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Office of Inspector General
Office of Audit Services

Audit Report

Management Alert on the
Department's Monitoring of the
Weatherization Assistance Program
in the State of Illinois



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December 2009



Department of Energy
Washington, DC 20585

December 3, 2009

MEMORANDUM FOR THE ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

FROM: *Gregory H. Friedman*
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Management Alert on the Department's Monitoring
Of the Weatherization Assistance Program in the State of Illinois

BACKGROUND

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Department of Energy's Weatherization Assistance Program received \$5 billion to improve the energy efficiency of homes owned or occupied by low income persons, reduce their total residential expenditures, and improve their health and safety. Since the Recovery Act was enacted in February 2009, the Department has awarded weatherization grants to every state, the District of Columbia and five territories. Because of the unprecedented level of funding and the risks associated with spending vast amounts of money in a relatively short period of time, the Office of Inspector General (OIG) initiated a series of audits designed to evaluate the Program's internal control structures at both the Federal and state levels. As part of our work, we are in the process of reviewing Weatherization Program internal controls for the State of Illinois. We are also currently performing identical audits in the States of North Carolina, Pennsylvania and Virginia.

Under the Recovery Act and the Department's Program, the State of Illinois received \$242 million to weatherize 26,933 homes. The State of Illinois awarded these funds to 35 local agencies responsible for determining recipients' eligibility, contracting for the installation of the weatherization work, and conducting final inspections to ensure that work on homes was done in accordance with requirements. Inspectors working for the local agencies are required to evaluate the quality of mechanical and architectural improvements, such as furnace installations and window caulking, and certify that the work performed meets established standards. Under a Department approved plan in place at the time of our review, state officials were required to evaluate the sufficiency of local agency monitoring controls and to inspect the work performed on at least five percent of the units weatherized with Department funds during the program year for each local agency.

IMMEDIATE CONCERN

We identified significant internal control deficiencies in the management of the Weatherization Program in Illinois which require immediate attention. Specifically, our audit testing revealed significant problems with on-site monitoring and inspection of the Illinois Home Weatherization Assistance Program (Illinois). We noted that the Department had not fulfilled its requirement to perform monitoring visits at the State level. In addition, Illinois officials had not complied with the Department's requirements for inspecting weatherization work conducted by local agencies.

Finally, we found that a weatherization inspection for one of the local agencies failed to detect substandard installation of energy saving materials. This case involved a furnace gas leak that could have resulted in serious injury to the occupants and material damage to the structure. This is an interim report and our audit work remains in progress.

OBSERVATIONS

Our results to date have revealed significant on-site monitoring and inspection deficiencies in meeting Department requirements. In particular, we found that:

- The State of Illinois had not inspected any of the weatherized units completed with Department of Energy funds during the State's most recent Fiscal Year at 7 of 35 local agencies. For three other local agencies, Illinois had performed some monitoring but did not meet minimum requirements to inspect at least five percent of weatherized homes. Illinois officials explained that they had performed monitoring activities at the seven agencies for homes funded by other sources, such as the U.S. Department of Health and Human Services. State officials noted that on a state-wide basis, they had inspected five percent of weatherized units and indicated that they were unaware, based on their prior experience with the Weatherization Program, that the inspected units had to be "Department of Energy" funded units and that the five percent requirement applied to individual local agencies rather than to the total program. Given the dramatic increase in Department-funded weatherization work, it is critical to ensure that the weatherization activities of each local agency are monitored in accordance with Department requirements.
- Illinois did not have a system for aggregating and tracking major findings identified during on-site monitoring visits to local agencies. Illinois is planning to develop an automated system capable of tracking overall performance by individual contractors and local agencies, but to date had relied on manual files that incorporate monitoring results on a case-by-case basis. Once developed, the new system will allow the State to meet the Department's requirements to annually summarize and to review each subgrantee's audit, program monitoring reports, and findings.
- A local agency weatherization inspector failed to perform a required test and did not detect a furnace gas leak. This deficiency could have resulted in serious injury to the occupants and significant damage or destruction of the residence. The inspector also did not identify problems with the installation of the intake and exhaust pipes of the same furnace, deficiencies that did not comply with the manufacturer's installation instructions and which could have voided the manufacturer's warranty.
- The Department's Office of Energy Efficiency and Renewable Energy had not detected inspection problems because it had not performed on-site monitoring/inspection visits of State of Illinois activity at the required frequency. We plan a more general discussion of our findings regarding the Office of Energy Efficiency and Renewable Energy's management of its Weatherization Assistance Program requirements in a separate report.

