action Agency (Southwest), had not correctly calculated and reported total jobs created and retained. Specifically, the agency based the number of jobs reported on new weatherization hires each month, rather than on the number of jobs created and retained. Six of Southwest's current employees worked 1,740 hours during the months of October through December 2010, which had not been included as part of the total "Jobs Created and Retained" reported to the State. Further, two new Recovery Act employees worked 20 hours during the same period that were omitted from the "Jobs Created and Retained" report provided to Michigan. Michigan requires local agencies to report Recovery Act activities, including jobs created and retained, on a standardized template. Local agency officials told us they had not received sufficient training on how to calculate and report the number of jobs created and saved. According to Southwest officials, the errors identified have reportedly been corrected.

Impact of Identified Weaknesses

If uncorrected, the weaknesses we identified could pose health and safety risks to residents, hinder production and increase Weatherization Program costs. Uncorrected, these weaknesses increase the risk of fraud, waste and abuse. In total, we identified questioned costs in the amount of about \$115,800 associated with weatherization services provided without support of final completion or without valid eligibility.

Other Reports

As previously noted, we have issued reports on ACSET and Southwest, under separate covers. Under the Recovery Act, we were responsible for auditing local entities of Michigan's Weatherization Program. To help fulfill these responsibilities the Office of Inspector General contracted with Lani Eko & Company, CPAs, PLLC (Lani Eko), an independent certified public accounting firm. Lani Eko's reports include:

- Examination Report on *Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-23, June 2013); and
- Examination Report on *Southwest Michigan Community Action Agency – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-24, June, 2013).

Lani Eko was responsible for conducting these examinations 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 Office of Inspector General monitored the progress of the examinations and reviewed the reports and related documentation. Our review disclosed no instances in which Lani Eko did not comply, in all material respects, with the attestation requirements. Lani Eko is responsible for the examination reports and the conclusions expressed in these reports.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy require the State of Michigan to:

1. Implement a system for identifying the root cause of poor workmanship and take appropriate corrective action;
2. Provide training on identifying and correcting weatherization issues and Recovery Act reporting requirements;
3. Strengthen fiscal and program oversight, especially in areas of billing and payment processing; and
4. Require local agencies to thoroughly review intake applications.

Further, we recommend that the Department's Contracting Officer work with the State of Michigan to:

5. Resolve questioned costs in the amount of \$115,800 associated with weatherization services provided, and examine the reasonableness of costs related to multi-family dwellings.

MANAGEMENT REACTION AND AUDITOR COMMENTS

The Department and Michigan provided responses to our draft audit report that are included in their entirety in Appendix 4. We provided Detroit the opportunity to review and provide feedback on the report. However, we did not receive comments from Detroit because the agency responsible for the Weatherization Program had ceased to exist and Michigan had already initiated program closeout procedures for subgrant. Comments from ACSET and Southwest are included in the previously discussed Lani Eko reports. We revised our report as appropriate to address the comments received. A summary of key responses is provided in the following section.

Department Comments

The Department concurred with our recommendations and will continue to monitor the grantee and sub-grantees to ensure resolution of issues identified in the report. The Department provided suggested revisions based upon its interpretation of the policy and guidance on cost limitations for multi-family dwellings. The Department reviewed the State's analysis of questioned costs and believes that Michigan acted in accordance with policy.

Auditor Response to Department Comments

The Department's comments were generally responsive to our recommendations. Where appropriate, we have credited Michigan and the local agencies for their actions taken to improve the Weatherization Program.

State Comments

Michigan generally did not agree with the content of our report or our recommendations. Michigan commented that the report focused heavily on Detroit local weatherization agency and suggested that we re-evaluate the questioned costs cited in the report. Michigan reported that many of our recommendations have already been addressed. Michigan stated that it continues to work with Detroit to close out its Recovery Act contract. Additionally, Michigan reports having provided Recovery Act training opportunities to its network agencies, developed a trend analysis tool for use in technical monitoring, and made significant changes to the process used to review local agency billing.

