



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

Audit Report

The Department of Energy's
Weatherization Assistance Program
under the American Recovery and
Reinvestment Act for the City of
Phoenix – Agreed-Upon Procedures



OAS-RA-11-03

November 2010



Department of Energy
Washington, DC 20585

November 30, 2010

**MEMORANDUM FOR THE DEPUTY 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 Audit Services
Office of Inspector General

SUBJECT: INFORMATION: "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed-Upon Procedures"
Audit Report No.: OAS-RA-11-03

INTRODUCTION AND OBJECTIVE

The attached report presents the results of an agreed-upon procedures review of the Department of Energy's (Department) Weatherization Assistance Program in the City of Phoenix, Arizona, under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of Inspector General (OIG) engaged an independent certified public accounting firm, Lopez and Company, to perform the agreed-upon procedures for Phoenix, a sub-recipient of the Department's Recovery Act Weatherization funding for the State of Arizona.

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 Assistance Program was implemented to reduce energy consumption for low-income households through energy efficient upgrades. The State of Arizona received \$57 million in Weatherization Assistance Recovery Act grant funding, of which \$7.2 million was allocated to the City of Phoenix. The Arizona Department of Commerce was responsible for administering Weatherization grants, including sub-grants provided to the City of Phoenix. This grant provided more than a fifteen-fold increase in funds available to Arizona for weatherization over the amount authorized in Fiscal Year 2009.

OBSERVATIONS AND CONCLUSIONS

The review identified opportunities for the City of Phoenix to improve its administration of Recovery Act funds made available by the Department's Weatherization Assistance Program. In particular, the City of Phoenix had not always ensured that costs charged for the weatherization of homes were reasonable. Specifically, Phoenix had not:

- Procured contractor weatherization services through a competitive process as required by Federal regulations, nor had it performed cost analyses in the selection of contractors to ensure price competitiveness;
- Obtained or reviewed supporting documentation for contractors' invoices totaling \$275,375 for 30 homes/units to ensure that materials and labor costs incurred on projects were associated with allowable weatherization services and materials; and,
- Ensured that employees charging payroll costs to the Weatherization Program Recovery Act grants were actually providing such services to the Program. In fact, the City of Phoenix charged payroll costs to the Program totaling \$73,082 for three full time employees even though payroll information to support such costs did not exist.

The City of Phoenix did not have written policies and/or procedures for ensuring cost reasonableness and supportability. Additionally, the City's payroll system was not structured to track employee's time incurred on projects. Payment for expenditures not appropriately documented and accounted for can potentially reduce the number of homes of low-income residents that can be weatherized. As a result of weaknesses in the City of Phoenix's administration of Weatherization Assistance Program, we question \$348,457 in costs incurred.

RECOMMENDATIONS

The attached agreed-upon procedures report makes recommendations to the State of Arizona and the City of Phoenix to improve administration of the Department of Energy Weatherization Assistance Program grant.

As part of its responsibilities for managing the national Weatherization Program, we recommend that the Acting Director, Weatherization Assistance and Intergovernmental Programs, Office of Energy Efficiency and Renewable Energy ensure that appropriate action is taken by the State of Arizona to improve the City of Phoenix's administration of Recovery Act Weatherization Assistance Program funds. We also recommend that the Contracting Officer resolve identified questioned costs.

MANAGEMENT COMMENTS

In discussions with the Office of Inspector General, Office of Energy Efficiency and Renewable Energy management agreed to address the issues in this report as part of their ongoing monitoring of the State of Arizona's Weatherization Assistance Program and to promptly resolve all questioned costs identified.

To its credit, the Arizona Department of Commerce stated that it had engaged the City of Phoenix in resolving questioned costs. For its part, the City of Phoenix reported that it had implemented a new Recovery Act Weatherization program that used a competitive low bid process to ensure cost reasonableness and full and open competition. Also, the City of Phoenix stated that it currently requires additional documentation on equipment costs in both bid proposals and invoices. The City of Phoenix said that it was engaged in finding an alternative

method to more accurately support its personnel costs charged to Recovery Act funding. However, the City of Phoenix also believed that its existing methodology for allocating personnel costs to Recovery Act projects actually resulted in charging about \$75,000 in personnel costs less than would have resulted from a pro rata distribution of costs based on production or on a direct time-card basis. Management comments from the Arizona Department of Commerce and the City of Phoenix are included in the attached agreed-upon procedures report.

AGREED UPON PROCEDURES

The agreed-upon-procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) as well as those additional standards contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

The OIG monitored the progress of the agreed-upon procedures performed and reviewed the report and related documentation. Our review disclosed no instances where Lopez and Company, in all material aspects, did not comply with the attestation requirements. Lopez and Company is responsible for the attached report dated November 23, 2010, and the conclusions expressed in the report.

The agreed-upon procedures included gathering an understanding of policies and procedures and reviewing documentation from the City of Phoenix. They also included an analysis of inspection results, records of corrective actions, and re-inspections of completed homes/units to ensure that any failures were properly corrected. Finally, an analysis of associated cost data was performed to test the appropriateness of payments.

