



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

Examination Report

Area Community Services
Employment and Training Council –
Weatherization Assistance Program
Funds Provided by the American
Recovery and Reinvestment Act of
2009



OAS-RA-13-23

June 2013



Department of Energy
Washington, DC 20585

June 18, 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: Examination Report on "Area Community Services
Employment and Training Council – Weatherization Assistance
Program Funds Provided by the American Recovery and Reinvestment
Act of 2009"

BACKGROUND

The attached report presents the results of an examination of the Area Community Services Employment and Training Council (ACSET) Weatherization Assistance Program (Weatherization Program) under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of Inspector General contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on the agency's compliance with Federal and state laws, regulations and program guidelines applicable to the Weatherization Program. ACSET is a sub-recipient of the Department of Energy's (Department) Recovery Act Weatherization Program funding for the State of Michigan.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Program received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Michigan received over \$250 million in Weatherization Program Recovery Act grant funding, of which \$3.58 million was allocated to ACSET. The State of Michigan's Bureau of Community Action and Economic Opportunity under the Department of Human Services was responsible for administering Weatherization Program grants, including funds provided to ACSET.

RESULTS OF EXAMINATION

Lani Eko expressed the opinion that, except for the weaknesses described in its report, ACSET complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period April 1, 2009 to February 28, 2011. However, the examination found that ACSET had not:

- Properly verified applicant and unit eligibility;

- Ensured initial weatherization services provided, and subsequent re-work performed, met the quality of work standards of the Weatherization Program; and
- Maintained proper documentation sufficient to ensure compliance with Weatherization Program requirements as they specifically apply to final inspections.

The attached report makes recommendations to ACSET to improve the administration of its Weatherization Program. ACSET provided responses that expressed agreement with the recommendations, and provided planned and ongoing actions to address the issues identified. While these responses and planned corrective actions are responsive to our recommendations, the Department needs to ensure the planned actions are completed.

RECOMMENDATION

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

- Ensure appropriate action is taken by the State of Michigan to improve ACSET's administration of its Recovery Act Weatherization Program funds.

DEPARTMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with the recommendation outlined in this memorandum. The Department credited the State's process improvements related to billing, eligibility determinations, and trend analysis as well as the local agency's actions taken to address recommendations. The Department reviewed these actions during its routine visit in January 2013 and will continue to monitor these actions as part of its grant oversight responsibility.

ACSET contends that it is in compliance, in all material respects, with the elements of the Department's Weatherization Program under the Recovery Act and has corrected any omissions or errors in procedure or reporting through the implementation of new and/or enhanced procedures. Lani Eko credited the agency for its actions, as appropriate.

EXAMINATION LEVEL ATTESTATION

Lani Eko conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of ACSET's policies and procedures and reviewing applicable Weatherization Program documentation. The procedures also included an analysis of inspection results, records of corrective actions and re-inspections of completed homes/units to ensure any failures were properly corrected. Finally, an analysis of associated cost data was performed to test the appropriateness of payments.

The Office of Inspector General monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances in which Lani Eko did not comply in all material respects with the attestation requirements. Lani Eko is responsible for the attached report dated June 28, 2012, and the conclusions expressed in the report.

Attachments

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

**Report on Examination Level Attestation Engagement
Of
Area Community Services Employment and Training Council
Recovery Act Weatherization Assistance Program Funds**

**Performed for the U.S. Department of Energy
Office of Inspector General**

Under

**Contract Number: DE-IG0000015
Work Order Number: 10-215-09**

By

Lani Eko & Company, CPAs, PLLC

June 28, 2012

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Independent Accountant's Report

To the Inspector General, U.S. Department of Energy:

We have examined the Recovery Act Weatherization Assistance Program funds awarded by the State of Michigan to the Area Community Services Employment & Training Council (ACSET) for the period April 1, 2009 through February 28, 2011. ACSET is responsible for operating the Weatherization Assistance Program in compliance with applicable Federal and State laws, regulations, and program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Weatherization Assistance Program Federal and State laws, regulations, and program guidelines, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

In our opinion, except for the weaknesses described in Section IV of this report, ACSET complied, in all material respects, with the aforementioned requirements and guidelines relative to the Weatherization Assistance Program funds awarded to ACSET for the period April 1, 2009 through February 28, 2011.

