



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

Audit Report

The Department of Energy's
Weatherization Assistance Program
Funded under the American
Recovery and Reinvestment Act for
the State of Maryland



OAS-RA-13-07

January 2013



Department of Energy
Washington, DC 20585

January 17, 2013

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND
RENEWABLE ENERGY

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

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

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

BACKGROUND

The Department of Energy's (Department) Weatherization Assistance 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 3-year Recovery Act Weatherization Assistance Program (Weatherization Program) grant of \$61.4 million to the State of Maryland (Maryland or State) to weatherize 6,850 homes. This grant provided over eight times the approximately \$7.4 million in Weatherization funds made available to Maryland in Fiscal Year 2009.

Maryland's Department of Housing and Community Development administers the Weatherization Program through 18 local agencies, comprised of 9 local governments, and 9 community action and other non-profit agencies. These entities are responsible for determining applicant eligibility, assessing and weatherizing homes, and conducting home inspections. Through June 30, 2012, the State had exceeded its goal, reportedly weatherizing about 11,350 homes, at a cost of approximately \$60.4 million.

We initiated this audit to determine if Maryland had efficiently and effectively carried out the goals of the Weatherization Program under the Recovery Act. We reviewed the State's Program administration and examined the weatherization activities of three local agencies – Baltimore City Department of Housing and Community Development (Baltimore City), Montgomery County Department of Housing and Community Affairs (Montgomery County), and Prince George's County Department of Housing and Community Development (Prince George's County).

RESULTS OF AUDIT

Maryland, while achieving its production goals, had not always managed its Weatherization Program efficiently and effectively. Specifically:

- Local agencies charged 50 percent of total weatherization costs, up to \$1,500 per house, for "program support" costs (costs necessary to weatherize a home that are not otherwise captured in the direct labor and materials) that were not substantiated. For example, Baltimore City, Maryland's largest agency, with nearly 30 percent of the State's funding, lacked underlying documentation, as required by Federal regulations, to support about \$2.3 million charged to the Weatherization Program between October 2009 and July 2011. Baltimore City officials intended to use the money accruing from program support surcharges to cover future weatherization needs. Officials told us the funds would enable the agency to weatherize homes after the Recovery Act awards expired, a practice expressly prohibited by Federal regulation.

Further, recent State monitoring reports disclosed that other local agencies had not reconciled program support expenditures to reimbursements. Accordingly, we question a total \$9.5 million (including the \$2.3 million identified above) in estimated program support costs reimbursed to the State by the Department from October 2009 through December 31, 2011.

- Baltimore City had not fully complied with other Federal and State requirements governing costs and inventory controls. In particular, Baltimore either lacked documentation to support or had erroneously billed the Weatherization Program in 28 instances, or more than 30 percent of the transactions we reviewed. In total, we questioned about \$49,150 of the approximately \$326,900 reviewed, excluding the program support charges previously questioned.

This report focuses on conditions common to the local agencies we reviewed. We have issued separate reports on Montgomery County and Prince George's County for conditions that we consider specific to those agencies. After learning of allegations regarding potential criminal activity involving top management, Lani Eko & Company, CPAs, PLLC, (Lani Eko) an independent public accounting firm under contract with the Office of Inspector General, disclaimed an opinion on whether Prince George's County had complied with Weatherization Program requirements. In December 2010, the County Director of the Department of Housing and Community Development in charge of the Weatherization Program pled guilty to conspiracy to commit extortion in relation to taking bribes from developers on housing projects. Although the charges were unrelated to weatherization, the County Director was directly responsible for management of the Program. The State and the Department have reviewed the County's procurement and contracting practices and the State has increased the scope of its monitoring activities to ensure that contracting practices are in accordance with Federal regulations.

The deficiencies we identified were caused by a lack of adherence to Federal regulations by local agencies. Additionally, the deficiencies were not promptly detected because of a lack of adequate local agency monitoring by the State. Specifically, Maryland's monitoring visits focused primarily on programmatic rather than financial activities. In fact, from September 2009 through December 2010, the State had not performed a comprehensive financial review of any of its 18 local agencies and had only developed its financial monitoring tool in January 2011.