Auditor Response to State Comments

We revised the report to give consideration to Michigan's concerns, as appropriate. We have credited Michigan for the actions taken to improve its Weatherization Program and the planned effort to correct these conditions. In that regard, we incorporated changes to address actions taken by the State in the body of the report.

SUMMARY OF QUESTIONED COSTS

Agency	Condition	Questioned Costs
City of Detroit Department of Human Services	Billed for work without evidence of completion	\$3,500
<i>Subtotal Improper Billing</i>		\$3,500
Area Community Services Employment and Training Council Community Action Agency	Weatherized home of ineligible applicant and multifamily units	\$6,300
City of Detroit Department of Human Services	Did not update eligibility	\$106,000
<i>Subtotal Eligibility</i>		\$112,300
Total Questioned Costs		\$115,800

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

To determine whether the State of Michigan had adequate safeguards in place to ensure that the Weatherization Assistance Program (Weatherization Program) was managed efficiently and effectively, and was in compliance with Federal and state laws and regulations.

SCOPE

This audit was performed between February 2011 and May 2013, at the Michigan Bureau of Community Action and Economic Opportunity located in Lansing, Michigan. We made site visits to one local action agency – City of Detroit Department of Human Services (Detroit) located in Detroit, Michigan. Additionally, an independent certified public accounting firm under contract with the Office of Inspector General conducted site visits to two agencies – Southwest Michigan Community Action Agency and the Area Community Services Employment and Training Council Community Action Agency, respectively located in Benton Harbor and Grand Rapids, Michigan.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable laws, regulations, and guidance pertaining to the Weatherization Program under the American Recovery and Reinvestment Act of 2009 (Recovery Act); as well as laws, regulations and guidance applicable to Michigan's Weatherization Program.
- Reviewed 412 inspection reports prepared by Michigan between January 2010 and July 2011, for homes weatherized by 6 local agencies we selected based on our risk assessment.
- Selected judgmental samples of 60 homes weatherized by Detroit that we reviewed for quality of work based on either file reviews and/or physical inspection.
- Met with Department and Michigan officials to discuss current and ongoing efforts to implement the requirements of the Weatherization Program under the Recovery Act.
- Reviewed applicant and unit eligibility, as well as general ledger information to analyze costs incurred. Additionally, the audit included reviewing Weatherization Program client files and reports, and physically observing the weatherization work performed at the three local agencies.
- Reviewed the procurement process over weatherization materials, vehicles and equipment, including inventory controls.

Appendix 2 (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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Because our review was limited, it would not necessarily have disclosed all internal deficiencies that may have existed at the time of our audit. Also, we considered the establishment of Recovery Act performance measures, which included certain aspects of compliance with the *GPRA Modernization Act of 2010* as necessary to accomplish the objective. We did not rely on computer-processed data.

We discussed the contents of this report with State officials on June 5, 2013. Department officials waived an exit briefing.

PRIOR 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. 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 Assistance Program grants. Our series of audit reports include the following:

- Examination Report on *Southwest Michigan Community Action Agency – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-24, June, 2013)
- Examination Report on *Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*, (OAS-RA-13-23, June 2013)
- Examination Report on [*Fresno County Economic Opportunities Commission – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-11, February 19, 2013)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Maryland*](#) (OAS-RA-13-07, January 17, 2013)
- Examination Report on [*Montgomery County Department of Housing and Community Affairs – Weatherization Assistance Program – Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-06, January 17, 2013)
- Examination Report on [*Prince George's County Department of Housing and Community Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-05, January 17, 2013)
- Examination Report on [*Community Action Partnership of Orange County – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-03, October 17, 2012)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Ohio*](#) (OAS-RA-12-13, June 25, 2012)
- 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, April 6, 2012)

Appendix 3 (continued)

