



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

Audit Report

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



OAS-RA-11-09

June 2011



Department of Energy
Washington, DC 20585

June 13, 2011

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

Greg Friedman
FROM: Gregory H. Friedman
Inspector General

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

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 residences owned or occupied by low-income persons. The Department subsequently awarded a three-year Recovery Act Weatherization Program grant of almost \$38 million to the State of West Virginia. This grant provided nearly eight times the \$4.8 million in Departmental funds available to West Virginia for weatherization in Fiscal Year (FY) 2009.

The West Virginia Governor's Office of Economic Opportunity administers the Recovery Act grant through 12 local community action agencies. These agencies are responsible for determining applicant eligibility, assessing and weatherizing homes, and conducting home inspections. West Virginia's goal is to weatherize approximately 3,500 homes with Recovery Act funding, providing services to qualified elderly and handicapped low-income persons on a priority basis. As of October 2010, the State reported weatherizing almost 1,800 homes at a cost of \$16.3 million in Recovery Act funding.

Given the significant increase in funding and the demands associated with weatherizing thousands of homes, we initiated this audit to determine if West Virginia and three of its local agencies – Eastern West Virginia Community Action Agency (Eastern), North Central West Virginia Community Action Association (North Central) and Southwestern Community Action Council (Southwestern) – had adequate safeguards in place to ensure that the Weatherization Program was managed efficiently, effectively and in compliance with Federal and State laws and regulations.

RESULTS OF AUDIT

The State of West Virginia had not always managed its Weatherization Program efficiently and effectively, nor had it always ensured compliance with applicable laws and regulations. We found problems in the areas of weatherization workmanship, financial management, prioritization of applicants for weatherization services, and compliance with laws and regulations. Specifically, we noted that:

- Despite the fact that over half of the homes weatherized and inspected by local agencies (102 of 183) had failed State re-inspections due to poor workmanship (including health

and safety issues such as ventilation and clearance issues with furnaces, stoves, and gas hot water heaters) or the need to install prescribed materials, West Virginia had not developed a state-wide plan to identify and address systemic problems. Instead, workmanship issues were handled on a case-by-case basis; a practice that, while perhaps effective in correcting problems at the particular re-inspected units, did not address what appeared to be pervasive, wide-spread quality issues.

- Financial management at the State and the three agencies needed improvement:
 - North Central had billed for all costs associated with weatherizing homes, regardless of whether the work had been fully completed. We were unable to determine the extent of the problem since North Central had not maintained records of the homes that required work for which it had already billed the State;
 - North Central and Southwestern had not effectively accounted for materials inventories. Specifically, neither local agency had reconciled inventory balances to actual inventories, resulting in numerous observed differences between recorded and on-hand balances;
 - Eastern, contrary to State procurement rules, had not always competitively selected sub-contractors and had not properly accounted for over \$4,000 in administrative personnel costs; and,
 - At the State level, we reviewed the three personal services contracts funded with Recovery Act monies and found that documentation was unavailable to support any of the \$47,500 paid. In these particularly troubling examples, State service agreements supporting the payments had limited or no defined work products.
- North Central had given preferential treatment to its employees and their relatives who qualified for the Program. As a result of this troubling practice which violates program guidance, elderly and handicapped applicants who should have received services on a priority basis according to the State's Weatherization Program were at a distinct disadvantage. In fact, while employees and their relatives waited for services an average of about 2.8 months from the date of application, the general population included in our sample of 32 client files waited an average of 21.4 months for needed weatherization services; and,
- Local agencies had not established controls necessary to ensure compliance with Recovery Act requirements. For example, controls were not effective in preventing provision of services to homes that had been weatherized after September 30, 1994. Neither the State nor two of the three local agencies we reviewed had maintained information sufficient to identify homes that had been weatherized after 1994. Further, Eastern had not ensured compliance with the Davis-Bacon Act regarding compensating sub-contractor employees in accordance with prevailing wages and the Recovery Act regarding reporting jobs created and saved.

These problems were caused by a number of factors. For example, the State had not performed state-level trend or root cause analyses to identify systemic weatherization quality problems. The performance of trend and root cause analyses would have helped the State to determine whether recurring problems such as inadequate furnace ventilation and clearance were systemic; identify the underlying causes for such problems; and, develop effective corrective actions.

While the cause of certain other issues was apparent, some could not be identified with certainty. For example, officials indicated that they were unaware of requirements such as the Davis-Bacon Act, even though the State had provided them with written reminders. Other than a general lack of focus on transparency and accountability, we were unable to pinpoint a reason for the State's award and payment for personal service contracts that did not produce tangible results.

To achieve the objectives of the Recovery Act, it is important that the Department and the State of West Virginia have effective financial and operational controls in place to manage the Weatherization Program at all levels. By ensuring that the additional funding provided by the Recovery Act is properly managed and expended, West Virginia has the opportunity to improve the health and safety of many of its low-income citizens as well as significantly reduce energy consumption. Unless the weaknesses identified in this report are addressed, the risk of failing to achieve Recovery Act goals, along with the risks of fraud, waste and abuse, remain at unacceptable levels.