As it relates to Baltimore City's practice of retaining program support surcharges to support future weatherization efforts, we found that State agreements with local agencies were not always consistent with State policy and Federal regulations. Specifically, State agreements with local agencies allowed the roll forward of unexpended funds "into the general budget as benefit" for the next State Plan which, according to the State, has been allowed under other Department Weatherization Program agreements. Federal regulations, however, require that no grant funds be expended after the grant's performance period. State officials told us that the State policy actually required local agencies to return unexpended funds within a Weatherization Program year to the State for reallocation to the local agencies in years following the initial budget period, but not beyond the performance period. The variance in agreement versus policy requirements likely contributed to Baltimore City's practice of retaining funds.

Baltimore City officials also told us the deficiencies we identified were the result of significant Recovery Act demands and insufficient time for properly training financial staff. Officials reportedly prioritized field training and production in an attempt to provide quality weatherization services and to meet demanding weatherization goals. Subsequent to our field work, State officials provided training on fiscal management and monitoring, as well as Federal grants.

To its credit, the State requested financial documentation from local agencies prior to beginning comprehensive financial reviews in January 2011. State officials told us that in May 2011, the State sent auditors to Baltimore City and other local weatherization agencies whose volume tended to indicate potential for overpaying program support. Department officials also identified program support as an area of concern during their January 2011 and July 2011 site inspection visits and requested that Maryland discontinue program support reimbursements to Baltimore City until it could clearly account for reimbursements and expenditures. As a result of State and Department reviews, the State notified Baltimore City that it was discontinuing program support funding because of concerns regarding the lack of documentation in August 2011.

In the absence of immediate improvements in financial controls, the risk of fraud, waste and abuse is increased. Overall, we question about \$9.56 million in reimbursement claims for direct weatherization expenditures and program support costs (see Appendix 1). Accordingly, we made recommendations to improve the financial management of Maryland's Weatherization Program.

MANAGEMENT REACTION

The Department, Maryland, and Baltimore City provided responses to our draft audit report. The Department agreed to our recommendations and will continue to work with and monitor the grantees and subgrantees to ensure resolution of the issues identified in the report. Maryland will work with the Department and its local weatherization agencies to resolve our recommendation. Baltimore City reported that the deficiencies noted in our report have been substantially addressed and corrected.

Montgomery County and Prince George's County responded separately to examination reports. Montgomery County did not fully concur with Lani Eko's findings. Prince George's County expressed disagreement with the disclaimed opinion. Lani Eko considered management comments and made changes to its reports as it determined appropriate.

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

Attachments

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

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

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

MARYLAND'S WEATHERIZATION ASSISTANCE PROGRAM

The State of Maryland (Maryland or State), while achieving its production goals, had not always ensured that its weatherization assistance activities funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act) were managed efficiently and effectively. In particular, our work at the State and local agency levels identified weaknesses in financial management and inventory controls. In total, we questioned about \$9.5 million in unsubstantiated program support costs and \$62,150 in other questionable weatherization expenditures incurred by Baltimore City Department of Housing and Community Development (Baltimore City) and Montgomery County Department of Housing and Community Affairs (Montgomery County).

Financial Management

Local agencies claimed and were reimbursed for "program support costs" that were not supported by invoices or other documentation, or reconciled to actual expenditures, as required. Additionally, local agencies claimed and were reimbursed for weatherization activity costs, such as the installation of light bulbs and the repair of windows and furnaces, which lacked required supporting documentation or had been erroneously billed to the Weatherization Assistance Program (Weatherization Program).

Claims for Reimbursement of Program Support Costs

Baltimore City could not substantiate reimbursement claims totaling about \$2.3 million for program support costs incurred from November 2009 through July 2011. Maryland allowed agencies to charge a flat rate allowance of up to 50 percent of the costs of weatherizing a home for program support activities, up to \$1,500 per house. Program support costs, according to State policy, include transportation of weatherization materials to a site; maintenance, operation, and insurance of vehicles used to transport materials; maintenance of tools and equipment; storage of weatherization materials; and liability insurance.

We found that, prior to our audit, Baltimore City had not separately accounted for program support funds or reconciled related expenditures, as required. Additionally, Baltimore City had used program support funds to purchase and install furnaces, items that should have been charged to leveraged funding sources such

as the Regional Greenhouse Gas Initiative, Maryland Energy Assistance Program, or Washington Gas Light.