Lani Eko & Company, CPAs, PLLC

June 28, 2012
Alexandria, Virginia

**SECTION I. Description of Area Community Services Employment & Training
Council Weatherization Assistance Program**

The U.S. Department of Energy (Department) awarded \$250,361,024 to the State of Michigan to allocate among its network of 31 local governments and various nonprofit organizations participating in the Weatherization Assistance Program (Weatherization Program). From this award, \$5,568,123 was initially allocated to the Area Community Services Employment and Training Council (ACSET) to assist with the costs of weatherizing approximately 793 homes. Based on a re-assessment of ACSET's capacity to provide weatherization services, this amount was reduced to \$3,757,000 to weatherize an adjusted target of 578 homes.

In Michigan, the Weatherization Program is administered by the State Department of Human Services (DHS). ACSET partners with DHS to operate the Weatherization Program. In accordance with the terms of this agreement, ACSET is responsible for determining applicant eligibility and taking the necessary steps to weatherize the applicant's home. These steps include procurement of contractor services as well as conducting home assessments and inspections.

The Weatherization Program helps eligible low-income households lower their energy costs by increasing energy efficiency. The primary focus is on the problems of heat loss and air infiltration. Energy conservation and efficiency methods utilized by the Weatherization Program include measures that reduce energy consumption and the cost of maintenance for weatherized homes. In addition to the material improvements, energy conservation education is provided to participants. For the period from April 1, 2009 through February 28, 2011, ACSET reported that it had completed weatherization of 188 units under the Weatherization Program.

SECTION II. Classification of Findings

The findings in this report are classified as follows:

Material Weakness

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

Advisory Comment

For purposes of this engagement, an advisory comment represents a control deficiency that is not significant enough to adversely affect ACSET's ability to record, process, summarize, and report data reliably. The advisory comment presented represents matter that came to our attention during the course of the review and is offered to ACSET's management as an opportunity for improvement. The advisory comment is provided along with suggestions and discussion of the significance of the comments.

SECTION III. Summary of Findings

1. Eligibility for Weatherization Services Under the Recovery Act – Material Weakness
2. Quality of Work – Material Weakness
3. Recordkeeping for Work Performed – Advisory Comment

SECTION IV. Schedule of Findings

Finding 1. Eligibility for Weatherization Services Under the Recovery Act – Material Weakness

Condition A – Applicant Eligibility

We determined that weatherization services may have been provided to an applicant who was not eligible for weatherization assistance under the requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act). Specifically, of the 45 files tested, we noted one instance in which the applicant's household income, as part of a single-family dwelling unit, exceeded the allowable maximum household income under the Recovery Act and DHS guidelines. The DHS's Community Service Policy Manual (CSPM), which is consistent with Federal requirements, defines an eligible applicant for the Weatherization Program as an applicant whose household income does not exceed the higher of 60 percent of the State of Michigan median income or 200 percent of the current poverty income guideline. However, the applicant's household income of \$47,918 exceeded the poverty guideline by \$3,818 and the State of Michigan median income limit by \$2,087. In this instance, ACSET erroneously used the guidelines of the Michigan Public Service Commission (MPSC), which has an income ceiling of 250 percent of the current poverty income level. ACSET acknowledged that weatherization of this home should have been completed using MPSC funds.

Following the initial identification of the ineligible applicant, ACSET provided documentation that weatherization costs associated with this client file were reallocated to the Energy Optimization fund.

Condition B – Dwelling Designated for Acquisition or Clearance

ACSET may have weatherized homes or dwellings that were designated for clearance or acquisition. Per DHS's CSPM, which is consistent with Federal requirements, a home that is designated for acquisition or clearance by a Federal, state, or local program within 12 months of the date weatherization services are completed may not be weatherized. This requirement is included on the ACSET client intake application as a question to the applicant. The applicant is required to respond to the question based on the facts available to the applicant at the time the application is completed. Out of 45 files tested, we noted four instances where the applicants did not respond to this question on the intake applications. ACSET did not have a procedure in place to independently verify accuracy of the applicant's response.

Subsequent to our review and upon notification of this finding, ACSET contacted the four applicants and obtained current tax records which indicate that the applicants still have ownership of the homes that received weatherization services.

SECTION IV. Schedule of Findings (Cont.)

Cause

The deficiencies noted regarding compliance with dwelling unit and applicant eligibility, as well as cost of services for multi-family units requirements may be attributed to ACSET's lack of effective review and verification of applicants' intake applications.