After we brought these matters to their attention during the course of our audit, State officials told us that they will address a number of issues discussed in our report. For example, State officials indicated that they will: (1) perform a comprehensive trend analysis of inspection results; (2) require that only costs for fully completed homes are claimed; (3) use a newly developed standard contract to procure consulting services that require clearly defined work scopes and deliverables; and, (4) implement a strict policy related to weatherization services provided to local agency employees. Additionally, State officials told us that they increased local agency monitoring.

Eastern officials also told us that they had acted to address issues identified during our audit. Specifically, Eastern officials said that they had instituted new policies and procedures governing compliance with competitive procurements, administrative time charges and Davis-Bacon Act requirements. The actions initiated by West Virginia are positive and should, if properly executed, help improve the likelihood of meeting Recovery Act weatherization goals. To help ensure that these initial actions are sustained, we made several recommendations to increase accountability and transparency in the management of West Virginia's Weatherization Program at the State and local agency levels.

MANAGEMENT REACTION

The Department and the State of West Virginia concurred with the recommendations and have committed to the implementation of an extensive corrective action plan. Additionally, two of the three local agencies that we reviewed during the audit submitted comments that generally concurred with the recommendations. Technical issues raised in local agency comments have been addressed in the body of the report where appropriate. The third local agency included in

the audit did not provide official comments on the draft, but indicated that it would work with the State to develop solutions to the areas identified. Management's actions, both planned and completed, are responsive to our recommendations.

The Department's response, along with the State's comments, is included in Appendix 3.

Attachment

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

REPORT ON THE DEPARTMENT OF ENERGY'S WEATHERIZATION ASSISTANCE PROGRAM UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT IN THE STATE OF WEST VIRGINIA

TABLE OF CONTENTS

West Virginia's Weatherization Assistance Program

Details of Finding 1

Recommendations and Comments..... 10

Appendices

1. Objective, Scope and Methodology 13

2. Related Reports 15

3. Management Comments 16

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

West Virginia's Weatherization Assistance Program

The State of West Virginia's Weatherization Assistance Program (Weatherization Program) had not always been managed efficiently, effectively and in compliance with laws and regulations. In particular, we found issues with the quality of weatherization work, the Weatherization's Program's financial management, prioritization of applicants for weatherization services, and compliance with laws and regulations.

Quality of Weatherization Work

Between September 2009 and August 2010, 56 percent (102 of 183 reviewed) of the homes re-inspected by the State were determined to be incomplete and required a "call-back" to correct faulty work and/or install additional materials. Under the State's monitoring program, the State re-inspects about 10 percent of homes that previously passed a local agency's final inspection for safety, workmanship, and compliance with State standards. For the three local agencies included in our audit – Eastern West Virginia Community Action Agency (Eastern), North Central West Virginia Community Action Association (North Central) and Southwestern Community Action Council (Southwestern) – records we examined indicated that the State had required crews to return to homes in nearly 63 percent of cases reviewed (37 of 59). We observed similar issues when we accompanied State officials on re-inspections. For the 17 homes we visited that had previously been inspected by North Central and Southwestern and had been determined to be complete, the State found that 9 of these homes, about 50 percent, required additional work before they could be considered in compliance with the State's standards. State re-inspection reports and our visits to homes weatherized by North Central and Southwestern identified a number of significant health and safety concerns, including ventilation and clearance issues with furnaces, stoves and gas hot water tanks.

Although West Virginia had repeatedly identified workmanship issues in its reviews of local agencies, it had not identified and corrected system-wide deficiencies, relying instead on correcting problems on a home-by-home basis. West Virginia had not performed state-level trend or root cause analyses to identify systemic problems and had not routinely reviewed re-inspection findings to determine frequently

recurring problems. While the current system appeared to successfully identify and correct issues at the 10 percent of homes selected for re-inspection, it did not necessarily help improve the local agencies weatherization methods to prevent the same types of issues from occurring at those homes not specifically included in the State's re-inspections. A State-wide periodic analysis of all re-inspection report findings, coupled with a responsive corrective action plan, should help to address system-wide problems and identify potential solutions that will benefit the entire Program.

Additionally, we found that Eastern and North Central had not fully documented the results of post-work inspections. The lack of inspection documentation affects the State's ability to identify and ultimately resolve common workmanship issues contributing to high failure rates. Further, without a sufficient level of detailed documentation, neither we nor State Program officials could determine the thoroughness of the local inspections and the reasons why those inspections had not identified the problems found in State re-inspections. Documentation on the extent and results of the inspections together with periodic root cause analyses would be beneficial to improve local agency post work inspections. In response to an earlier draft of this report, State officials indicated that plans were in place to perform a comprehensive trend analysis of inspection results for the last year and that they will require local agencies to use a standard form to document post work inspection results.

Failing to address the underlying causes of ongoing workmanship issues will ultimately affect the efficiency and productivity of the Program, resulting in higher costs, shoddy workmanship and duplication of effort to correct problems.

Financial Management

The three local agencies included in our review – Eastern, North Central and Southwestern – and the State did not always have adequate financial controls to ensure the accuracy and integrity of financial information and costs incurred. Specifically, we identified problems in the maintenance and reconciliation of inventory records, reimbursement of costs incurred, and procurement of consulting services.

