



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

Examination Report

Fresno County Economic
Opportunities Commission –
Weatherization Assistance Program
Funds Provided by the American
Recovery and Reinvestment Act of
2009



OAS-RA-13-11

February 2013



Department of Energy

Washington, DC 20585

February 19, 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: Examination Report on "Fresno County Economic Opportunities Commission – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

BACKGROUND

The attached report presents the results of an examination of the Fresno County Economic Opportunities Commission's (Agency) implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Weatherization Assistance Program (Weatherization Program). The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Lopez and Company, LLP, to express an opinion on the Agency's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. The Agency is a sub-recipient of the Department of Energy's (Department) Recovery Act Weatherization Program funding for the State of California.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Program received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of California received \$186 million in Recovery Act Weatherization Program funding, of which \$11.2 million was allocated to the Agency to weatherize 5,374 homes. The State of California Department of Community Services and Development (State) was responsible for administering Weatherization Program grants, including funds provided to the Agency.

OBSERVATIONS AND CONCLUSIONS

Lopez and Company, LLP, expressed the opinion that except for the weaknesses described in its report, the Agency complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period June 30, 2009 through June 30, 2011.

However, the examination found that the Agency:

- Selected a contractor to administer its Recovery Act Weatherization Program without considering the price of services, as required. In addition, the Agency executed

multiple contracts with its weatherization contractor that did not clearly document agreed-upon terms and conditions. However, because the Agency was able to provide documentation supporting its assertion that prices charged under the Recovery Act contract were comparable to bids received during a more recent 2012 procurement competition, Lopez and Company, LLP, did not question the costs associated with the Recovery Act contract. Nevertheless, Lopez and Company, LLP, remained concerned that in establishing a fixed-rate contract, the Agency agreed to pay for weatherization services at the State's maximum rates without ensuring upfront that the prices were reasonable.

In addition, the examination found that the Agency's primary weatherization contractor:

- Improperly approved and/or documented the eligibility of applicants. Lopez and Company, LLP, reviewed 40 separate applicant files maintained by the contractor and found that an ineligible applicant had received weatherization services, another lacked sufficient income documentation, and for 6 others, the monthly/annual income calculation was incorrect. As a result of these issues, Lopez and Company, LLP, questioned \$3,800 of costs incurred for weatherization services.
- Incorrectly reported its labor hours to the Agency for purposes of reporting total jobs created and retained under the Recovery Act. Specifically, the Agency reported estimated labor hours rather than actual labor hours incurred as required.

The report makes recommendations to the Agency to improve the administration of its Weatherization Program. The Agency provided comments that expressed agreement with the findings and has already begun to address the issues identified. While we consider these comments and corrective actions to be responsive to the recommendations, the Department needs to ensure that the actions taken are adequate to address the findings. The Agency's comments are included in their entirety in Attachment 1.

RECOMMENDATIONS

We recommend the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Require the State of California to improve administration of Weatherization Program funds by ensuring the Agency implements the recommendations outlined in the report.

We also recommend the Contracting Officer for the State of California Weatherization Assistance Grant:

2. Resolve identified questioned costs.

MANAGEMENT COMMENTS AND AUDITOR RESPONSE

The Department agreed with the recommendations outlined in this memorandum and stated that it will conduct the necessary follow-up review of State and Agency operations to ensure that all

recommendations are implemented on a timely basis. The Department also noted that it will recover the identified questioned costs where the Agency was unable to provide adequate documentation for client eligibility. Additionally, the Department stated that it would verify the implementation of corrective actions during an upcoming site visit in April 2013. The Department's comments are included in their entirety in Attachment 2.

The State concurred with the recommendations to the Agency made by Lopez and Company, LLP, in the examination report, and agreed with the corrective actions planned or taken by the Agency. The State also indicated that it would work with the Agency to ensure corrective actions were completed. The State's comments are included in their entirety in Attachment 3.

The comments provided by the Department and the State were responsive to the recommendations.

EXAMINATION-LEVEL ATTESTATION

Lopez and Company, LLP, conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of the Agency's policies and procedures and reviewing applicable Weatherization Program documentation. The procedures also included an analysis of the Agency's procurement process, weatherization contracts, applicant eligibility, and compliance with the reporting requirements of the Recovery Act. Finally, an analysis of associated expenditure data was conducted to test the allowability of payments.

The OIG monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances where Lopez and Company, LLP, did not comply, in all material respects, with the attestation requirements. Lopez and Company, LLP, is responsible for the attached report dated September 4, 2012, and the conclusions expressed in the report.