Effect

We are questioning \$6,300 reimbursed to ACSET for weatherization services on a dwelling unit occupied by an ineligible applicant, as discussed in Condition A.

Because of this identified lack of controls, there is an increased risk that ACSET is providing weatherization services to ineligible applicants and dwelling units, thereby, reducing the amount of Recovery Act funds available for eligible applicants and dwelling units.

Recommendations

We recommend that ACSET:

- 1.1 Implement procedures in the intake process to ensure that intake specialists review and verify client applications for completeness and accuracy; and,
- 1.2 Works with DHS to address the costs questioned in this finding.

SECTION IV. Schedule of Findings (Cont.)

Management Comments

Regarding review and verification of client applications, ACSET officials acknowledged that the weatherization job in question was mistakenly charged to the Department's Recovery Act, and has reportedly removed all costs related to the job from the Recovery ACT funds and applied the charges to other non-state or federal funding. In addition, ACSET has implemented the State's new database, FACS Pro, that it believes will reduce the future risk of providing weatherization services to ineligible applicants.

In response to our concerns regarding dwellings designated for acquisition or clearance, ACSET verified that the homes in question had not been acquired or demolished. In addition, officials informed us the implementation of the FACS Pro data base currently will not allow applications to be processed without the verification of acquisition and clearance information.

Auditor Response

Management's comments are responsive to our recommendations.

SECTION IV. Schedule of Findings (Cont.)

Finding 2. Quality of Work – Material Weakness

Condition:

During our site visits to 13 completed dwelling units, we noted 5 instances totaling about \$27,000, in which deficiencies in the quality of work identified by DHS and ACSET personnel required re-work.

Specifically, DHS and ACSET noted:

- Wall cavities with voids, indicating insufficient insulation;
- Unsupported costs related to window repairs and glass installation;
- Contractor billing for weatherization services not performed, or incorrect Recovery Act billing for wrong insulation materials;
- Improper installation of doors; and,
- Homes not sealed to the required level, as indicated by blower door test in excess of allowable National Energy Audit Tool (NEAT) measures.

Subsequent to our review and upon notification of this finding, ACSET released work orders to contractors that performed weatherization services in dwelling units in which workmanship issues were identified during physical site visits. Re-work was performed without cost to ACSET. Additionally, ACSET provided completed Findings Reports as evidence that re-work was completed.

Cause

ACSET did not ensure initial weatherization services provided and subsequent re-work performed met the quality of work standards of the Weatherization Program. This occurred because ACSET had not performed trend analysis to identify systemic or repeated quality of workmanship issues. Also, ACSET had not analyzed the quality of workmanship problems to determine if selected contractors were responsible for the majority of quality of workmanship errors.

Effect

Lack of quality workmanship could pose health and safety risks to residents, hinder production, and increase Program costs.

SECTION IV. Schedule of Findings (Cont.)

Recommendation

We recommend that ACSET:

- 2.1 Perform a trend analysis of the rework orders and the contractors performing the work to identify recurring quality of workmanship issues.

Management Comments

Subsequent to our audit, ACSET required its contractors to correct the deficiencies noted at no cost to the agency. In addition, ACSET believes it has appropriate controls in place to ensure quality workmanship.

Auditor Response

Management's comments and actions taken are responsive to our finding.

SECTION IV. Schedule of Findings (Cont.)**Finding 3. Recordkeeping for Work Performed - Advisory Comment****Condition:**

We noted several instances where ACSET failed to maintain proper documentation sufficient to ensure compliance with Weatherization Program requirements. Specifically, we noted the following deficiency in ACSET's recordkeeping as it pertains to final inspections:

- Of the 45 dwelling units tested, we were unable to determine in 12 instances whether the final inspection was completed prior to billing DHS for costs incurred for weatherization services.

Under ACSET's weatherization agreement with DHS and in accordance with Federal requirements, ACSET is required to perform a final inspection of each dwelling unit before the job can be reported to DHS as complete and eligible for reimbursement. Consistent with Federal requirements, the final inspection must be signed and dated by the individual(s) trained and authorized to complete these inspections to ensure that the weatherization services have been provided in a quality manner.