Further, Baltimore City officials told us they intended to use the money accruing from program support surcharges to cover future weatherization needs. Officials told us the funds would enable the agency to weatherize homes after the Recovery Act awards were completed. Officials planned to save some of the program support funds for such purposes, a practice expressly prohibited by Federal regulation. According to Baltimore City officials, they had misunderstood that unused grant funds could be used for weatherization purposes after the end of the grant period.

Our findings are consistent with concerns regarding the lack of program support cost documentation expressed by the Department of Energy (Department) and the State. Department officials identified program support as an area of concern during their January 2011 and July 2011 monitoring visits. In its report on the July monitoring visit, the Department noted, "A recent Office of Inspector General (OIG) audit of the Maryland's Weatherization Program has raised questions regarding the process Baltimore City uses to account for reimbursement of administrative and program support costs." Further, the Department requested the State discontinue program support payments to Baltimore City until such time as Baltimore City could clearly account for reimbursements and expenditures related to program support, and ensure program support reimbursements were used for allowable program support expenses and not used to pay administrative expenses.

State officials also identified concerns with Baltimore City's accounting for program support costs. State officials requested financial documentation from local agencies to begin financial reviews in January 2011. These officials told us that the State sent auditors to Baltimore City in May 2011, and other local weatherization agencies whose volume would indicate the potential for overpaying program support. According to State officials, as a result of its review, the State notified Baltimore City that it was discontinuing Baltimore City's program support funding because of concerns regarding the lack of documentation in August 2011. The State also clarified its guidance on program support allowances to require a reconciliation of estimated to actual program support costs incurred and separate tracking of program support costs.

Additionally, in response to the Department's and the State's concerns, Baltimore City contracted with an accounting firm to reconcile requests for reimbursements. As a result of the work done to date, Baltimore City believes it can substantiate its claims. However, because the State did not begin its comprehensive financial review of local weatherization agencies until January 2011, and Baltimore City's insufficient controls at the time of our audit, we question the \$2.3 million in program support costs incurred from October 2009 through July 2011.

Further, recent State monitoring reports disclosed that other local agencies had not reconciled program support expenditures to reimbursements. Accordingly, we question \$9.5 million in estimated program support costs (including the previously questioned \$2.3 million of program support costs claimed by Baltimore City), reimbursed to the State by the Department from October 2009 through December 31, 2011. Although the State disagrees with our questioning the \$9.5 million in estimated program support cost reimbursements, as previously noted, the State's own monitoring reports have shown similar problems in reconciling such reimbursements to actual expenditures at other local agencies.

Unsubstantiated Costs

In addition to our review of program support costs, we evaluated a sample of costs incurred by Baltimore City, and Lani Eko & Company, CPAs, PLLC (Lani Eko), an independent public accounting firm under contract with OIG, evaluated a sample of costs for Montgomery County that resulted in identification of a total of \$62,150 in questioned costs that were not supported. For example, of the 89 transactions we tested at Baltimore City, we found 28 (more than 30 percent) lacked supporting documentation or had been erroneously billed to the Weatherization Program. The transactions for Baltimore City totaled about \$49,150, excluding program support charges previously discussed. Specifically, we questioned:

- About \$43,500 billed for installation of approximately 4,400 compact fluorescent light (CFL) bulbs or roughly \$10 per bulb. The CFLs cost about \$1 each and were part of a bulk purchase of 8,750 bulbs. Baltimore City's energy auditors, whose regular salary was already billed to the Weatherization Program, had installed them. In effect, Baltimore City earned a profit of \$9 per bulb.

Federal regulations, specifically 10 CFR 600.222 (a) (2), restrict profits earned by grantees, "Grant funds may be used only for reasonable fees or profit to cost-type contractors but not any fee or profit to the grantee or sub-grantee." Baltimore City officials informed us they did not intend to create a profit. Instead, they intended to use the funds to weatherize additional homes.

As a result of our audit, the Department required the State to discontinue Baltimore City reimbursement for any future CFL installation costs, account for total CFL expenditures to date, and disallow any costs greater than the actual cost of the CFLs. Baltimore City officials reported discontinuing the practice and noted they have reimbursed the State for excess costs claimed.