Attachments

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



EXAMINATION REPORT ON COMPLIANCE
OF
Recovery Act Weatherization Assistance Program
Fresno County Economic Opportunities Commission

PERFORMED FOR
U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Prepared by
Lopez and Company, LLP Report

Date: September 4, 2012

CONTRACT NUMBER: DE-IG0000017

WORK ORDER NUMBER: 2011-02

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INDEPENDENT ACCOUNTANT'S REPORT

To the Inspector General, Department of Energy:

We have examined the Fresno County Economic Opportunities Commission's (Agency) compliance with Federal and State laws, regulations, and program guidelines applicable to the American Recovery and Reinvestment Act of 2009 (Recovery Act) Weatherization Assistance Program (Weatherization Program) for the period of June 30, 2009 through June 30, 2011. The Agency is responsible for operating the Weatherization Program in compliance with these laws, regulations, and program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Weatherization Program Federal and State laws, regulations, and program guidelines, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Agency's compliance with specified requirements.

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

In our opinion, except for the weaknesses described in Section IV of this report, the Agency complied in all material respects with the aforementioned requirements and guidelines relative to the Weatherization Program for the period June 30, 2009 through June 30, 2011.

Lopez and Company, LLP
Chino Hills, California
September 4, 2012

**Section I Description of Fresno County Economic Opportunities
Commission Weatherization Assistance Program**

The Fresno County Economic Opportunities Commission (Agency) operates as a private, non-profit community action agency in the State of California. The Agency was incorporated in 1965 after passage of the Economic Opportunity Act of 1964. The Agency is a local human services agency that provides assistance to economically and socially disadvantaged persons in the Fresno County region through various types of health and welfare services and programs. The Agency receives its grant support primarily from the State of California Department of Community Services and Development (State) for the purpose of participating in the Weatherization Assistance Program (Weatherization Program) with funds appropriated under the authority of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Under the Recovery Act, the State of California received a grant of approximately \$186 million from the U.S. Department of Energy (Department) for the Weatherization Program. The State allocated about \$11.2 million of its grant to the Agency to weatherize 5,374 homes. These funds were to be expended over a 3-year period ending September 30, 2012. As of that date, the Agency had weatherized 5,670 homes and completed its Recovery Act Weatherization Program. Under the Weatherization Program, low-income homeowners and renters received assistance to increase the energy efficiency of their homes by sealing duct systems and by installing insulation, cooling and heating systems, and energy efficient windows and doors.

Section II Classification of Findings

Material Weakness

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

Significant Deficiency

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

Advisory Comment

For purposes of this engagement, an advisory comment represents a control deficiency that is not significant enough to adversely affect the Agency's ability to record, process, summarize, and report data reliably. There were no advisory comments noted in this report.

Section III Summary of Findings

Material Weaknesses

IV.1 Deficiencies in Contractor Procurement

Significant Deficiencies

IV.2 Applicant Eligibility Process Needs Improvement

IV.3 Jobs Created and Retained Calculated and Reported Incorrectly

SECTION IV Schedule of Findings

IV.1 Deficiencies in Contractor Procurement (Material Weakness)

Condition

The Agency selected a contractor to administer its Recovery Act Weatherization Program without considering the price of services, as required. In October 2009, the Agency evaluated the qualifications of nine potential prime contractors. The Agency rated contractors in areas such as knowledge and experience, capacity to perform weatherization services, and quality control. However, the Request for Qualifications (RFQ) did not require bidders to submit pricing information. State and Federal procurement guidelines require that awards be made to the contractor whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, with price, quality, and other factors considered. In June 2011, the State also raised concerns about the manner in which the Agency solicited bids. While the State allowed the contractor selected by the Agency to complete its contract, it required the Agency to prepare a solicitation for a post-Recovery Act weatherization contractor that included price as a factor in contractor selection.

Further, the Agency had executed multiple contracts with its weatherization contractor; however, we found that these contracts did not clearly document agreed-upon terms and conditions. Specifically, Agency officials stated that their intent was to execute a fixed-price arrangement and made payments based on fixed rates for specific services; however, we found the contracts contained language that payments to the contractor were to be on a cost reimbursable basis. For example, contract exhibits contained provisions requiring: 1) reimbursements in the amount of actual labor, materials and subcontractor services; and, 2) the contractor to maintain documentation, including timecards and invoices, for all expenditure of funds. One of the contracts did contain a schedule of fixed rates, supporting the Agency's assertion that it intended to execute a fixed-price contract.