Weatherization Materials Inventories

At North Central and Southwestern, we found numerous differences between the physical counts of weatherization materials and the agencies' recorded inventories. At North

Central, we inventoried 55 categories of materials with a total recorded value of almost \$21,000 and, for the month sampled, found errors in about 30 percent of the categories. In fact, we could not resolve discrepancies for 80 individual items with an approximate value of \$5,100. These differences included items such as various doors, roof vent caps, and shower heads. At Southwestern, we found that a new electronic inventory system contained unreliable and inaccurate information. For example, the recorded inventory for one insulation material was overstated by 102 units, or nearly 50 percent of the reported inventory, when compared to our physical count. We were told that the accuracy of the new system may have been affected by materials either in transit or on jobs that had not yet been recorded.

North Central and Southwestern had not reconciled recorded inventory balances to actual inventories. Further, we were informed that these agencies had modified their inventory amounts each month to match their physical inventory counts, essentially writing off or adding on any differences identified. As a result, inconsistencies had never been resolved. State inspectors had noted, but not resolved, problems with inventory controls over two years prior to our review.

Failure to reconcile the differences noted during the monthly physical inventory counts created an environment in which the monetary impact could be substantial. The \$5,100 in differences noted above represented only a sample of materials for one month at one local agency. Since unreconciled differences are written off each month, inventory shrinkage could be significant. The lack of controls over inventories increased the risk of fraud, waste and abuse. In response to our audit, State officials told us that they increased its local agency monitoring, requiring quarterly on-site reviews.

Reimbursement of Cost Claimed on Homes not Fully Completed

North Central reported that it had billed the State for jobs even when the jobs had not been completed, a practice expressly prohibited by Federal and State regulations. The agency reported that weather-related delays, in some cases, prohibited work crews from completing various weatherization measures. The agency, however, had not maintained a list of incomplete homes to ensure that they were eventually completed. We were informed by a local agency official that crew supervisors

on incomplete homes maintained an informal list of materials that needed to be eventually installed. Consequently, we were unable to determine how often the State had erroneously paid for materials that had not been installed. In our sample of 10 homes, however, we found 1 home still lacking roof coating and guttering 3 months after the State had paid for the home.

The State took immediate action designed to prevent future problems with improper billing for incomplete units. State officials informed local agencies that regardless of weather delays, only costs for homes that are fully completed should be claimed. State officials also indicated that they are working with the Department's Weatherization Program monitor to develop an acceptable solution to the weatherized units where completion is delayed by inclement weather.

Procurement of Consulting Services

Using American Recovery and Reinvestment Act of 2009 (Recovery Act) funding, the State entered into agreements for consulting services that had limited or no defined duties or deliverables. Additionally, the State did not have adequate documentation to support reimbursements of \$47,500 made for consulting services. Specifically:

- Although there were no specific deliverables, a former State Weatherization Program Director was paid \$20,000 to facilitate a change in administrations during the period May 16, 2009 – September 30, 2009. The current Weatherization Coordinator indicated that there had not been any contact with the former Director since the time of departure in May 2009.
- An individual was paid \$2,500 in November 2009 to put a key Weatherization official in touch with people in Washington, DC, reportedly to get the word out that there was a significant lack of funds to administer Recovery Act dollars. The individual was expected to meet with a senior government official and an employee from a major Washington, DC, newspaper. Payment of lobbying costs is expressly forbidden under Federal regulations.
- A local attorney was paid \$25,000 for legal services provided to the State during the period from July 1, 2009, through December 16, 2009. Originally, the

attorney's reimbursement was based on a one-page agreement that contained no defined duties or expected deliverables. Later, a contract for services was signed for the same period of time, but it did not include clearly defined duties or deliverables. Current Weatherization officials informed us that the attorney's only work product was a one-page document containing two sentences stating that the attorney had reviewed and approved Recovery Act Weatherization Program contracts with the local agencies. The document was reportedly prepared after four hours work at the Weatherization offices.

Additionally, the invoices provided in each of the cases described above did not include all of the required information. For example, contrary to Federal regulations, there was no description of Weatherization Program issues worked on, products delivered, or hours spent on the job. Because of deficiencies in the identifiable work products and the lack of supporting documentation, we question \$47,500 paid by the State for consulting services.

Other than a general lack of focus on transparency, we were unable to determine the underlying cause of the contract and documentation weaknesses. We have discussed concerns regarding these contracts and payments with appropriate law enforcement authorities. To their credit, officials recognized these contract and documentation weaknesses and took action in April 2010, to ensure that similar situations do not occur in the future. Specifically, the State developed and is currently using a standard contract to procure consulting services that requires clearly defined work scopes and specific deliverables.