Subsequent to our review and upon notification of this finding, ACSET provided evidence to more fully illustrate their process for installing, inspecting, remitting payment, and requesting reimbursement for weatherization measures. ACSET uses multiple levels of review to ensure weatherization clients receive consistent services, including a secondary Quality Assurance review conducted after the initial Department Weatherization Post Inspections have taken place. As a result of our review, ACSET has reformatted the inspection form utilized for its secondary Quality Assurance reviews to distinguish this level of review from the initial inspection required for the Department.

Cause

ACSET management did not ensure that final inspection procedures met recordkeeping requirements as a sub-grantee of State DHS and a recipient of Recovery Act funds.

Effect

As a result of ACSET's lack of adequate records for final inspections, there is an increased risk that post inspections may not be performed in compliance with program rules and regulations. Additionally, there is an increased risk that State DHS may be billed for weatherization costs incurred prior to completion of the final inspection.

SECTION IV. Schedule of Findings (Cont.)

Recommendations

We recommend that ACSET:

- 3.1 Update post inspection control procedures to ensure proper documentation is maintained in the client file to facilitate audit and performance evaluation.
- 3.2 Maintain sufficient, competent, and relevant records of the post inspection process for billing submitted to State DHS for reimbursement with Recovery Act funds.

Management Response

ACSET stated that their final inspection procedures met recordkeeping requirements as a sub-grantee of State DHS and a recipient of Recovery Act funds. Additionally, the implementation of the new state Weatherization Data Base (FACS Pro) during 2011 has provided assistance in standardizing information and provides another level of security in ensuring client eligibility, verification requirements, and work status.

Auditor Response

Per Department requirements, homes must be free of defect prior to reporting them as complete and requesting reimbursement. Based upon our review of both initial and quality assurance inspection reports, it was unclear whether all weatherization measures had been properly installed prior to billing the State. We recognize the process improvements made by ACSET subsequent to our audit and have credited ACSET for their actions taken.



SECTION V. Management Response

**AREA COMMUNITY SERVICES EMPLOYMENT &
TRAINING Council (ACSET)
Community Action Agency**

September 19, 2012

TO: Lani Eko at Lani Eko and Company CPAs, PLLC

FROM: Sylvia L. Hopson, ACSET Executive Director

SUBJECT: ACSET's Response to Auditors Report

Per your request, please review Area Community Services Employment & Training Council's (ACSET's) Management Response to the Examination Report of Lani Eko & Company in regard to their evaluation of ACSET's program records and documentation for the U.S. DOE Weatherization Recovery Act Funds for the period April 1, 2009 through February 28, 2011.

ACSET's Management contends that it is in compliance in all material respects with all elements of the U.S. DOE Weatherization Recovery Act for the time period Lani Eko conducted its evaluation. There are no Material Weaknesses or Deficiencies in ACSET's administration or performance of the Recovery Act Weatherization Assistance Program. Any omissions or errors in procedure or reporting at the time of the evaluation have been addressed by new and/or enhanced procedures for proper checks and balances to comply with the Federal Regulations, and all items have been corrected and/or completed. To simplify your review process, ACSET's responses will be in the same order as the Lani Eko comments regarding their Findings.

Boldfaced print in blue is information taken from the Lani Eko Examination Report, received via email by Karen Tolan, ACSET Associate Director, Community Action Agency, April 5, 2012.

SECTION IV. Schedule of Findings

Finding I. Eligibility for Weatherization Services Under the Recovery Act-Material Weakness

Condition A – Applicant Eligibility

ACSET Response

ACSET acknowledged that this particular weatherization job was mistakenly charged to DOE ARRA, and has subsequently removed all costs related to the job from the Recovery ACT funds and applied the charges to other non-state or federal funding. Proof of this removal of costs was provided to Lani Eko, April, 2012. Implementation of the FACS PRO data base in Michigan, utilized by ACSET, currently prevents this type of occurrence. With the removal of these costs, no cost will need to be disallowed. Therefore, it appears no further action is warranted.

SECTION V. Management Response (Cont.)

Condition B - Dwelling Designated for Acquisition or Clearance

ACSET Response

ACSET, subsequent to initial evaluation by Lani Eko, verified all four of these homes still exist, were owned by the same individuals who applied for the weatherization assistance program and there are no plans for acquisition or clearance at this time, which is beyond the 12 month period of time as required by the grant. ACSET policy has been updated and the implementation of the FACS PRO data base currently will not allow application to be processed without the verification of this information. Therefore, it appears no further action is warranted.