- About \$3,200 paid to vendors reportedly for printing services, although there was no substantiating documentation.
- About \$2,450 expended on advertising and promotional costs not justified under Federal and State grant requirements.

Subsequent to our audit, Baltimore City reported that it located the missing documentation related to the printing and professional services cost and had corrected a misclassification of advertising and promotional expenses.

Lani Eko identified similar issues at Montgomery County where 6 of the 45 transactions reviewed, including furnace and heating system repairs/replacements, had been erroneously charged to the Weatherization Program. The six transactions totaled approximately \$13,000, and should have been charged to other energy related programs in accordance with State policy. The State first became aware of Montgomery County billing issues during its agency inspection visit in January 2010, and had taken action to correct these issues prior to our involvement. Concurrent with our audit, the State performed an extensive review of the Montgomery County Weatherization Program and temporarily suspended reimbursements until Montgomery County could develop a formal corrective action plan. The State's review concluded in May 2011, and as a result Montgomery County

reimbursed the State about \$53,000, which included the costs associated with four of the transactions we tested.

Maryland Grant Agreements

The issues we identified regarding unsubstantiated program support costs occurred, in part, because State agreements with local agencies were not always consistent with Federal requirements. Contrary to Department requirements and the terms and conditions of the State agreement with the Department, Baltimore City officials believed they could roll forward unexpended Recovery Act Weatherization Program funds after the grant period to future program years. State officials told us that local agencies were required to return unexpended funds within a Weatherization Program year to the State for reallocation to the local agencies in following years of the grant performance period, but not beyond the performance period. However, we found that the State's agreement with local agencies was not consistent with the State's policy and Federal requirements. Specifically, the State's agreement with local agencies states that:

"All DOE Funds not expended within the Performance Period shall be rolled forward into the general budget as benefit dollars for the next State Plan."

The Department requires states to submit plans for each grant performance period and prohibits the expenditure of funds after the performance period.

Oversight

The deficiencies we identified were not promptly detected because of a lack of adequate local agency monitoring by the State. Maryland's monitoring visits focused primarily on programmatic rather than financial activities. In fact, from September 2009 through December 2010, the State had not performed a comprehensive financial review of any of its 18 local agencies and had only developed its financial monitoring tool in January 2011. Since implementing the financial monitoring tool, the State has reviewed the underlying financial policies and conducted a detailed transactional review at its local agencies. As previously discussed, it was not until the State conducted these reviews in 2011, two years following the initial passage of the Recovery Act, that it determined that local agencies could not fully justify costs in accordance with grant requirements.

Training

Baltimore City officials told us the deficiencies we identified were also the result of significant Recovery Act demands and insufficient time for properly training staff. Officials reportedly prioritized production in an attempt to provide quality weatherization services and to meet demanding weatherization goals and acknowledged they had not adequately addressed financial training needs. Officials also informed us that they had little time for training staff on Federal regulations and proper accounting for Recovery Act funds. Subsequent to our field work, officials provided training on fiscal management and monitoring, as well as Federal grants at a state-wide level.

Other Reports

As previously noted, we have issued, under separate covers, reports on Montgomery County and Prince George's County. Under the Recovery Act, we were responsible for auditing local entities of the Maryland Weatherization Program. To help fulfill these responsibilities, we contracted with Lani Eko, an independent certified public accounting firm. Lani Eko's reports include:

- Examination Report on "Montgomery County Department of Housing and Community Affairs - Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009" OAS-RA-13-06, January 17, 2013; and,
- Examination Report on "Prince George's County Department of Housing and Community Development - Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009" OAS-RA-13-05, January 17, 2013.

Details of the conclusions can be found in Lani Eko's reports.

RECOMMENDATIONS

In the absence of immediate improvements in financial controls, the risk of fraud waste and abuse is increased. Accordingly, we made recommendations to improve the financial management of Maryland's use of Recovery Act funds. Specifically, we recommend that the Contracting Officer for Energy Efficiency and Renewable Energy (EERE):

1. Resolve questioned costs totaling \$9.56 million.

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

2. Provide training to its local agencies on Federal regulations regarding the accounting for and use of Federal funds.

MANAGEMENT AND AUDITOR COMMENTS

The Department, Maryland and Baltimore City provided responses to our draft audit report that are included in their entirety in Appendix 4. Montgomery County and Prince George's County comments are included in the previously discussed Lani Eko Reports. We revised our report as appropriate to address comments received. A summary of key responses is provided in the following section.