Reasonableness of Costs

Eastern had not always taken adequate steps to ensure that costs associated with equipment, sub-contractors and administrative personnel were reasonable. Specifically:

- Sole-source procurements: Eastern had selected its sub-contractors without the benefit of competition and without justifying why sole-source procurement was necessary. State procurement rules require competitive bidding for all purchases greater than \$1,000. We noted and questioned three instances in which Eastern purchased services from sub-contractors without competition or documentation justifying sole-source procurement. The value of these services was about

\$16,000. Because of the lack of documentation, we were unable to determine if the costs were reasonable. Eastern officials told us that they believed that competitive bidding requirements applied to purchases greater than \$5,000. Eastern officials also told us that they service a rural area that has a limited number of qualified contractors and material suppliers. In the absence of the cost controls inherent in competitive bidding, however, Eastern may have paid more for equipment and services than necessary. In response to the audit findings, Eastern officials told us that they have instituted new competitive bidding policies and procedures that will comply with State requirements. Eastern officials also stated that their analysis showed the \$16,000 sole-source procurements were reasonable. We were not provided support to confirm the results of Eastern's analysis.

- Undocumented personnel costs: Eastern had not documented, as required, the basis on which administrative personnel costs had been allocated and claimed. Federal regulations require agencies to document such allocations through actual time charging or a time study. Without the required documentation, we were unable to determine, and therefore question, whether about \$4,100 in administrative personnel costs claimed were reasonable. Eastern officials told us that they were unaware of time charging requirements, but have instituted new policies and procedures to track administrative hours. Eastern officials also told us that their in-house study showed administrative costs were reasonable, however, Eastern did not provide the study to us to confirm the results of its study.

Prioritization of Weatherization Services

North Central had given preferential treatment to employees and their relatives who were eligible for Weatherization Program services over the elderly and the handicapped, creating, at a minimum, the perception of a conflict of interest. Although these employees and their relatives were eligible for assistance, they were given preference over elderly and handicapped individuals who were supposed to be provided services on a priority basis under the Department's approved State Weatherization Plan. Specifically, during our audit we identified eight instances in which employees and/or their relatives' homes had been weatherized long before the homes of applicants on waiting lists. On average, employee/relative

homes had been weatherized within 2.8 months of application, whereas non-employees in our sample of 32 client files had waited an average of 21.4 months. We could not identify a valid reason for weatherizing employees' homes before weatherizing those of applicants on waiting lists. Further, in seven of the eight cases, employees had been allowed to work on their own homes and, in two cases, weatherization workers functioned as and were paid as crew supervisors on their own houses. The eighth individual was employed in the agency's Weatherization Program Office and therefore had not worked on their own home. The actual impact of having employees participate in the weatherization work at their own home, especially as the crew supervisor, was difficult to determine. However, in one case, over \$10,000 was spent on an employee's home, double the agency's \$5,000 average direct cost. Weatherization Program measures on the home in question included the installation of the following items or volume of items that we did not routinely see on other homes: 11 windows, 3 doors, and 1 ceiling fan.

A local agency official from North Central stated that weatherization of these homes took place because the agency official felt a responsibility to assist the employees. Specifically, the employees were eligible to receive the services and there was a concern about the low salary that was paid to the employees. The agency official was not aware of any rules that would preclude the weatherization of employees' homes. We noted, however, that real and perceived conflicts of interest are expressly prohibited by Federal, State and local agency regulations and policy and that the inequitable treatment of all applicants calls into question the integrity of the Weatherization Program.

In response to our audit, State officials informed us that they were developing a state-wide policy related to weatherization services provided to employees that would be enforced at all local agencies. Specifically, the policy would require that the local agency's Executive Director, as well as the State's Weatherization Program Coordinator, be notified when an employee is being considered for weatherization services and would prohibit employees from working on their own homes.

Compliance with Laws and Regulations

We found that West Virginia and its agencies had not always ensured compliance with Weatherization Program laws and regulations, specifically the Davis-Bacon and Recovery Acts:

-
- Davis-Bacon Act: Eastern had not ensured that sub-contractors compensated employees in accordance with the requirements of the Davis-Bacon Act. Workers weatherizing homes funded by the Recovery Act are required to be paid at least the prevailing wage rate established by the Davis-Bacon Act. We reviewed documentation for five homes completed at least partially by sub-contractors and found that the sub-contractors had not submitted certified weekly payrolls to Eastern as required by the Davis-Bacon Act. Without certified payrolls, neither we, the State, nor the local agency could determine if the employees had been paid at least the prevailing wage rate.

Despite written reminders from the State on the applicability of the Davis-Bacon Act to Recovery Act funded sub-contractors, Eastern was not aware of the requirement and did not have written policies and procedures requiring that sub-contractors submit certified weekly payrolls to ensure that employees were not paid less than the prevailing wage. Subsequent to our work at Eastern, management officials informed us that they had developed new policies and procedures to obtain and monitor sub-contractor weekly payrolls. Further, Eastern provided documentation for the sub-contractor payrolls indicating that, where required, Davis-Bacon wage rates were paid.

- Recovery Act: We identified compliance issues in two areas, eligibility of homes weatherized and reporting jobs created and/or saved.
 - Eligibility of homes weatherized: North Central and Southwestern had not verified, as required by law, the eligibility of homes weatherized. The Recovery Act stipulates that Department funds may not be used to weatherize homes that had been weatherized after September 30, 1994, unless there had been damage by fire, flood, or act of God. The restriction on re-weatherization of homes previously weatherized with Department funds is a long standing requirement of the Weatherization Program. Neither the State nor the two agencies had maintained adequate records on homes they had weatherized in the past that would have enabled

them to verify whether, and, if so, when homes had previously been weatherized with Department funds.