Condition C – Conflicting Guidance on Weatherizing Multi-Family Units

ACSET Response

ACSET maintains that weatherization measures and costs incurred on the referenced units are in compliance with mandates provided to us. There should be no disallowed costs.

Finding 2. Quality of Work – Material Weakness Condition

ACSET has for some time (prior to Lani Eko examination) been evaluating the quality of workmanship, professionalism and verification of completion of work as invoiced on WAP jobs. Information such as length of time for work from issuance to completion, number of re-work jobs by contractor, client complaints per contractor are only a few of the areas of information that are compiled and evaluated. ACSET identified through this process a contractor and two inspectors who were not meeting ACSET's quality expectation levels in one or more areas and those identified no longer perform any work for the agency. With our own internal "quality control" evaluations, homes were identified that were deficient in either completion of work or quality of work. In some cases ACSET had a different contractor complete any deficiencies. In no cases were additional costs charged to the program.

ACSET 's Management position is that there should be no disallowed costs as work/re-work has been completed and passed final inspections subsequent to Lani Eko's on site evaluations. Therefore, it appears no further action is warranted.

In concluding, ACSET strives for excellence in remaining in compliance with the requirements of all awarded grants following established principles for governmental accounting and financial management policies in addition to proper procedure in direct services, such as that required in the Recovery Act Weatherization Program. If an inconsistency is noted through ACSET's internal controls or the monitoring of programs by DHS or other outside agencies, we evaluate the steps needed to fulfill our responsibilities and go beyond contract requirements if we deem this necessary to maintain proper adherence to contract requirements and responsibilities.

Finding 3. Record-keeping for Work Performed

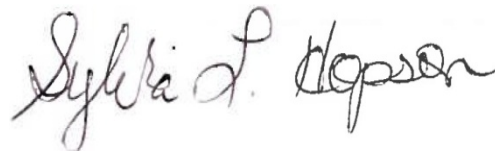
ACSET Response

ACSET did ensure that final inspection procedures met recordkeeping requirements as a sub grantee of State DHS and a recipient of Recovery Act funds. The audit team, however, being unfamiliar with our process, interpreted our documentation differently than intended. ACSET supplied spread sheets indicating date sequence evidencing our compliance in our written response to audit draft of 4/20/2012.

SECTION V. Management Response (Cont.)

Additionally, the implementation of the new state Weatherization Data Base- FACSPRO implemented last year, has provided assistance in standardizing information, and provides another level of security in ensuring client eligibility, verification requirements, work status, etc.

ACSET values this auditing process because it enhances our systems and procedures and contributes to ACSET being even a stronger Agency. So, should the Office of Inspector General need any additional information from ACSET, please let us know.

A handwritten signature in cursive script that reads "Sylvia J. Hopson".

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DEPARTMENT COMMENTS

Department of Energy

Washington, DC 20585

MAY 03 2013

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

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

SUBJECT: Response to Office of Inspector General (OIG) Draft Examination Report on "Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009."

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments on the OIG's Draft Examination Report for Area Community Services Employment and Training Council (ACSET) Weatherization Assistance Program (WAP) in Michigan. 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 continues to ensure compliance with Federal regulations and policies through on-going monitoring and communications with grantees. The response below addresses the one specific recommendation in the draft report:

The OIG's auditors expressed the opinion that, except for the weaknesses described in its report, ACSET complied in all material respects with the requirements and guidelines relative to the Weatherization Program.

OIG Recommendation 1: We recommend the Assistant Secretary for Energy Efficiency and Renewable Energy ensure appropriate action is taken by the State of Michigan to improve ACSET's administration of its Recovery Act Weatherization Program funds.

EERE Response: In April 2012, the Grantee required all subgrantees to use the newly improved monthly billing review process and Statewide web based system for application and eligibility processing. At the same time, the Grantee incorporated a trend analysis to their technical monitoring to enhance the administration of all DOE funding. The subgrantee, ACSET, concurred with the OIG questioned costs on ineligible applicants and reallocated expenditures appropriately to other non-DOE funding sources. The Project Officer conducted an on-site monitoring visit on January 15-18, 2013 and confirmed the subgrantee is in compliance with State contracts and program policy. DOE will continue its routine oversight of the Grantee and considers this recommendation to be resolved as of January 2013.



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