Attachment

cc: Deputy Secretary
Acting Under Secretary for Energy
Chief of Staff
Assistant Secretary for Energy Efficiency and Renewable Energy



AGREED-UPON PROCEDURES

OF

Recovery Act Weatherization Assistance Program

City of Phoenix

PERFORMED FOR

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Prepared by

Lopez and Company, LLP

CONTRACT NUMBER: DE-IG0000017

WORK ORDER NUMBER: 2010-02

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Inspector General,
Department of Energy:

We have performed the procedures which have been agreed to by the U.S. Department of Energy's (Department) Office of Inspector General (Inspector General) solely to assist you in evaluating whether the City of Phoenix (the City), a sub recipient of the State of Arizona, complied with relevant Federal requirements and program guidelines in administering the Department's Weatherization Assistance Program (Weatherization Program) funds provided by the American Recovery and Reinvestment Act (Recovery Act) of 2009 for the period of July 1, 2009 to December 31, 2009.

City management is responsible for compliance with relevant Federal requirements and program guidelines.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the U.S. Government Accountability Office. The sufficiency of these procedures is solely the responsibility of the Inspector General. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures performed and findings developed based on these procedures are presented on the following pages.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the City's compliance with relevant Federal requirements and program guidelines in administering the Department's Weatherization Assistance Program funds provided by the Recovery Act of 2009. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Inspector General, and is not intended to be and should not be used by anyone other than the specified party.

/s/ Lopez and Company, LLP
November 23, 2010

SECTION I. City of Phoenix's Weatherization Assistance Program

The City of Phoenix operates under a Council-Manager form of government as provided by its Charter, which was adopted in 1913. Under this organizational structure, the Mayor and Council appoint a city manager to act as the chief operating officer. The Mayor and City Council set policy direction and the city manager implements those policies. The Mayor is elected at-large, while Council members are elected by voters in each of eight separate districts they represent. The Mayor and each Council member have equal voting power.

Weatherization Assistance Program Goals and Funding

The Goal of the Weatherization Assistance Program (Weatherization Program) in Arizona is to increase the energy efficiency of housing occupied by low-income persons and households and reduce their total residential energy expenditures. Arizona's Department of Commerce administers the Weatherization Program through sub-grants to local agencies, including the City. Under the sub-grant with Arizona, the City's Neighborhood Services Department is responsible for determining applicant eligibility, weatherizing homes, and conducting home assessments and inspections. Arizona allocated \$7.2 million of its \$57 million Recovery Act Weatherization Program funds to the City, to be expended over three years. In accordance with Weatherization Program criteria, the City provides weatherization services to families with income of less than 200 percent of the poverty level as defined by the U.S. Department of Health and Human Services.

SECTION II. Agreed-Upon Procedures Performed

1. We obtained an understanding of the City of Phoenix's Weatherization Program, its management and administration of risks and mitigating controls, through interviews with City officials, review of available information, policy and procedures documentation, and preliminary analysis of completed homes/units and associated cost data, in order to decide on an appropriate sample size and test focus.
2. Based on preliminary work performed in step 1, we judgmentally selected a sample of 30 completed homes/units.
3. We reviewed the sampled applicants' files for documentation supporting the applicants' eligibility for weatherization services under the Program. If the home/unit had prior weatherization work performed, we determined whether the prior work was completed on or before September 30, 1994. Weatherization Program regulations prohibit additional weatherization work if performed after this date.
4. We reviewed the sampled files for inspection results, records of corrective actions, and re-inspections to ensure any failures noted were properly corrected. We also interviewed weatherization service recipients to confirm that weatherization work took place on their property and they were satisfied with the services.
5. We evaluated the selected completed home/units' savings to investment ratios (SIRs) based on reported costs to determine whether the SIRs were less than one. If so, we determined the reasons for the non-compliance.
6. For the sampled homes/units, we selected relevant detailed cost data to determine whether:
 - a. Costs incurred were allowable;
 - b. Weatherization measures/materials complied with 10 CFR 440.18(d) (1) and 10 CFR 440, Appendix A, and that specifically stated unallowable items such as freezer-only units and/or sub-standard weatherization measures/materials were not used.
7. Using the City's vendor master list, employee master list and the Accounts Payable disbursement file for the period under review, we:
 - a. Compared vendor names per the disbursement's database with those of the vendor master list to determine whether there were unauthorized and/or ghost vendors, and/or same vendor/similar name schemes (i.e. S.D. Baker, SD Baker, SDBaker);
 - b. Compared vendor names and addresses with employee names and addresses to determine whether there were employees disguised as vendors; and,

SECTION II Agreed-Upon Procedures Performed (cont.)