A number of factors contributed to weaknesses that may have permitted the re-weatherization of homes. To comply with the law, North Central and Southwestern relied on the State's client management information system, containing home weatherization data for only the past six years, along with limited information provided by the applicant and visual observation of the agency's estimators. Each of the verification methods has limitations, such as the data system lacking over 10 years of information on homes weatherized. Additionally, the applicant attestation is of limited value, since the applicant may not have lived in the home when it was weatherized. Finally, estimators for the two agencies had not been formally apprised of their responsibility – one estimator told us he was unaware of his responsibility, assuming that the homes he had assessed had been deemed eligible at the time of application.

Without a system in place to effectively determine whether a home had been previously weatherized, these local agencies are at risk of providing weatherization services on ineligible homes and having to repay funds in those instances. In fact, in December 2010, the Department reiterated to weatherization grant recipients that Department funding was not to be used to weatherize homes that had been weatherized with Department funding since September 30, 1994.

- Reporting jobs created: Eastern had not reported total jobs created and saved during the reporting period in accordance with State and Department requirements. Specifically, the agency's reported number of jobs created and saved was based only on new weatherization hires each month. Previous hires were not included as part of the total jobs created and saved reported to the State. Federal regulations

define jobs created as new positions created and filled, and jobs saved as the number of existing positions. The total number of both jobs created and saved must be reported to the State when funded by Recovery Act funds. In response to the audit, Eastern indicated that it would begin reporting the total number of both jobs created and saved in accordance with Federal requirements.

Path Forward

Substandard weatherization work, lack of financial management controls, and failure to prioritize weatherization applicants in accordance with the State Plan reduce the likelihood that West Virginia's Weatherization Program will achieve its goals. While the State noted that it had taken a number of positive actions designed to correct previously observed weaknesses, significant problems remain. Additional action is needed to ensure that the Program is administered efficiently, effectively, and in compliance with laws and regulations.

RECOMMENDATIONS

To address the deficiencies identified in our audit and to help ensure the success of the West Virginia Weatherization Assistance Program, we recommend that the Acting Assistant Secretary for Energy Efficiency and Renewable Energy ensures that West Virginia:

1. Takes immediate action to address the quality of weatherization services provided, including:
 - a. Performing state-wide periodic trend or root cause analyses of all re-inspection report findings and requiring all local agencies to develop corrective action plans; and,
 - b. Requiring local agencies to document the specific results of their individual Post Work Inspections on completed homes.
2. Requires local agencies to conduct and document reconciliations of the differences noted during their monthly material inventories;
3. Reimburses local agencies only for completed jobs;

-
4. Follows applicable procurement regulations, including the establishment of specific scopes of work and necessary deliverables when contracting for services, including consulting services;
 5. Requires local agencies to procure equipment and sub-contractor services in accordance with State and Federal regulations;
 6. Requires local agencies to develop policies and procedures to institute proper tracking, documentation and allocation of administrative personnel charges;
 7. Prohibits local agencies from giving employees preferential treatment for weatherization services;
 8. Requires local agencies to comply with the Davis-Bacon Act requirements;
 9. Develops a methodology to provide assurance that Department Program funding is not used to weatherize homes/units that have received weatherization services after September 30, 1994; and,
 10. Requires local agencies to report the total number of both jobs created and saved.

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

11. Resolve questioned costs in the amount of \$47,500 associated with consulting services that lacked documentation supporting reimbursements; and,
12. Resolve questioned costs in the amount of almost \$20,000 associated with sole source procurements and allocations for administrative personnel charges.

**MANAGEMENT AND
AUDITOR COMMENTS**

The Department and the State of West Virginia concurred with our recommendations and have developed a comprehensive corrective action plan designed to ensure improvement in the Program. Specifically, the Department has assigned its Project Officer to closely monitor progress on agreed-upon corrective actions, including improvements in systems to ensure the quality of work, inventory controls, billing for goods and services, development of policies and procedures consistent with Federal requirements, and compliance with laws and

regulations. The Department will review and resolve the questioned costs identified in our report. The State's response detailed the actions it plans to take to improve the Program and noted that its new leadership is committed to enhancing the quality of Weatherization work performed.

In addition to comments from the Department and the State, we also received comments from two of the three local agencies that we reviewed. North Central and Eastern generally concurred with the recommendations and provided planned corrective actions or actions that had already been taken in response to our audit. While Southwestern officials did not provide official comments on the draft, they informed us that they planned to work with the State to develop solutions to the areas identified.

We believe that the individual corrective actions planned by the local agencies coupled with the direction that will be provided by Department and State officials are responsive to our recommendations.

The responses of the Department, the State and the local agencies are included in their entirety in Appendix 3.