Monitoring and oversight of local agencies is a vital part of the Weatherization Program process. While there is no guarantee that Federal-level monitoring or state inspections will identify all problems, such activities are essential to evaluate program performance, deter inappropriate actions by contractors, identify poor workmanship that could lead to hazardous conditions, and place participants on notice that standards are important and must be enforced.

As previously noted, we identified local-agency-level installation and inspection deficiencies that could have resulted in serious consequences. To gain an understanding of the weatherization process, we asked an Illinois program official to organize visits to homes weatherized by two local agencies. Our visits included reviews of five homes covering all three phases of the weatherization process, including the initial home assessment, work-in-progress, and final inspection. We were accompanied on our visits by a State program official and a representative from the local agency. During the inspection of one home, we noted that the local agency inspector did not detect a gas leak on a newly installed furnace. In fact, this serious defect was not identified until it was pointed out by the State program official who was accompanying the OIG staff. The Illinois official requested that the local inspector perform a gas leak test. This test, which should have been performed as part of the inspection, confirmed that a gas leak actually existed. After being prompted to conduct the gas leak test, the local agency inspector immediately issued a written notice of hazardous condition to the homeowner. State and local officials also told us that they are taking action to resolve the immediate deficiencies we identified and that they have plans to improve the training offered to contractors.

Subsequent to our visit, State officials indicated that the local agency had required the weatherization contractor that installed the gas furnace to return to the home and repair the gas leak and correct other installation errors. The local agency indicated that it planned to verify that the leak was corrected, and State officials told us that they would confirm that the repairs were completed. In addition, an official reported that Illinois is working on a statewide training curriculum for contractors and plans to implement it within the next few months. However, officials did not report any plans to conduct additional monitoring, testing or tracking of the work of the involved local inspector or weatherization contractor.

As indicated in its weatherization plan approved by the Department for Recovery Act implementation, Illinois also plans to improve its program administration by hiring 21 additional staff. Officials indicated that they had not yet begun hiring or implementing their plans because of a hiring freeze within the State.

RECOMMENDATIONS

State and local officials took action to address the specific and immediate problems we observed. However, our concern is forward looking, and we concluded that the actions taken to date are not sufficient to prevent or detect similar situations in the future. The weatherization contractor and local-level-inspection deficiencies, in our opinion, raise concerns regarding the adequacy of training and adherence to standards designed to ensure quality workmanship. Without additional action by Federal and state officials to perform all required monitoring and inspection activities and identify the source or cause of the installation and inspection issues, the overall goals of the Weatherization Program and the Recovery Act are at risk. As important, the safety of homeowners and area residents could be placed in jeopardy if substandard weatherization work

goes undetected. Because of the seriousness of these issues, we made several recommendations for expeditious management attention. Specifically, we recommend that the Assistant Secretary, Energy Efficiency and Renewable Energy:

1. Complete required state-level on-site monitoring; and,
2. Take action to help ensure that states:
 - a) Conduct annual on-site monitoring of the Weatherization Assistance Program at each local agency in accordance with program requirements;
 - b) Meet the Department's minimum five percent requirement for inspecting homes weatherized by each local agency;
 - c) Develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance;
 - d) Determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification; and,
 - e) Understand requirements for inspecting weatherized units funded by the Department.

MANAGEMENT COMMENTS AND AUDITOR RESPONSE

Management concurred with recommendations and reported that it had either completed actions or planned additional actions to implement the recommendations.

State officials asserted during a separate exit conference that the hazardous condition cited in our report was not identified during the inspection of a heating system in a weatherized unit. We noted, however, that the inspection we witnessed was formally characterized as a final inspection of a heating unit by a local agency official, that a report of "Final Inspection of Weatherization Work" was completed, signed by the homeowner and inspector, and provided to us at the completion of our review. Based on both documentary and testimonial evidence prepared and provided contemporaneously, we do not find the argument by State officials to be persuasive.

Management's planned and completed actions were responsive to our recommendations.

Management's written comments are attached to this report in their entirety.

Attachment

cc: Deputy Secretary
Under Secretary of Energy
Chief of Staff
Director, Office of Risk Management, CF 1.2
Team Leader, Office of Risk Management, CF 1.2
Diane Williams, Office of Risk Management, CF 1.2
Audit Liaison, EE-3A

**Response to Inspector General
Management Alert: "The Department's Monitoring of the Weatherization
Assistance Program in the State of Illinois"**

Recommendation 1

Complete required state-level on-site monitoring.

