



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

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 2010



Department of Energy
Washington, DC 20585

November 1, 2010

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND
RENEWABLE ENERGY

George W. Collard

FROM: George W. Collard
Assistant Inspector General
for National Security and Energy Audits
Office of Inspector General

SUBJECT: INFORMATION: Report on "Selected Aspects of the Commonwealth of
Pennsylvania's Efforts to Implement the American Recovery and
Reinvestment Act Weatherization Assistance Program"

BACKGROUND

The Department of Energy's (Department) 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. Subsequently, the Department awarded a 3 year Weatherization Program grant of \$252 million to the Commonwealth of Pennsylvania (Pennsylvania). This grant provided about a 10 fold increase over the \$25.4 million in funds available to Pennsylvania for weatherization in Fiscal Year (FY) 2009.

Pennsylvania's Department of Community and Economic Development (DCED) administers the Recovery Act grant through 43 local agencies. These agencies are responsible for determining applicant eligibility, assessing and weatherizing homes, and conducting inspections. Pennsylvania plans to use its funding to weatherize about 34,000 units over the life of the grant, and to prioritize weatherization services for low income, high energy users.

Given the significant increase in funding and the demands associated with weatherizing thousands of homes, we initiated this audit to determine if Pennsylvania had adequate safeguards in place to ensure that the Weatherization Program was managed efficiently and effectively. During the course of our audit, we adjusted the scope of our work as a result of other ongoing audits, most notably, those performed by the Government Accountability Office. Accordingly, we focused our efforts on Pennsylvania's prioritization of weatherization services and management of Recovery Act funds.

CONCLUSIONS AND OBSERVATIONS

We identified several opportunities to increase the likelihood that Pennsylvania's Weatherization Program will satisfy its objectives and fully comply with Federal requirements. Specifically, we found that Pennsylvania had not always:

- Ensured that high energy users were given priority over lower energy users as called for in its Recovery Act State Plan approved by the Department on August 25, 2009. We identified lower energy users that received weatherization assistance before high energy users were assisted at the two local agencies we visited; and,
- Limited advances to its local agencies to amounts needed for immediate cash needs or ensured that advances were deposited in interest bearing accounts. In fact, the 43 local agencies involved in Pennsylvania's program had not expended \$15.8 million of the \$42.7 million in advances that they received from DCED for periods ranging from 3 to 6 months. Local agencies, in some cases, also had not deposited advances in interest bearing accounts.

A misunderstanding between DCED and local agencies concerning the State's prioritization guidance resulted in local agencies weatherizing lower energy users before high energy users. Pennsylvania did not detect this issue because DCED had not monitored local agencies performance in prioritizing high energy users and its weatherization tracking system was not reliable for determining whether high energy users were being prioritized for assistance. Finally, Pennsylvania officials were not fully aware of the issues related to the advances because they had not reviewed, as required, financial activity at the local agency level.

Prioritization of Weatherization Applicants

Pennsylvania had not always ensured that high energy users were given priority over lower energy users for weatherization assistance, as called for in its approved Weatherization Plan. Specifically, we found instances at two of the local agencies where lower energy users were provided weatherization assistance before households that qualified as high energy users under the State's criteria. At one local agency we identified 27 lower energy users that were provided weatherization assistance despite the fact that the agency had over 90 income eligible applicants classified as high energy users on its waiting list that had not been provided services. We identified eight additional lower energy users that received weatherization assistance at a second local agency.

To meet its objective of maximizing energy savings, DCED requested energy providers to submit lists of high energy users that were also receiving benefits through the U.S. Department of Health and Human Services' Low Income Home Energy Assistance Program (LIHEAP). The State provided the LIHEAP lists to the local agencies and required that the agencies use the lists as the basis for selecting recipients of weatherization services. State officials informed local agencies through a program guidance letter that the agencies were required to weatherize homes of high-energy users first, prior to providing service to other clients. Officials at each agency told us that they provided assistance to interested households that were on the LIHEAP lists regardless of whether they were high energy users. The lists of households receiving LIHEAP services, in some cases, contained both high and lower energy users. Specifically, the lists, in the aggregate, contained 43 percent high energy users and 57 percent lower energy users.