Cause

Agency officials structured the procurement competition to focus on obtaining the most experienced contractor. Agency officials reported that the State had approved the RFQ process. However, State officials informed us that they were originally unaware that the Agency had not considered price in selecting a contractor. State officials reportedly believed the term "RFQ" referred to "Request for Quotations" and did not understand that the Agency had only requested "Qualifications." A State official indicated that had the State understood the "Qualifications only" process prior to the procurement, it would not have approved the process.

Further, when establishing the contract, the Agency incorporated certain exhibits that had existed in its agreement with the State. These exhibits contained provisions requiring the Agency to be paid on a reimbursement basis and that the Agency maintain documentation supporting its expenditures. Although the Agency intended to execute a fixed-price contract with its weatherization contractor, it did not sufficiently modify or delete the terms of these State provisions to reflect the contract's fixed-price nature before incorporating them.

SECTION IV Schedule of Findings (Cont.)

Effect

Deficiencies in the procurement of contractor services may have resulted in higher costs being incurred for weatherization materials and services. In fact, we found that the Agency requested reimbursement for its contractor's weatherization services at rates equivalent to the maximum allowed by the State. To control costs, the State had previously established maximum allowable reimbursement rates on many weatherization materials and services. The State's agreement with the Agency prohibited the use of these maximum allowable rates as fixed fees. Despite the State's prohibition, the agency paid its contractor fixed fees for services at these maximum allowable rates. Had the Agency considered price in its competition, it may have been able to establish rates lower than the State's maximum allowed.

Notwithstanding these procurement deficiencies, the Agency stated that it had subsequently confirmed prices paid to its contractor were fair and reasonable through other acceptable price analysis methods. Specifically, Agency officials noted that the State determined that the prices charged by its contractor were "generally in line with those charged by other service providers around the state, thereby ensuring that the charges were not, on their face, unreasonable." Additionally, the Agency conducted a competitive bidding process for weatherization services in early 2012 that yielded prices that were the same or higher than those charged by the existing contractor. The Agency provided documentation that supported the solicitation; submission and analysis of bids; and ultimately, the selection of two contractors for post-Recovery Act weatherization services. Because this documentation supported the Agency's assertion that prices charged under the Recovery Act contract were comparable to bids received during a more recent 2012 procurement competition, we are not questioning the costs associated with the Recovery Act contract. However, we remain concerned that the Agency, in establishing a fixed-rate contract, agreed to pay for weatherization services at the State's maximum rates without ensuring up-front that the prices were reasonable. This is especially troubling given that the Agency awarded the contract without considering price as an evaluation factor.

Recommendations

To ensure that weatherization services are procured with free and open competition, with price as a considering factor, we recommend the Agency:

- 1.1 Require price as part of all future contractor solicitations to ensure compliance with State and Federal regulations and guidelines; and,
- 1.2 Ensure that future contracts adequately document the terms and conditions for payments.

Management Response

The Agency concurred with the finding and reported that it has already begun to implement the recommendations.

We consider the Agency's management response to be adequate.

SECTION IV Schedule of Findings (Cont.)

IV.2 Applicant Eligibility Process Needs Improvement (Significant Deficiency)

Condition

The Agency's primary weatherization contractor improperly approved and/or documented the eligibility of applicants. The Agency relied on its contractor to review and approve applicants for weatherization services and maintain the applicants' files. We reviewed 40 separate applicant files maintained by the contractor and noted the following:

- In one of the 40 files reviewed, we found that the contractor had approved an ineligible applicant for weatherization services. Specifically, the applicant had monthly income greater than the amount allowable for eligibility. Upon further investigation, we noted the contractor erroneously used an outdated income determination table when it approved this applicant;
- One of the 40 files reviewed lacked sufficient income documentation. As a result, we were not able to determine eligibility based on the documentation on file; and,
- The monthly/annual income calculation for 6 of the 40 files reviewed was incorrect. The contractor maintained and utilized a worksheet to calculate the applicants' monthly income. Despite the errors, none of the affected applicants were erroneously approved for service. Upon our recalculation of these six instances, we confirmed that all six were eligible for weatherization services.

In its June 2011 monitoring report, the State identified similar applicant eligibility concerns, including an ineligible applicant who received weatherization services and problems calculating applicants' incomes. In response to the State's findings, the Agency reportedly began to assume some of the duties once performed by its contractor. For example, the Agency took responsibility for determining applicants' eligibility prior to any services being performed. In addition, the contractor reimbursed the Agency about \$2,000, the costs of the services provided to the ineligible client identified by the State.