Response

Concur

DOE will complete on-site monitoring of all grantees during FY 2010.

Estimated Completion Date: September 30, 2010

Recommendation 2a

Take action to help ensure that states conduct annual on-site monitoring of the Weatherization Assistance Program at each local agency in accordance with program requirements.

Response

Concur

Guidance issued in the Weatherization Program Notice (WPN) 09-1 and 09-1B (see Section 4 of attached) specifically advises grantees to conduct annual onsite monitoring of the Weatherization Assistance Program at each local agency. The Department continues to focus attention on monitoring by requiring that these comprehensive reviews include a review of client files and sub grantees records, as well as inspection of at least five percent of the completed units or units in the process of being weatherized. DOE monitors will assure that this process is taking place during a DOE monitoring of the grantee. Also, guidance requires that during a DOE monitoring, reviews of any findings and non-compliance issues need to be reviewed to ensure appropriate follow-up action and processes are in place at both the grantee and sub grantee levels. These processes must include policies and procedures for timely reporting of situations found that could adversely affect the health and safety of occupants or workers in weatherized homes, and to ensure that such situations are addressed as soon as possible.

Additionally, for the State of Illinois, the field project officer will visit the State to work with appropriate officials to determine the root cause of the poor workmanship. In an effort to ensure that thorough final inspections are being conducted on every house, as required by the regulations (10 CFR 440), the project officer will check for gas leaks and verify that there is appropriate training available on the proper installation of intake and outlet piping and for inspecting such installation.

Estimated Completion Date: Completed.

Recommendation 2b

Take action to help ensure that states meet the minimum five percent inspection requirements for weatherization program homes at each local agency.

Response

Concur

Grantees must conduct a comprehensive assessment of each sub grantee at least annually. The comprehensive assessments must include inspections of at least five percent of completed housing units. Through desktop and on-site monitoring procedures, as described in DOE's comprehensive monitoring plan, DOE plans to monitor whether the grantees are assessing sub grantees annually and whether the grantees are inspecting at least the mandated five percent of homes weatherized. Additionally, DOE plans to review the grantee and sub grantee processes for ensuring that each home is inspected by the sub grantee for full compliance with program regulations and guidance prior to that home being reported as a completed unit. DOE currently has 19 monitors on board with selections pending on an additional 34 monitors. For FY 2010, DOE will monitor all grantees, including Illinois.

Under the Weatherization Assistance Program Guidance (WPN 09-1B), DOE "strongly encourages a higher percentage of units be inspected" (monitored) during a State's monitoring of each local agency. In addition, the WAP ARRA Monitoring Plan states that DOE monitors will conduct on site inspections of homes at various stages in the weatherization process and "random onsite monitoring visits of WAP grants will be conducted in each state each year."

Estimated Completion Date: September 30, 2010

Recommendation 2c

Take action to help ensure that states develop and implement a system to track major findings from local agency monitoring visits to final resolution.

Response

Concur

DOE plans to operationalize the new web-based tracking and reporting system, called Grant Reporting and Analysis Software System (GRASS) - see attached on information about this monitoring tool. The web-based tool allows for project officers/monitors to answer all quantitative and subjective questions via text boxes and electronic checklists. The system will allow the project officer/monitor to flag questions/inquiries that require additional follow up as well as quickly manage, organize and resolve findings from local agency monitoring visits.

Estimated Completion Date: Completed

Recommendation 2d

Take action to help ensure that states determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification.

Response

Concur

DOE monitors will assure that this process is taking place during DOE on-site monitoring of the grantee. Project officers/monitors are instructed to ensure that grantees are using their training and technical assistance (T&TA) money appropriately to train contractors and inspectors. This assurance will be determined during each monitoring visit, and training activities will be monitored during desk reviews. During on-site DOE monitoring visits DOE monitors will be checking to ensure that the planned activities related to training, certification, or licensing of in-house staff, subcontractors, and any other staff that perform duties in weatherized homes, are in fact occurring as specified in the grantee's DOE-approved grant application (State Plan).

Estimated Completion Date: Completed

Recommendation 2e

Take action to help ensure that states understand requirements for inspecting weatherized units funded by the Department.

Response

Concur

DOE monitors will communicate with grantees through email to ensure grantees understand the requirement to inspect five percent of weatherized units completed with EERE funds. DOE monitors will require that each grantee acknowledge their understanding of this requirement by written response. Additionally, DOE will evaluate the grantees' understanding of their monitoring requirements as part of its on-site monitoring activities.

Estimated Completion Date: January 15, 2010

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