A misunderstanding between DCED and local agencies, lack of State monitoring and poor data quality contributed to low energy users receiving weatherization assistance before high energy users. DCED officials told us that they were aware certain LIHEAP lists contained both high and lower energy users. As such, they expected the local agencies to use the lists to identify and prioritize the high energy users. Local agency officials however, told us that in addition to the guidance to prioritize high-energy users for weatherization assistance, they also understood the State wanted them to exhaust all of the households on the lists, regardless of their energy consumption, before considering other applicants for assistance.

According to local agency officials, other weatherization efforts were put on hold while they pursued individuals on the lists of LIHEAP recipients. Local agency officials indicated that they were required by DCED to contact potential applicants at least twice. The local agencies we visited told us that they actually contacted individuals three times before deleting them from their list of potential weatherization applicants and that the response rate from households on the State developed lists was low. As of February 2010, only 8,700, of the approximately 88,000 households on the lists provided to the local agencies had applied for weatherization services.

DCED officials had neither monitored nor verified that local agencies were concentrating on providing weatherization services to high energy users. Instead, DCED focused its attention on ensuring that production goals for weatherizing homes were met. Even if they had been monitoring the activities of the local agencies, the information on the type of energy-users that received weatherization services was not reliable. Specifically, we found that the weatherization tracking system used by DCED was not reliable for determining whether high energy users were being prioritized. We found that although one local agency had properly entered data into the system indicating that 22 recipients met the criteria for high energy users, the weatherization tracking system recorded them as lower energy users. The local agency was not aware of the cause of the system error.

Management of Recovery Act Funding

Pennsylvania had not minimized the time it held advances and had not earned interest on advance balances as required by grant provisions and Federal regulations. Based on requests from local agencies, DCED drew down from its total grant award far more money than was actually needed to cover near term expenses. In fact, in November 2009, Pennsylvania requested \$42.7 million in Recovery Act funds from the Department and then advanced these funds to 42 of its 43 agencies. Six months later, \$10.5 million, or about 25 percent, of the funds advanced by Pennsylvania to 42 local agencies had not been expended. Similarly, the remaining local agency had not spent any of the \$5.3 million in advances that it had received in February 2010, for at least 3 months. Further, 13 of the 43 local agencies had enough of their initial advance to cover the costs of weatherizing homes for approximately 4 to 9 additional months, based on the agencies' average monthly expenditures for the six month period beginning in November 2009.

In accordance with the Code of Federal Regulations, 10 CFR 600.221, Pennsylvania was permitted to receive a working capital advance provided it established procedures to minimize the time elapsed between the transfer of funds and their actual disbursement. After an initial advance, the Department required grant recipients to limit additional draw down amounts to reimbursement for actual expenditures. We found, however, that Pennsylvania had not validated

the expenditure needs of local agencies to support the amount of funds that it initially drew down from its grant awards. In response to our audit, Pennsylvania officials told us that they plan to discontinue advances and institute a monthly reimbursement and reconciliation process using the weatherization program tracking system.

In addition, we found that 8 of Pennsylvania's 43 local agencies had not deposited advances in interest bearing accounts, as required by their agreements with Pennsylvania. For example, one local agency reported that it had received an advance of about \$3.8 million on November 3, 2009. However, the agency had not deposited any of that amount in an interest bearing account until it had expended approximately \$3 million of its advance. As a result, the agency had earned less than one dollar in interest on the remaining \$800,000 as of the time of our audit.