Cause

The Agency's policies and procedures did not require a review of the eligibility process performed by its contractor prior to providing weatherization services. While the Agency performed reviews of the applicants' files on a sample basis, these reviews occurred after weatherization services had been performed.

Effect

The Agency's failure to review the income verification process performed by its contractor, prior to work being performed, raised the risk that ineligible applicants may have received weatherization services. As a result of these issues, we questioned \$3,800 of costs incurred for weatherization services provided to one ineligible applicant and one applicant whose eligibility could not be verified.

SECTION IV Schedule of Findings (Cont.)

Recommendations

We recommend the Agency:

- 2.1 Develop and implement policies and procedures to monitor the application review process performed by its contractor and ensure the eligibility of applicants prior to providing weatherization services; and,
- 2.2 Work with the State and the Department to resolve questioned costs.

Management Response

The Agency concurred with the finding and reported that it has shifted the operations of the Weatherization Program so that it is more directly involved in the eligibility process. In addition, the Agency has hired new intake specialists to review applicants' files for completeness, accuracy, and eligibility prior to weatherization services being performed. These specialists have also performed a review of older Recovery Act files to verify proper eligibility, and any disqualified costs have been refunded to the State.

We consider the Agency's management response to be adequate.

SECTION IV Schedule of Findings (Cont.)

IV.3 Jobs Created and Retained Calculated and Reported Incorrectly (Significant Deficiency)

Condition

The Agency's primary contractor incorrectly reported its labor hours for purposes of reporting total jobs created and retained under the Recovery Act. Specifically, it reported estimated labor hours rather than actual labor hours incurred. The contractor represented that these estimates were based on its knowledge of the percentage of labor hours worked between Recovery Act funded and non-Recovery Act funded projects.

The Recovery Act requires grantees to submit actual labor hours for reporting of total jobs created and retained. Use of undocumented estimated labor hours violated Federal regulations.

Cause

The Agency lacked policies and procedures to ensure its contractor tracked labor hours for Recovery Act work. Additionally, the contractor's timesheets did not properly account for work activities by funding source. Further, the Agency lacked an understanding of the contractor's reporting practices and estimates.

Effect

Because of this issue, the number of jobs reported may have been over- or understated; and therefore, did not accurately represent the total impact of Recovery Act funds on the local economy.

Recommendations

We recommend the Agency:

- 3.1 Work with its primary contractor to obtain the actual hours worked for prior reporting periods, and correct prior Recovery Act jobs created and retained reports; and,
- 3.2 Ensure that the contractor develops a procedure to accurately report hours worked under the Weatherization Program.

Management Response

The Agency concurred with the finding and reportedly has worked with its primary contractor to incrementally improve the tracking of Recovery Act hours. In addition, procedures to accurately track and report Recovery Act hours have been implemented and the Agency will ensure its contractors submit job reporting in compliance with their contracts.

We consider the Agency's management response to be adequate.

Section V Complete Management Response



Fresno
**Economic
Opportunities
Commission**

Vongsavanh Mouanoutoua
Board Chair

Brian Angus
Chief Executive Officer

www.fresnoeoc.org

December 12, 2012

Mr. Richard Lopez
Lopez and Company, LLC
14728 Pipeline Avenue, Suite E
Chino Hills, CA 91709

Executive Office
1920 Mariposa Mall,
Suite 300
Fresno, CA 93721
(559) 263-1000

Re: Response to Examination Attestation Engagement of Fresno County Economic Opportunities Commission ("Fresno EOC"), American Recovery and Reinvestment Act of 2009 ("ARRA") Weatherization Assistance Program ("WAP").

Dear Mr. Lopez:

Thank you for the opportunity to review your draft audit report and to provide comments on the same in this letter.

IV.1 Deficiencies in Contractor Procurement

Recommendation

To ensure that weatherization services are procured with free and open competition, with price as a considering factor, we recommend the Agency:

- 1.1 Require price as part of all future contractor solicitations to ensure compliance with State and Federal Regulations and guidelines; and,*
- 1.2 Ensure that future contracts adequately document the terms and conditions for payments.*

Management Response

Fresno EOC concurs in this finding. Fresno EOC has already begun implementation of these recommendations.