Management Comments (Department)

The Department agreed with our recommendations and will continue to work with and monitor the grantees and subgrantees to ensure resolution of the issues identified in the report. As a result of our audit, the Department requested the grantee modify its program support payment system to be consistent with EERE guidance and perform a reconciliation of program expenditures. The Department plans to evaluate the State's resolution of the program support finding and the finding on allowable uses of Federal funds.

Auditor Response to Department Comments

The Department's comments were responsive to our recommendations.

Management Comments (State)

Maryland understood the recommendations related to the findings and will work with the Department and its local weatherization agencies to implement our recommendations. The State plans to complete a detailed review of local agency implementation of the Department's instituted controls and work with the local agencies to resolve the questioned costs. The State will provide training to local agencies regarding the accounting for and use of Federal funds.

With regard to the Montgomery County local weatherization agency report, the State agreed to work with the County to improve the Weatherization Program. The State shared in Prince George's County's dissatisfaction with Eko's decision to issue a disclaimer of opinion after conducting audit activities throughout the duration of the bribery and corruption proceedings against the County Director of the Department of Housing and Community Development. The State and the Department have both reviewed Prince George's County's operations and have not detected an impropriety.

Auditor Response to State Comments

The State's comments were generally responsive to our recommendations and conclusions.

Lani Eko considered State and Department comments in issuing the opinion. Lani Eko began its review of Prince George's County operations following the plea bargain by the County Director of the Department of Housing and Community Development. Lani Eko continued with audit test work and disclaimed the opinion on the Weatherization Program when the individual related to the fraud was convicted.

Management Comments (Local Agencies)

Baltimore City had expressed concerns with some of our characterizations, given the positive actions it had taken toward addressing our recommendations. Specifically, Baltimore City believed it has provided its employees and contractors sufficient training to meet the Department's program requirements. Further, while Baltimore City had initially misunderstood the allowable uses of Federal funds, Baltimore City had performed a complete reconciliation of expenditures following OIG discussions on the allowable uses of program support.

Auditor Response to Local Agencies' Comments

Local agency comments and actions taken were responsive to our recommendations. Each local agency was reportedly taking action to address the issues identified in our report. Baltimore City officials provided a number of documents to support their actions taken to address the specific issues noted in the report, including the disposition of compact fluorescent light bulbs, identification of questioned costs, and reconciliation of program support expenditures. We have reviewed Baltimore City's provided support and actions taken by the City within the context of our report.

SUMMARY OF QUESTIONED COSTS

Agency	Charge	Amount
Maryland Department of Housing and Community Development	Statewide program support charges	\$9,500,000
Baltimore City	Charges for CFL bulbs	\$43,500
	Unsupported printing costs	\$3,200
	Advertising and promotional expenditures not justified under OMB A-87	\$2,450
	<i>Subtotal, Baltimore City</i>	\$49,150
Montgomery County	Weatherization repairs and replacements not paid through leveraged funding sources	\$13,000
Total Questioned Costs		\$9,562,150

Appendix 2

OBJECTIVE

The objective of the audit was to determine whether the State of Maryland (Maryland or State) had adequate safeguards in place to ensure that the goals of the Weatherization Assistance Program (Weatherization Program) under the American Recovery and Reinvestment Act of 2009 (Recovery Act) were accomplished efficiently and effectively and was in compliance with Federal and State laws and regulations.