According to Federal regulations, advances must be deposited in interest bearing accounts. Interest greater than \$100 for state and local governments, or \$250 for nonprofit agencies must be promptly, or at least quarterly, returned to the U.S. Treasury through the Department. Pennsylvania's agreements with its local agencies, however, did not reflect the Federal requirement to return interest earnings to the U.S. Treasury. Pennsylvania only required interest exceeding \$50 to be remitted to them at the end of the three year grant period, not on a quarterly basis. As a result of our audit, Pennsylvania informed all local agencies on April 28, 2010, that advances should be placed in interest bearing accounts.

DCED was not fully aware of the financial issues we identified because it had not reviewed, as required, financial activity at the local agency level. DCED became responsible for monitoring the financial and operational activities of local weatherization agencies in May 2009, after the Program was transferred to it from the Pennsylvania Office of the Budget. However, as of July 2010, DCED had not conducted any of its planned financial reviews. Under the terms of its grant, DCED is required to conduct a comprehensive on-site monitoring review of each local agency at least once a year. Pennsylvania officials cited staffing shortages as the cause of inadequate financial monitoring. To address the shortcomings identified in our report, officials reported that they have added staff and developed a financial monitoring schedule.

RECOMMENDATIONS

To achieve the objectives of the Recovery Act, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy ensure that Pennsylvania:

1. Meets its Weatherization Program goal of providing assistance to low-income, high energy users;
2. Reviews and validates the accuracy of data contained in and output from the weatherization tracking system;
3. Advances funds in accordance with regulations; and,
4. Monitors local agency financial activities in accordance with regulations.

MANAGEMENT AND AUDITOR COMMENTS

The Department's Office of Energy Efficiency and Renewable Energy provided a response to our report that expressed agreement with our recommendations and provided planned and ongoing actions to address the issues identified. Specifically, management indicated that the Project Officer will work with Pennsylvania Weatherization Assistance Program officials to ensure that all potential applicants that are eligible and meet the definition of a high energy use household in Pennsylvania are afforded the same opportunity to apply for and obtain weatherization services, regardless of whether or not they are on a LIHEAP listing. The Project Officer will also work with Pennsylvania officials to ensure that data in the Pennsylvania weatherization tracking system is reviewed and validated for accuracy. Further, regarding the advancement of funds and interest earned on these advances, both the Project and Contract Officers will monitor the situation until the issue is resolved. The Department's Project Officer also identified the lack of financial monitoring in a report issued May 2010. The Project Officer will continue to review this issue and ensure that the Pennsylvania Weatherization Assistance Program completes the required financial monitoring of its sub-grantees.

The Department's response and planned corrective actions are responsive to our recommendations. Management's comments are provided in their entirety in Attachment 2.

Attachments

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

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Commonwealth of Pennsylvania (Pennsylvania) had adequate safeguards in place to ensure that the Weatherization Assistance Program (Weatherization Program) was managed efficiently and effectively.

SCOPE

This report contains the results of an audit performed between December 2009 and September 2010, at Pennsylvania's Department of Community and Economic Development located in Harrisburg, Pennsylvania. We visited two local agencies, one in Erie and the other in Greensburg and observed weatherization work at three homes at each agency. Due to other ongoing audits, most notably by the Government Accountability Office, we focused our efforts on Pennsylvania's prioritization of weatherization services and management of the Reinvestment and Recovery Act of 2009 (Recovery Act) funds.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable laws, regulations, and guidance pertaining to the Weatherization Program under the Recovery Act; as well as policies, procedures, and guidance applicable to Pennsylvania's Weatherization Program;
- Interviewed State of Pennsylvania, Department of Energy (Department), and National Energy Technology Laboratory officials to discuss current and ongoing efforts to implement the requirements of the Weatherization Program under the Recovery Act;
- Analyzed the number of homes weatherized to determine the number of high energy and lower energy units being reported;
- Analyzed the LIHEAP listings Pennsylvania provided to local agencies for energy consumption data;
- Selected random samples and reviewed weatherization tracking system information; and,
- Analyzed the use of Recovery Act funds advanced to the State to determine disbursement patterns and compliance with Federal laws and regulations.