- 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 20, 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 30, 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 30, 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 29, 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 29, 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 19, 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 25, 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 23, 2011)
- 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 22, 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 13, 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, June 6, 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 1, 2011)

Appendix 3 (continued)

- 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 30, 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 1, 2010)
- Audit Report on [*The State of Illinois Weatherization Assistance Program*](#) (OAS-RA-11-01, October 14, 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 11, 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 26, 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 19, 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 3, 2009)

MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

MAY 03 2013

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 (OIG) Draft Audit Report on “The Department of Energy’s (DOE) Weatherization Assistance Program (WAP) Funded under the American Recovery and Reinvestment Act (ARRA) for the State of Michigan”

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments related to the OIG’s March 2013 Draft Audit Report for Michigan’s Department of Human Services (MDHS) WAP. EERE provides guidance and support to all grantees pursuant to Code of Federal Regulations (CFR), 10 CFR 600 and 2 CFR 225 (A-87). When applicable, EERE provides grantees with guidance pursuant to 2 CFR 220 (A-21), 2 CFR 230 (A-122), and 10 CFR 400. EERE seeks to ensure compliance with Federal regulations through ongoing monitoring and communications with grantees.

The OIG made four recommendations to address deficiencies discovered during the audit. EERE concurs with OIG’s recommendations. However, in our response to recommendation 2, the Office of Weatherization and Intergovernmental Program is providing additional clarity to the disclosure made by the audit team. In addition, our response is addressing the correct amount in questioned cost ascertained in recommendation 4. EERE will continue to monitor the MI WAP to ensure that implemented controls maintain compliance with DOE guidance. The response below should address the OIG recommendations:

1. **OIG Recommendation 1:** Implement a system for identifying the root cause of poor workmanship and take appropriate corrective action.

EERE Response 1: This recommendation primarily focuses on the OIG audit of the City of Detroit WAP. The Grantee identified these issues with this subgrantee via increased monitoring rates and findings for corrective action throughout 2011 (refer to Report Pages 1 and 2). Actions taken by the MI WAP resulted in the dismissal of the Detroit subgrantee in December 2011 and the appointment of an interim provider for the City, with new contracts in effect May 1, 2012. The Grantee continues the financial reconciliation and administrative closeout of the former subgrantee contract.

Stricter monitoring procedures developed by the State Grantee have been implemented network-wide. DOE continues oversight of the Grantee’s corrective actions, subgrantee closeout, and replacement subgrantee performance. The DOE Project Officer reviewed and assessed the



Appendix 4 (continued)

Grantee's corrective actions during the most recent monitoring visit conducted on January 15-18, 2013 and found that the Grantee is in full compliance with DOE policies.

Based on recent monitoring findings, EERE considers this issue resolved.

2. **OIG Recommendation 2:** Provide training on identifying and correcting weatherization issues, Recovery Act reporting requirements, and on multi-family requirements.

EERE Response 2: The Grantee provided several ARRA reporting training opportunities to network subgrantees and continues to provide instruction during each quarterly report period. The Grantee has developed and is utilizing a trend analysis tool for use in technical monitoring (refer to Pages 4 and 5).

DOE reviewed the Grantee monitoring and reporting activities during the on-site visit conducted on January 15-18, 2013. Quarterly monitoring of programmatic and financial reports submitted by the grantee continues to occur with follow-up performed by the Project Officer as necessary.