SCOPE

This audit was performed between January 2011 and January 2013, at Maryland's Department of Housing and Community Development located in Crownsville, Maryland. We made site visits to one local agency – Baltimore City Department of Housing and Community Development (Baltimore City). Additionally, Lani Eko & Company, CPAs, PLLC, an independent public accounting firm under contract with the Office of Inspector General conducted site visits to two local agencies – Montgomery County Department of Housing and Community Affairs (Montgomery County), and Prince George's County Department of Housing and Community Development.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable Federal laws and regulations and guidance pertaining to the Department of Energy's (Department) Weatherization Program funded under the Recovery Act and Maryland's Weatherization Program;
- Held discussions with the Department's Project Officer and Maryland officials to discuss current and ongoing efforts to implement the requirements of the Weatherization Program funded under the Recovery Act;
- Reviewed State and Department-wide monitoring reports to identify systemic Weatherization Program issues;
- Reviewed applicant files and unit eligibility for weatherization services;
- Analyzed general ledger transactions to review costs incurred;

Appendix 2 (continued)

- Physically observed the quality of weatherization work performed at two local agencies: Baltimore City and Montgomery County; and,
- Analyzed inventory controls and the procurement process over weatherization materials, vehicles and equipment.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Because our review was limited, it would not necessarily have disclosed all internal deficiencies that may have existed at the time of our audit. Also, we considered the establishment of Recovery Act performance measures, which included certain aspects of compliance with the *GPRA Modernization Act of 2010* as necessary to accomplish the objective. We reviewed the reliability of computer-processed data and deemed the data to be reliable as it related to our audit objective.

The Department waived an exit conference.

Appendix 3

PRIOR REPORTS

Under the American Recovery and Reinvestment Act of 2009, the Office of Inspector General has initiated a series of audits designed to evaluate the Department of Energy's Weatherization Assistance Program's internal control structures at the Federal, state, and local levels. Although not found in every state, these audits have identified issues in areas such as poor quality of weatherization services, inspections and re-inspections, inadequate inventory controls, and questioned costs resulting from the ineffective administration of the weatherization grants. Our series of audit reports include the following:

- Examination Report on [*Community Action Partnership of Orange County – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-13-03, October 17, 2012)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Ohio*](#) (OAS-RA-12-13, June 25, 2012)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of New York*](#) (OAS-RA-12-07, April 6, 2012)
- Examination Report on [*Saratoga County Economic Opportunity Council, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-12-05, January 20, 2012)
- Examination Report on [*Action for a Better Community, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-21, September 30, 2011)
- Examination Report on [*People's Equal Action and Community Effort, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-20, September 30, 2011)
- Examination Report on [*Cuyahoga County of Ohio Department of Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009*](#) (OAS-RA-11-19, September 29, 2011)
- Examination Report on [*Community Action Partnership of the Greater Dayton Area – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act*](#) (OAS-RA-11-18, September 29, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act in the State of Tennessee*](#) (OAS-RA-11-17, September 19, 2011)

Appendix 3 (continued)

- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the Commonwealth of Virginia*](#) (OAS-RA-11-14, August 25, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act in the State of Indiana*](#) (OAS-RA-11-13, August 23, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Missouri*](#) (OAS-RA-11-12, August 22, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia*](#) (OAS-RA-11-09, June 13, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Wisconsin*](#) (OAS-RA-11-07, June 6, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the Capital Area Community Action Agency – Agreed-Upon Procedures*](#) (OAS-RA-11-04, February 1, 2011)
- Audit Report on [*The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed-Upon Procedures*](#) (OAS-RA-11-03, November 30, 2010)
- Audit Report on [*Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program*](#) (OAS-RA-11-02, November 1, 2010)
- Audit Report on [*The State of Illinois Weatherization Assistance Program*](#) (OAS-RA-11-01, October 14, 2010)
- Audit Report on [*The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds under the American Recovery and Reinvestment Act*](#) (OAS-RA-10-13, June 11, 2010)
- Preliminary Audit Report on [*Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program*](#) (OAS-RA-10-11, May 26, 2010)

Appendix 3 (continued)

- Special Report on [*Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act*](#) (OAS-RA-10-04, February 19, 2010)
- Audit Report on [*Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*](#) (OAS-RA-10-02, December 3, 2009)

MANAGEMENT COMMENTS




Department of Energy

Washington, DC 20585

November 1, 2012

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

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

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

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) July 2012 Draft Audit Report for Maryland's Department of Housing and Community Development (DHCD) 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 assures compliance with guidance through continued monitoring and communications with grantees.

The OIG made two recommendations for DOE's oversight of the Maryland WAP. EERE concurs with the OIG's recommendations and has been working with the Maryland DHCD for the past year to ensure that all corrective actions are implemented.