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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We assessed performance

measures in accordance with the Government Performance and Results Act of 1993 and determined that performance measures were established for the Weatherization Assistance Program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We were unable to rely on computer processed data since our tests results raised serious questions about the validity of high energy data. Accordingly, we used alternative procedures to achieve our audit objectives.

We held an exit conference with Department officials on November 1, 2010.

MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

OCT 28 2010

MEMORANDUM FOR: GEORGE W. COLLARD
ASSISTANT INSPECTOR GENERAL
FOR NATIONAL SECURITY AND ENERGY AUDITS

FROM: KATHLEEN B. HOKAN 
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
OFFICE OF TECHNOLOGY DEVELOPMENT
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to Office of Inspector General Draft Audit Report
on "Selected Aspects of the Commonwealth of
Pennsylvania's Efforts to Implement the American
Recovery and Reinvestment Act Weatherization Assistance
Program"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General Draft Audit Report on "Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program."

The Weatherization Assistance Program has received regular communications and information requests throughout the Inspector General's investigation period for Pennsylvania and thoroughly understands and agrees with the facts presented, conclusions reached, and appropriateness of the recommendations.

Should you have any questions, please contact Robert Adams at 202-287-1591.

Attachment

Response to Inspector General Audit Report on
“Selected Aspects of the Commonwealth of Pennsylvania’s
Efforts to Implement the American Recovery and Reinvestment Act
Weatherization Assistance Program

Recommendation 1

Meet its Weatherization Program goal of providing assistance to low-income, high energy users.

Response

Concur

The Project Officer will work with the Grantee to ensure that all potential households that are eligible for the WAP are afforded the opportunity to apply. In addition, the Project Officer will work with the Grantee to ensure consistent and reliable application of the stated priority of serving high-energy households. The issue is the Grantee is prioritizing LIHEAP high energy users. Due to the fact that it is a LIHEAP high energy user, DOE applicants who are high energy users by Pennsylvania’s definition are not served, or are served after all LIHEAP households including DOE households that are high energy users. If Pennsylvania’s intention is to serve high energy users, then the definition of high energy usage should be consistently applied to all applicants, regardless if they are served with LIHEAP funds or DOE funds, and all eligible households are afforded the same opportunity for service.

Estimated Completion Date: on-going

Recommendation 2

Reviews and validates the accuracy of data contained in and output from the weatherization tracking system.

Response

Concur

Grantee will be expected to review and validate the accuracy of data contained in the weatherization tracking system. The Project Officer is aware of current efforts of the Grantee to ensure data quality and the Project Officer will request that these efforts and validation reviews continue as Pennsylvania implements its data tracking system. The Project Officer will request Hancock Energy Software (HES) reports from the Grantee to compare monthly production and expenditure information reported by the Grantee. HES data quality issue will be discussed with the Grantee during weekly conference calls.

Estimated Completion Date: on-going

Recommendation 3

Advances funds in accordance with regulations.

Response

Concur

Routine monitoring by the Project Officer discovered the Cost Principles issues regarding the advancement of funds. Pennsylvania provided a tracking spreadsheet to the Project Officer on August 27, 2010, that outlined interest earned on the large advances by subgrantee and the status of the return of funds. The Project Officer will monitor this issue in cooperation with the Contract Officer until the issue is resolved. The Grantee's change in procedures to take effect in January 2011 should eliminate this issue in the future.

Estimated Completion Date: on-going

Recommendation 4

Monitors local agency financial activities in accordance with regulations.

Response

Concur

The Project Officer identified the Grantee's lack of financial monitoring in monitoring reports issued in May of 2010. Pennsylvania provided a schedule to complete financial monitoring of all subgrantees by the end of Program Year 2010 to the Project Officer on September 20, 2010. The Project Officer will continue to review this issue and ensure that the Grantee completes the required financial monitoring of subgrantees.

Estimated Completion Date: on-going

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