Please note: DOE disagrees with the characterization on page 4 of the Draft Audit Report regarding DOE's guidance for "allowable weatherization costs for multi-family buildings". The WAP regulations at 10 CFR 440.18(a) states "[e]xcept as adjusted, the expenditure of financial assistance provided under this part for labor, weatherization materials and related matters ... shall not exceed an average of \$6,500 per dwelling unit weatherized in the State, except as adjusted in paragraph (b) of this section."¹ (Emphasis added.) A State may decide to establish a Statewide average cost per dwelling unit that is lower than the \$6,500 set forth in the regulations. Therefore, a State cannot spend more than the lower of an average \$6,500 or the current Statewide average cost per eligible dwelling unit. DOE has provided direction on application of the average cost limitation to multi-family buildings in recent guidance documents entitled Program Year 2010 Weatherization Grant Guidance WPN 10-1 and Program Year 2011 Weatherization Grant Guidance WPN 11-1. DOE's guidance provides that grantees and subgrantees should multiply the total number of eligible dwelling units in the multi-family building by the current Statewide average cost that has been chosen by the grantee (the lower of \$6,500 or the current Statewide average cost) to determine the amount of DOE funding available for weatherizing the entire building. This would ensure that when reviewing all weatherized units within a grantee's reporting period, the average cost per eligible dwelling unit would be \$6,500 or the current Statewide average, whichever is less. This does not prohibit a subgrantee from spending more on an eligible dwelling unit as long as the **average cost per eligible dwelling unit** at the end of the grant period for the grantee is the lower of \$6,500 or the current Statewide average cost.

In addition, if a subgrantee were to spend more than the lower of \$6,500 or the current Statewide average on an eligible dwelling unit, the grantee would have to ensure that all costs were appropriate pursuant to the WAP regulations and there was no undue or excessive enhancement to the value of the dwelling unit. 10 CFR 440.22(b)(3)(iv).

Based on recent monitoring findings, EERE considers these issues resolved.

3. **OIG Recommendation 3:** Strengthen fiscal and program oversight, especially in areas of billing and payment processing: and, require local agencies to thoroughly review intake applications.

¹ It is important to note that costs associated with the elimination of health and safety hazards (the elimination of which is necessary before, or because, of the installation of weatherization materials) are among those costs not included in evaluating the per unit cost limitation.

Appendix 4 (continued)

EERE Response 3: The Grantee has instituted a more comprehensive billing review process requiring subgrantees to submit specific support documentation, including general ledgers, for all submissions. These enhancements have mitigated potential shortfalls or non-compliance in the fiscal areas of billing and payment processing (Page 4).

In July 2011, the Grantee implemented a web-based system for compliant intake and eligibility processing for Federal grants. By requiring the use of this system, the Grantee improved the network's eligibility compliance. Subsequent monitoring conducted on January 15-18, 2013 indicated that client eligibility is being properly interpreted and enforced (Page 3 and 4).

Based on recent monitoring findings, EERE considers this issue resolved.

4. **OIG Recommendation 4:** Resolve questioned costs in the amount of \$168,125.

EERE Response 4: Expenses charged to the Grant by three subgrantees were questioned under the cost categories of payments for non-compliant quality of work, payments for work for clients questioned to be eligible, and payments on units incorrectly classified as multi-family buildings. Upon review of OIG questioned costs, the Grantee accepted only \$3,500 as disallowed costs based on the description in EERE Response 2.

Please note: DOE reviewed the analysis of the Grantee and concurs that the majority questioned cost were allowable under applicable rules, regulations or guidance. The Grantee properly completed financial closeout with the Detroit subgrantee for valid weatherization expenses, with a \$3,500 reduction for the disallowance (Page 1, 2, 3, and 4).

Based on recent monitoring findings, EERE considers this issue resolved.

State of Michigan Response to Office of Inspector General Draft Audit Report on DOE WAP funded under ARRA April 2013

The Michigan Department of Human Services (MDHS) Bureau of Community Action and Economic Opportunity (BCAEO) appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) March 2013 Draft Inspection Audit Report for the MDHS BCAEO Weatherization Assistance Program (WAP). BCAEO provides guidance and support to all Michigan WAP subgrantees pursuant to Code of Federal Regulations (CFR), 10 CFR 400, 10 CFR 600 and DOE Weatherization Program Notices (WPN). BCAEO seeks to ensure compliance with all WAP program regulations through ongoing monitoring, training and technical assistance, and communications with subgrantees.