IV.2 Applicant Eligibility Process Needs Improvement

Recommendation

- 2.1 Develop and implement policies and procedures to monitor application review process performed by its contractor and ensure the eligibility of applicants prior to providing weatherization services; and,*

- 2.2 Work with the State and the Department to resolve questioned costs.*

Management Response

Fresno EOC concurs in this finding. Fresno EOC has shifted the operations of the weatherization program so that Fresno EOC is more directly involved in the eligibility process, including the development and implementation of new policies and procedures. Enhanced oversight of all weatherization activities is made possible by the addition of new Fresno EOC intake specialists and post inspectors who began training by the State in August 2011. Over the course of 6 months, these

Section V Complete Management Response (Cont.)

new hires have become experts in the State's weatherization guidelines. All dwelling files are reviewed by these intake specialists for completeness, accuracy, and eligibility prior to weatherization services being performed. Additionally, the Intake Specialists have performed a review of older ARRA files to verify proper eligibility and identify any corrective actions necessary. Fresno EOC remains committed to working with both the State and the Department to resolve any potential questioned costs. Any identified disqualified costs have been refunded to the State.

IV.3 Jobs Created and Retained Calculated and Reported Incorrectly

Recommendation

- 3.1 *Work with its primary contractor to obtain the actual hours worked for prior reporting periods and correct prior Recovery Act Jobs created and retained reports; and*
- 3.2 *Ensure that the contractor develops a procedure to accurately report hours worked under the Weatherization Program.*

Management Response

Fresno EOC concurs in this finding. Since identification of this issue, Fresno EOC has worked with its primary contractor to incrementally improve the tracking of actual hours spent on ARRA for all positions. As of 2012, the procedures to accurately track and report the ARRA hours worked by the various staff groupings have been implemented for the purposes of accurate reporting of jobs created and retained. A written copy of the new tracking methods has been provided to Fresno EOC. Fresno EOC will ensure that contractors submit job reporting in compliance with their contracts going forward.

If you have any further questions, please feel free to contact me at your convenience.

Sincerely,



Brian Angus
Chief Executive Officer

DEPARTMENT COMMENTS**Department of Energy**

Washington, DC 20585

JAN 24 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 Draft Examination Report on
"Fresno County Economic Opportunities Commission – Weatherization
Assistance Program Funds Provided by the American Recovery and
Reinvestment Act of 2009."

The Office of Energy Efficiency and Renewable Energy (EERE) staff appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) Draft Examination Report for Fresno County Economic Opportunities Commission (Agency) Weatherization Assistance Program (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). Also, when applicable, EERE will provide 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 following responses by EERE address the OIG findings as outlined in the draft examination report on the Fresno County Economic Opportunities Commission:

The OIG recommends the Assistant Secretary for Energy Efficiency and Renewable Energy:

OIG Recommendation 1: *Require the State of California to improve administration of Weatherization Program funds by ensuring the Agency implements the recommendations outlined in the report.*

EERE Response: EERE staff will conduct the necessary follow-up review of Grantee and Agency operations to ensure that all recommendations offered by the Auditor in the OIG report are implemented on a timely basis.

- The Agency agreed with the finding concerning deficiencies in contractor procurement and reported that it has already implemented the Auditor's specific recommendations. The Auditor considers the Agency's response adequately addresses the finding (see page 6 of the Auditor's report). While EERE concurs with the compliance assessment made by the Auditor, the WAP Project Officer will conduct a follow-up review during routine monitoring of the grantee to ensure that adequate steps have been taken by the subgrantee to implement all



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corrective actions. The next on-site monitoring in CA is scheduled for April 2013.

- The Agency agreed with the Auditor that improvements in their applicant-eligibility process are needed. The Agency reported that it has already implemented the Auditor's specific recommendations. The Auditor considers the Agency's response adequately addresses the finding (see page 8 of the Auditor's Report). The WAP Project Officer will review the improvements implemented by the Agency and oversight by the Grantee during the next on-site visit scheduled for April 2013.
- The Agency agreed with the Auditor's finding concerning incorrect calculations and reporting of jobs created and retained information to the Grantee. The Agency has reported that it has already implemented the Auditor's recommendations. The Auditor considers the Agency's response adequately addresses the finding (see page 9 of the Auditor's Report). The WAP Project Officer will verify the implementation of corrective actions by the Agency during the next Grantee on-site visit scheduled for April 2013.

OIG Recommendation 2: Resolve identified questioned costs.

EERE Response: The Agency's failure to review the income verification process performed by its contractor raised the risk that ineligible applicants may have received weatherization services. The Auditor questioned \$3,800 of costs incurred for weatherization services provided to one ineligible applicant and one applicant whose eligibility could not be verified.