Appendix 1

OBJECTIVE

The objective of the review was to determine whether the State of West Virginia 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 March 2010 and February 2011 at the West Virginia Governor's Office of Economic Opportunity located in Charleston, West Virginia. We made site visits to two local action agencies – North Central West Virginia Community Action Association (North Central) and Southwestern Community Action Council (Southwestern). Additionally, an independent public accounting firm under contract with the Office of Inspector General conducted site visits to one agency – Eastern West Virginia Community Action Agency (Eastern).

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 West Virginia's Weatherization Program;
- Held discussions with National Energy Technology Laboratory and West Virginia officials to discuss current and ongoing efforts to implement the requirements of Weatherization Program under the Recovery Act;
- Reviewed applicant and unit eligibility and analyzed general ledger information to evaluate costs incurred. Additionally, the audit included reviewing Weatherization Program client files, reports and physically observing the weatherization work performed at the three local agencies; and,
- Reviewed the procurement process over weatherization materials, vehicles and equipment, including inventory controls.

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 finding 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 *Government Performance and Results Act of 1993* as necessary to accomplish the objective. We reviewed the reliability of computer-processed data and deemed the data to be unreliable, in part. We therefore performed additional tests to meet our audit objective.

We discussed the contents of this report with Department of Energy officials on June 7, 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 Funded under the American Recovery and Reinvestment Act in the State of Wisconsin](#)" (OAS-RA-11-07, June 6, 2011)
- 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)



Department of Energy

Washington, DC 20585

May 9, 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 West Virginia 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 West Virginia 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 West Virginia 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:





OFFICE OF ECONOMIC OPPORTUNITY

700 Washington Street, East
4th Floor
Charleston, WV 25301

Telephone: (304) 558-8860
FAX: (304) 558-4210

April 25, 2011

Mr. George W. Collard
Assistant Inspector General for Audits
Office of Inspector General

RE: Management Response -- Draft Report on "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia"

Dear Mr. Collard:

On April 5, 2011, the West Virginia Governor's Office of Economic Opportunity (GOEO) received the above mentioned report via email for submission of responses within 15 working days from the date of the report. The information below and attached will detail the actions that are currently in progress or planned to correct the deficiencies noted in the report. Please accept our responses as received within the timeframe requested. GOEO agrees with the recommendations and will offer additional corrective actions to be taken separately in an attachment according to appropriate question.

RECOMMENDATIONS:

1. Take immediate action to address the quality of weatherization services provided, including:
 - a. Performing statewide periodic trend or root causes analyses of all re-inspection report findings and requiring all local agencies to develop corrective action plans; and,
GOEO: An initial analysis is in progress and will continue as to evaluate needs of the network.
 - b. Requiring local agencies to document the specific results of their individual Post Work Inspections on completed homes.
GOEO: GOEO will create an extensive PWI form (utilizing the DOE Quality Assurance form as a guide) in conjunction with the Estimator/Auditor form (that is in the development and testing process) to be utilized by the WV WAP Network.
2. Requires local agencies to conduct and document reconciliations of the differences noted during their monthly material inventories;
GOEO: Will create and implement (with the assistance of a software development company) materials tracking software integrated with our database system. This process is in planning and development stage at this time.
3. Reimburses local agencies only for completed jobs;
GOEO: As the report states, GOEO "took immediate action to correct improper billing practices...reemphasized that only homes that are entirely completed are to be submitted to the

Appendix 3 (continued)

5. Requires local agencies to procure equipment and subcontractor services in accordance with State and Federal regulations;
GEOE: All will procure equipment and subcontractor services in accordance with applicable regulations and will be follow up during monitoring visits.
6. Requires local agencies to develop policies and procedures to institute proper tracking, documentation and allocation of administrative personnel charges;
GEOE: Such policies will be reviewed during program and fiscal monitoring visits.
7. Prohibits local agencies from giving employees preferential treatment for weatherization services;
GEOE: GEOE will be implementing a new policy and procedures with regards to weatherization of homes of agency employees or immediate family members of agency employees
8. Requires local agencies to comply with the Davis-Bacon Act requirements;
GEOE: This is current and reviewed weekly as well as during program/field/fiscal monitoring.
9. Develops a methodology to provide assurance that Department Program funding is not used to weatherize homes/units that have received weatherization services after September 30, 1994; and,
GEOE: To correct this problem, from this point forward, GEOE will order tags and require the agencies to place these standardized tags on the inside cover of the electrical box in each dwelling.
10. Requires local agencies to report the total number of both jobs created and saved.
GEOE: This is current and will continue to be monitored.

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

11. Resolve questioned costs in the amount of \$47,500 associated with consulting services that lacked documentation supporting reimbursements; and
GEOE: GEOE Management will be consulting with the Governor's Office to resolve these questioned costs. This will not occur again.
12. Resolve questioned costs in the amount of almost \$20,000 associated with sole source procurements and allocations for administrative personnel changes.
GEOE: GEOE will be evaluating this cost with the agency as this issue was new in this report. GEOE will be consulting with the agency to make sure that they have policies and procedures in place so that this will not happen in the future. We will also be working with our CO for proper action.