OIG Recommendation 1: Resolve questioned costs totaling \$9.57 million.

EERE Response 1: As a result of the audit finding, in January 2011, EERE requested the Grantee modify its program support payment system to ensure that program payments matched the actual program support costs incurred by the Subgrantees, consistent with previously issued guidance from EERE. EERE was informed by the State of Maryland DHCD, that they have hired an independent audit firm to conduct reviews of Subgrantees' cost and payment systems to ensure that appropriate cost accounting systems have been implemented and affirm payments are corresponding to actual program cost. EERE received information from Maryland DHCD that the questioned cost of \$9.57 million was addressed by the independent auditors and that the Subgrantee has taken the appropriate steps to provide documentation on the accounting of program income and expenses. During EERE monitoring visits within this period, the Grantee



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Appendix 4 (continued)

informed EERE of the Subgrantees' plans to have all questioned costs resolved by September 30, 2012. EERE will validate resolution of this finding and the recovery of appropriate fund amounts during the onsite visit scheduled for November 2012.

OIG Recommendation 2: Provide training to its local agencies on Federal regulations regarding accounting for and using Federal funds.

EERE Response 2: Maryland DHCD held a mandatory training for their subgrantees in April 2011 on the standards and requirements outlined in 10 CFR 600. This training highlighted the requirements for accounting standards using Federal resources. Subsequent monitoring of subgrantees by Maryland DHCD should discover whether the training and technical assistance had the expected effect of improving resource accountability. The WAP Project Officer will review subgrantee monitoring reports during the November 2012 on-site visit to determine whether this issue is resolved.

Appendix 4 (continued)



MARTIN O'MALLEY
Governor
ANTHONY G. BROWN
Lt. Governor
RAYMOND A. SKINNER
Secretary
CLARENCE J. SNUGGS
Deputy Secretary

October 17, 2012

Rickey R. Hass
Deputy Inspector General
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1000 Independence Ave., SW
Washington, DC 20585

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

Dear Mr. Hass:

We appreciate the opportunity to comment on the report completed by your office of the Inspector General of the Department of Energy (DOE) regarding the activities performed by the Maryland Department of Housing and Community Development (DHCD) related to the management of the ARRA Weatherization program.

Since July 2009, the program has helped nearly 12,000 low to moderate income households to become more energy efficient, safe and healthy. This was completed with a total program operations expense of \$51.2 million, or an average cost per unit of \$4,434 which is significantly below the \$6,500 cap recommended by DOE. This production is more than twice the original goal of 6,800 units. Adding in non-Recovery Act funds, Maryland has weatherized nearly 13,000 units during this time period.

Consistent with the goals of the President and Congress, this effort is helping Maryland build the green economy that is so important to the future of our state and our country. The 18 non-profit Local Weatherization Agencies worked with a network of more than 100 private contractors, who on average employed over 750 full and part time individuals. More than 500 individuals have participated in weatherization training which is based on DOE's Core Competencies through the Maryland Community College's Construction and Energy Technologies Consortium.

In order to accomplish this, we had to identify a curriculum which incorporated DOE's standards, negotiate and purchase it from out of state agencies, import it, create a network to provide the training and train a group of instructors to provide it. No training program had existed in the state prior to this. We also had to secure and implement a software system which your auditors used and found to be very helpful. Prior to this we had relied on paper invoicing which would have been impossible under the demands of the ARRA funding. In addition we worked with our network of non-profit agencies assisting them to ramp up under the extremely tight deadlines associated with this historic investment. We also had to create a process to secure and review Davis-Bacon reports, which was successful.



OFFICE OF THE SECRETARY
100 Community Place ■ Crownsville, MD 21032 ■ www.mdhousing.org
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Appendix 4 (continued)

Prior to the multi-year allocation through ARRA, DHCD received approximately \$2.5 million annually for weatherization activities and at the time of the award, our systems reflected that level of funding. The \$21 million a year for three years was a challenge that we embraced in a very controlled and thoughtful manner. In order to handle this increase in funding, most of our local weatherization partners had to very quickly incorporate significant changes in their staffing, reporting, and production capacity, while following federal guidelines. In Baltimore City's case, they had to completely rebuild staff, auditors, contractors and management in an extremely compressed time. To date they have served over 4,000 low and moderate income households with weatherization related services.