Observations:

- The MI report appears to actually represent issues identified for the City of Detroit review and not the entire State of Michigan. This formatting makes the report confusing and misleading. For example, DOE OIG did not include in the previous draft state report the observed problem of poor workmanship and need for appropriate corrective action, but did include this in the Detroit report.
- In a conference call with DOE OIG prior to the release of the March 2013 Draft report, BCAEO staff & the MI DOE Project Officer, reviewed a DOE OIG report including a lesser amount of potential questioned costs. These costs were discussed in the conference call. BCAEO staff asked DOE OIG staff specifically if the amount of \$142,500 indicated in the report was the final questioned cost amount and DOE OIG staff confirmed it was the final figure. However in the draft report received following the conference call, the questioned costs were increased to \$168, 125.

Of the questioned costs listed, BCAEO only concurs with the amount of \$3,500 for the city of Detroit. This amount was recovered from the city and is discussed later in this response.

The OIG made **four recommendations** for DOE's oversight of the MI WAP. **BCAEO does not agree with all of the OIG's recommendations as indicated below.** BCAEO will continue to monitor subgrantees for assurance that planned activities to address any potential issues are completed. The responses below and details provided in the attachment should resolve the OIG recommendations.

1. ***OIG Recommendation 1:** Implement a system for identifying the root cause of poor workmanship and take appropriate corrective action.*

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BCAEO Response 1: This recommendation appears to be directly related to the DOE OIG review of the City of Detroit WAP. MDHS identified issues with this subgrantee program. The program was shut down in December 2011 and the state appointed an interim provider for the city with contracts in place effective May 1, 2012. The state continues working on the final closeout of the Detroit ARRA contract. See details in attachment. The WAP Project Officer continues to be updated on the progress of this situation and feels the issue is resolved.

2. **OIG Recommendation 2:** *Provide training on identifying and correcting weatherization issues, Recovery Act reporting requirements, and on multi-family requirements.*

BCAEO Response 2: BCAEO does not agree with the DOE OIG multi-family policy interpretation or the related questioned costs for ACSET or SMCAA. DOE guidance implies and the Michigan DOE Project Officer confirmed in writing that DOE considers multi-units to be buildings of at least five units. Therefore, the maximum unit cost for duplexes, three-unit buildings and four-unit buildings is treated the same as for single-family households. The multi-unit per unit maximum does not apply.

BCAEO provided several ARRA reporting training opportunities to network agencies and continues to provide instruction during each quarterly report period. BCAEO has developed a trend analysis tool for use in technical monitoring. See attachment for details.

BCAEO has discussed monitoring practices as part of each DOE monitoring visit and will continue to review and assess for improvements. BCAEO feels this issue is resolved.

3. **OIG Recommendation 3:** *Strengthen fiscal and program oversight, especially in areas of billing and payment processing; and, Require local agencies to thoroughly review intake applications.*

BCAEO Response 3: BCAEO has made significant changes to the billing review process requiring subgrantees to submit specific support documentation, including general ledgers, for all submissions. See more detail in attachment. BCAEO feels these changes have resolved any potential shortfalls in the fiscal and program oversight in areas of billing and payment processing.

BCAEO implemented a web-based system used for all intake and eligibility processing in July 2011. The use of this system is expected to improve the network's application and

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eligibility process. Client eligibility continues to be an element reviewed in programmatic monitoring. BCAEO feels this issue is resolved.

4. ***OIG Recommendation 4:*** Questioned Costs of \$168,125. BCAEO accepts only the \$3,500 of the costs cited and agrees these are questioned costs. BCAEO staff contacted City of Detroit Department of Human Services (DDHS) requesting substantiating verification for the \$3,500 billed, and DDHS responded that this could not be located. BCAEO reduced the final DOE ARRA payment to City of Detroit by the \$3,500. See attached detail for more information. The other questioned costs are not agreed to by the DOE Project Officer or BCAEO. See the attachment for more information. BCAEO believes this issue resolved.

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