GEOE is committed under new leadership to work to enhance the quality of work and production of the WAP for accountability to ensure that all federal mandates are implemented. Please let me know if you have any questions or need additional information or you may contact Lyn Bartges, Weatherization Administrator at Lyn.M.Bartges@wv.gov or at 304-558-8860. A signed copy will follow in the mail.

Sincerely,



Julie Alston
Director

Enclosure



1304 Goose Run Road • Fairmont, WV 26554
(304) 363-2170 • Fax (304) 366-8846 • www.ncwvcaa.org

May 19, 2011

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

Re: Response to Draft Report on “The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia”

Dear Mr. Collard:

I have reviewed and would like to comment on the draft report you sent on April 5, 2011 of the audit that was performed at the West Virginia Governor’s Office of Economic Opportunity in Charleston, West Virginia, and multiple local agencies in West Virginia between March 2010 and January 2011. As one of those local agencies selected, I appreciate the opportunity to provide written comments on the facts presented, conclusion reached, appropriateness of the recommendation and reasonableness of the estimated potential monetary impact or other benefits that may be realized in findings identified in the areas of North Central Community Action Association’s weatherization workmanship, financial management, compliance with laws and regulations, and prioritization of applicants for weatherization services.

North Central WV Community Action would appreciate your consideration of the following responses in your preparation of the final report. We now understand the audit issues and are taking corrective actions to resolve the findings. If you find that you need additional information concerning this issue, do not hesitate to me at (304) 363-2170 Ext.115.

Sincerely,

Vicki A. Geary
Executive Director

North Central WV Community Action Association

Responses to Draft Report on “The Department of Energy’s Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of WV

Weatherization Workmanship: On page one of the draft report under the heading **Quality of Weatherization Work**, it was noted that North Central had not fully documented the results of their post work inspections. We agree that prior to the audit North Central’s documentation needed improvement. We now have in place Field Inspection Report Form that the post work inspectors utilize during inspections. This form addresses the heating system, shell measures, and other efficiency/conservation measures. Once the weatherization work is completed to the post work inspector’s satisfaction, the job is then signed and turned in as a completion. The inspection documentation identifies and ultimately resolves common workmanship issues prior to the completion of job.

Financial Management: North Central was cited in the draft report on page two under the heading, **Weatherization Material Inventories**, as not effectively accounting for materials inventories. Specifically, the report indicated that North Central had reconciled inventory balances to actual inventories, resulting in numerous observed differences between the physical counts of weatherization materials and the agencies’ recorded inventories. We agree that our inventory controls experienced check and balances issues. We have corrected this issue by designating a full time support weatherization clerk that holds the responsibility of inventory controls of in/out and the inventory, vehicle maintenance charts, and cell phone records. We also added a few other check and balances that assures us that our reconciled inventory does balance to the actual inventory. Our new process eliminates the differences between the physical counts of weatherization materials and the agencies’ recorded inventory.

Under the heading, **Reimbursement of Costs Claimed on Homes Not Fully Completed**, on page three of the draft report indicated that North Central had billed for all costs associated with weatherizing homes, regardless of whether the work had been fully completed. The report also stated that North Central had not maintained records of the homes that required work for which it had already billed the State. The report further stated that North Central reported that it had billed the State for jobs even when the jobs had not been completed. Returning to customers homes to coat roofs after billing as a completion we agree may not have been a good demonstration of best practices. Including the cost of the roof coat as an add-on onto the monthly report gave it the appearance that we were double billing. Once this was brought to our attentions we no longer allow go backs after completions.

Our Post Work Inspectors complete a Field Inspection Report Form on every inspection. This form addresses the heating system, shell measures, and other efficiency/conservation measures. Once the weatherization work has been completed to the post work inspector’s satisfaction, the job is then signed and turned in as a completion. The inspection documentation identifies and ultimately resolves common workmanship issues prior to the completion of job.

Compliance with Laws and Regulations: Noted in the draft report under the heading, **Eligibility of Homes Weatherized**, on page six it stated that North Central had not verified, as required by law, the eligibility of homes weatherized. The report went on to say that neither the State nor the two agencies that were reviewed had maintained adequate records on homes they had weatherized in the past that would have enabled them to verify whether, and, if so, when homes had previously been weatherized with Department funds. North Central relied on the State's client management information system, containing home weatherization data for the past six years, along with limited information provided by the applicant and visual observation of the agency's estimators. North Central agrees that each of these verification methods has its limitations and without a system in place to effectively determine whether a home had been previously weatherized, our agencies are at risk of providing weatherization services on ineligible homes and having to repay funds in those instances. We understand that the State is in the process of developing our client management information system to include property addresses. Unfortunately, West Virginia still maintains rural routes and PO Box numbers as resident's addresses. Changing these over to manageable tracking addresses has been the project of West Virginia 911 for many years with no time frame of completion in the near future. North Central, in conjunction with the State office will continue to seek reliable tracking systems that will verify homes that have previously been weatherized with Department funds.