In January 2011, the DOE's program team completed a site review a week before the Inspector General team arrived. At that time, the DOE (Program) identified weaknesses in DHCD's financial reviews of its agencies. In response, DHCD changed its monitoring procedures to provide stricter accounting and requested additional documentation from the 18 agencies that provide weatherization services throughout the state. We issued updated guidelines, and instituted a mandatory training session after engaging a national consultant to provide training on fiscal controls and reporting related to weatherization program support. As noted, we have also had audits completed for our largest sub-grantees. All of this has been reported to the Inspector General and to the Program Department at DOE.

We understand the recommendations related to the findings raised by the Inspector General and look forward to working with the DOE program staff to complete a thorough review of the Department's instituted controls. We also look forward to working with DOE program staff to provide the clarifications that will significantly decrease the costs that are questioned in your reviews related to Montgomery County and Baltimore City.

Per the requirements in the federal rules, we are committed to ensuring resolution of any questioned costs and that training be provided to local agencies regarding the accounting for and use of Federal funds. We are also committed that these issues be resolved prior to the completion of the ARRA grant period in order to complete and properly account for the expenditure of these funds.

If you have any questions, please do not hesitate to call me at 410-514-7001 or Mr. Gary Beaver, Internal Audit Manager, at 410-514-7032.

Sincerely,



Raymond A. Skinner
Secretary

cc: Clarence Snuggs, Deputy Secretary, DHCD
Frank Coakley, Assistant Secretary, DHCD
William Ariano, Deputy Director, DHCD
James McAteer, Weatherization Program Manager, DHCD
Gary Beaver, Internal Audit Manager, DHCD
Paul Graziano, Commissioner, Baltimore City Department of Housing and Community Development

Appendix 4 (continued)



**BALTIMORE
HOUSING**

STEPHANIE
RAWLINGS-BLAKE
Mayor

PAUL T. GRAZIANO
Executive Director, HABC
Commissioner, HCD

October 17, 2012

Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General
United States Department of Energy
Washington, DC 20585

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

Dear Ms. Hass,

Thank you for another opportunity for the Baltimore City Department of Housing and Community Development (HCD) to comment on the Draft Audit Report on "The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Maryland". HCD was a proud participant in the stimulus-funded weatherization program from 2009 to 2012 and weatherized over 4,200 homes for low-income families far exceeding original expectations.

We have attached the letter dated August 3, 2012 which was sent to you at an earlier stage of the Office of Inspector General's work in the State of Maryland and Baltimore City. We reaffirm the comments that we offered at that time. Since the drafting of that letter particular progress has been made in answering questions raised by the Draft Audit Report as it related to Baltimore City:

1. The questioned payments by the State of Maryland for the installation of light bulbs by City employees in the Weatherization Assistance Program were thoroughly researched and the State has been reimbursed in the amount of \$21,247.59.
2. The documentation for the printing costs in question was provided to the State of Maryland even prior to the August 3rd letter.
3. The costs initially categorized in advertising were truly educational and operational expenses and they have been properly accounted for.
4. The Program Support expenses for the Baltimore City program have been fully accounted for and reconciled by State and City fiscal staff.

In conclusion, we would like to express our appreciation for the State of Maryland's management of the DOE Weatherization Assistance Program. Our partnership with the state has allowed us to significantly improve the lives of low-income families in Baltimore City making their homes greener, healthier and



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Baltimore Housing reflects the combined efforts of the Housing Authority of Baltimore City and the Baltimore City Department of Housing and Community Development.

Appendix 4 (continued)

more sustainable. Thank you for the role that the DOE Office of the Inspector General played ensuring the quality and integrity of the program.

Sincerely,



Paul T. Graziano
Commissioner

Cc: Clarence Snuggs, Deputy Secretary, Maryland Department of Housing and
Community Development
Frank Coakley, Assistant Secretary, Division of Development Finance,
Community Development Administration
William Ariano, Deputy Director, Division of Development Finance,
Community Development Administration
Ken Strong, Deputy Commissioner, Baltimore City Department of
Housing and Community Development

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