As reported, the Agency has hired new intake specialists to review applicants' files for completeness, accuracy and eligibility prior to Weatherization services being performed. These specialists have also performed a review of older Recovery Act files to verify proper eligibility. Any disqualified costs have already been refunded to the State.

EERE concurs with the Auditor's findings and the corrective actions taken by the Agency. The DOE Contract Officer for CA will be asked to recover the final amount of disallowed costs where the Agency was unable to provide adequate documentation for client eligibility. Disallowed costs should be recovered by April 2013 by the DOE Contract Officer. The WAP Project Officer will review the revised practice of client file review enacted by the Agency during the next on-site Grantee visit scheduled for April 2013.

STATE OF CALIFORNIA COMMENTS



LINNÉ STOUT
ACTING DIRECTOR

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EDMUND G. BROWN JR.
GOVERNOR

January 15, 2013

Mr. Rickey R. Hass
Deputy Inspector General for Audits and Inspections
Office of Inspector General
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, DC 20585

SUBJECT: DOE OIG FRESNO EOC AUDIT

Dear Mr. Hass:

The Department of Community Services and Development (CSD) appreciates the opportunity to provide comments to the draft report from your office regarding Fresno Economic Opportunities Commission (Fresno EOC) compliance with the American Recovery and Reinvestment Act Weatherization Assistance Program. CSD is committed to effectively and efficiently administering this important program in partnership with local service providers for low-income households in California, and we are working with both our local and federal partners to address the recommendations offered in the report.

CSD is working closely with Fresno EOC to ensure corrective actions are completed in a timely manner. CSD will monitor Fresno EOC's progress through desk reviews and on-site monitoring visits. Please find below CSD's response to the U.S. Department of Energy (DOE) Office of Inspector General (OIG) report recommendations.

- 1. Procurement.** DOE OIG recommended Fresno EOC take the following actions:
- Require price as part of all future contractor solicitations to ensure compliance with state and federal regulations and guidelines.
 - Ensure that future contracts adequately document the terms and conditions of payments.

CSD Response: CSD concurs with the recommendations of the DOE OIG and the corrective actions taken or planned to be taken by the agency. This issue was first identified by CSD program monitors during an on-site monitoring visit in May 2011. As a result of the finding, CSD requested Fresno EOC conduct a Request for Proposal (RFP) to select a weatherization service provider in compliance with Office of Management and Budget (OMB) procurement requirements, including a

Mr. Rickey R. Hass
January 15, 2013
Page Two

competitive cost element. CSD reviewed the process Fresno EOC employed in its most recent RFP to ensure compliance with OMB and regulatory provisions. Documents submitted to CSD by Fresno EOC showed that the costs under the original procurement were generally in line with those produced under the recent competitive process. CSD also issued guidance to all CSD sub-recipients in June 2012 clarifying federal and state procurement requirements.

2. Client Eligibility. DOE OIG recommended Fresno EOC take the following actions:

- Develop and implement policies and procedures to monitor the application review process performed by its contractor and ensure the eligibility of applicants prior to providing weatherization services; and
- Work with the state of California and CSD to resolve questioned costs.

CSD Response: CSD concurs with the recommendations of the DOE OIG and the corrective actions taken by Fresno EOC. CSD program monitors first identified this issue during an on-site monitoring visit in May 2011. Fresno EOC staff assumed responsibility for the intake and eligibility for all applicants as a result of the finding. To prepare for this new role, Fresno EOC staff attended CSD Intake and Eligibility trainings and implemented policies and procedures to ensure the eligibility of applicants prior to the provision of weatherization services. CSD will work with Fresno EOC to resolve any outstanding questioned costs.

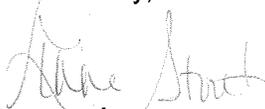
3. Reporting. DOE OIG recommended Fresno EOC take the following actions:

- Work with its primary contractor to obtain the actual hours worked for prior reporting periods and correct prior Recovery Act jobs created and retained reports; and
- Ensure that the contractor develops a procedure to accurately report hours worked under the Weatherization Program.

CSD Response: CSD concurs with the recommendations of the DOE OIG and the corrective actions taken by the agency. Subsequent to this issue being identified, Fresno EOC worked with its contractor to develop procedures to accurately calculate and report the retention and creation of jobs. CSD will continue to work with Fresno EOC to ensure accurate reporting.

If you have any questions, please contact me at 916-576-7207 or Jason Wimbley, Energy Division Manager, at (916) 576-7110.

Sincerely,



LINNÉ STOUT
Acting Director

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 applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit or 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 that 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.

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