Prioritization of Applicants for Weatherization Services: On Page five of the draft report under the heading, **Prioritization of Applicants for Weatherization Services**, North Central was denounce with given preferential treatment to its employees and their relatives who qualified for the Program. Specifically, during your audit you identified eight instances in which employees and/or their relatives' homes had been weatherized long before the homes of applicants on waiting lists. We fully understand how this issue as recorded in this report is of alarming concern to the Department of Energy's (Department) Weatherization Assistance Program that received \$5 billion under the American recovery and Reinvestment Act of 2009 (ARRA). Please, let me assure you that the services that were provided to these illegible employees were done with no intention to create the appearance of a conflict with the interest of the program or agency.

North Central WV Community Action has addressed this issue by placing internal controls at the agency level to ensure that this does not occur again. On April 4, 2011 the Board of Directors established a committee consisting of board members that will review applications of board members, staff members and relatives of staff members requesting services. Having this committee reviewing applications will avoid any appearance of conflict of interest. This process will be stated as a policy in our Employee Guidelines.



Eastern West Virginia Community Action Agency, Inc.
401 Maple Ave., Moorefield, WV 26836
(304) 538-7711

April 29, 2011

George W. Collard
Assistant Inspector General for Audits
Department of Energy
Office of Inspector General
1000 Independence Ave SW
Washington, DC 20585

Dear Mr. Collard,

Thank you for the opportunity to respond and provide additional information on the Draft Audit Report on "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia" dated April 5, 2011. Please find the following summary of our previous responses and discussion during the audit and subsequent coordination discussions.

Quality of Weatherization Work

Although we feel that the lack of formal post work inspection documentation may have impacted the management's ability to identify and resolve common workmanship issues, we do not feel that this lack of documentation directly affected the quality of weatherization work performed by our agency. We do concur that formal post work inspection documentation would be a "best practice" and have followed the recommendation to develop a documented process to ensure that each post work inspection and any issues associated with the inspection are properly documented in the case files. All post work inspectors are required to make detailed inspection notes that are currently being retained in the client files and scanned into the state client management database.

Financial Management – Reasonableness of Costs, Sole-source procurements

Although we concur with the finding that we did not have a documented procurement procedure for purchases over \$1,000 we did put forth effort to ensure that materials and services were purchased at competitive and reasonable cost. The Agencies eight county service area in West Virginia is a rural area with a limited number of qualified contractors and material suppliers. It had been our practice to locate a contractor close to the job needing the repair to avoid additional travel and labor charges, and solicited bids for major material purchases over \$5,000 such as blown fiberglass (shipped from Tennessee) and cellulose (shipped from Indiana). Based on the auditors recommendation and utilizing the Weatherization Assistance Program's "Procurement Toolkit" we developed a new bid package that was sent to prospective material and contractor vendors. After receiving the returned bids, a cost comparison was made with our previous material and contractor costs. The bid results yielded most of the same vendors we have used in the past. Because we did not see a material price reduction as a result of our implemented procurement policy, it is our position that the material costs charged to the projects was reasonable. We will maintain the new procurement policy to ensure that competitive bidding policies and procedures will comply with State and Federal requirements.

Grant County
P.O. Box 418
Petersburg, WV 26847
257-1107

Hampshire County
P.O. Box 495
Romney, WV 26757
822-5584

Hardy County
401 Maple Ave.
Moorefield, WV 26836
538-7711

Mineral County
One Grand Central Park
Suite 2121
Keyser, WV 26726
768-6668

Morgan County
P.O. Box 601
Paw Paw, WV 25434
947-7726

Pendleton County
P.O. Box 296
Franklin, WV 26807
358-7589

Appendix 3 (continued)

Financial Management – Reasonableness of Costs, Undocumented personnel costs

In response to our discussions and the auditors recommendations, we instituted a new timekeeping policy and procedure, and new agency time sheet that requires all employees to allocate their time between programs based on effort expended. After an in house time study of administrative costs that had been allocated prior to our new policy we feel that the administrative costs charged to the program are reasonable and possibly understated based on effort that was expended by our staff.

Compliance with Laws and Regulations – Davis-Bacon Act

The agency has implemented a policy requiring all invoices submitted for payment by contractors for work performed on Recovery Act funded weatherization projects to be supported by a WHD-347 Certified Payroll Report prior to being approved for payment. All contractors have been informed of the requirements under the Davis-Bacon Act and have signed acknowledgement statements. In addition, we requested certified payroll reports for jobs where they had not been provided indicating that, where required, Davis-Bacon wage rates were paid. This documentation was provided to the auditors as noted in their report.

Compliance with Laws and Regulations – Reporting jobs created

The agency revised its policy of reporting jobs created and saved to include all employees both new hires and retained in when reporting "jobs created and saved" to the State. We are following guidance received on 4/1/2010 which included the following attachments.

OWIP Jobs Calculator v8 0.xls
WAP 10-14 SEP 10-07 EECBG 10-08.pdf

Please accept these responses to the Draft Audit Report, and advise me if you see any modifications that should be made to better implement your recommendations. We appreciate the professionally conducted and informative feedback from your audit.

Respectfully Submitted,



Richard C. Smith, Executive Director

Cc: Darryl L. Wittenburg
Team Leader - Pittsburgh Audit Group
Energy Audits Division
Office of Inspector General

Ms. Julie A. Alston, Director
WV Governor's Office of Economic Opportunity

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.