- c. In lieu of applying data-mining algorithms, we reviewed vendor payment information to determine whether there were duplicate payments and split transaction payments (i.e. breaking one large amount invoice into two or more small amount invoices, and multiple payments for the same or similar invoice number from the same vendor using a similar name scheme).
8. We obtained a list of all monthly reimbursement requests and determined whether each request was adequately supported by detailed documentation, reconciled to appropriate summary ledgers, and reviewed and approved by appropriate management.
9. Since the City of Phoenix has no vehicles or equipment with a cost of over \$5,000 purchased with Recovery Act funds, we did not apply the agreed-upon procedures pertaining to purchase authorization, record keeping, title, custody, usage, and maintenance of Federally funded vehicles and equipment.
10. We obtained and reviewed a sample of thirty executed subcontract agreements between the City and its subcontractors for Recovery Act Weatherization Program work to determine whether the agreement was properly executed by both parties and whether the agreement provided for weekly certified payrolls with corresponding approved Davis-Bacon wage rates. For each subcontract selected, we tested a sample of two weekly-certified payrolls to determine whether the subcontractor was paying the prevailing wages according to the provisions of the subcontract agreement.
11. We obtained a master list of program identification or job codes used by the sub-recipient to separately record transactions under the Recovery Act weatherization program and transactions under other projects. We traced the identification or job code to the sample detailed cost data to determine whether the Weatherization Program Recovery Act project identification or code was actually used in separately recording and identifying weatherization transactions.
12. We selected one quarterly Recovery Act mandated performance progress report that contained the "Number of Jobs Created and Saved" information, reviewed relevant definitions and supporting calculation schedules to determine whether "Jobs Created and Saved" was consistently applied, and whether the number of "Jobs Created and Saved" was calculated accurately.

SECTION III. 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.

Significant Deficiency

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected. These are not considered material weaknesses, as previously defined.

SECTION IV. Summary of Findings

Area/Finding

Questioned Costs

- V.1 Questioned Costs for Weatherization Services Provided (Material Weakness)
- V.2 City of Phoenix Payroll Costs for Implementation of the Weatherization Program (Significant Deficiency)

SECTION V. Schedule of Findings

Questioned Costs Findings

V.1 Questioned Costs for Weatherization Services Provided (Material Weakness)

Condition

Based on our review of 30 completed homes/units, we found that the City of Phoenix was not ensuring that weatherization costs were either reasonable or supportable. More specifically, the City of Phoenix had not, at the time of our review:

- a) Complied with Federal regulations which require that procurements for weatherization efforts be conducted in a manner providing full and open competition and, therefore, could not ensure that costs were reasonable. The City provides weatherization of eligible homes/units by awarding projects to contractors that have been evaluated and determined to be qualified to provide these weatherization services. The City distributes the weatherization projects to the qualified contractors on a "next in line" basis with the overall cost of the project negotiated between the City's rehabilitation specialist and the contractor. However, there was no competitive bidding and/or cost analysis in the contractor evaluation and selection process to ensure that cost competitive contractors were selected and that costs charged were reasonable.
- b) Obtained or reviewed documentation for contractors' invoices to ensure that materials and labor costs on projects were associated with allowable weatherization services and materials. Federal and State requirements state that to be allowable under Federal awards, costs must be adequately documented. Based on the agreement between the Arizona Department of Commerce and the City of Phoenix, the City is required to comply with Federal requirements. Without adequate detailed information to support the costs charged by the contractors, the City cannot determine whether the costs were for allowable materials since the contractor invoices did not include descriptions of materials used and items installed.

As a result of the lack of contractor competition or an evaluation of reasonableness and insufficient documentation to support costs billed, we question the \$275,375 associated with the 30 homes/units in our sample.

SECTION V Schedule of Findings (Cont.)

V.1 Questioned Costs for Weatherization Services Provided (Cont.)

Cause

We determined that the City of Phoenix did not have written policies and/or procedures to address the issues of cost reasonableness and supportability. Management believed that using the "next in line" process was sufficient to ensure cost reasonableness. More specifically, it believed its rehabilitation specialists, whom it felt were knowledgeable about costs, could negotiate fair prices on projects to ensure costs were reasonable. In terms of supportability, management was not aware of the necessity of requiring the contractors' invoices to include descriptions of materials used and items installed. This is because these issues had not been identified in previous Weatherization Program reviews. During the exit conference, management acknowledged the finding and its implication, and stated that it would make improvements to address the finding. More importantly, as a result of this audit finding, the City of Phoenix revamped its Weatherization Program procurement methodologies. The work to be performed on individual homes/units is now being bid and lowest responsible bidders are being awarded the work. Further, the City of Phoenix has hired independent firms to conduct pre- and post- evaluations of weatherization work to ensure that weatherization measures installed comply with Federal Requirements for Savings to Investment Ratio.

Effect

The lack of an element of cost competition during the selection of contractors coupled with the absence of written procedures requiring submission of detailed invoices on projects resulted in an inability to evaluate costs to ensure that costs incurred were reasonable and allowable. Further, the risk of fraud, waste and abuse is elevated in the City of Phoenix's Weatherization Program.

Recommendations

1. We recommend that the Arizona Department of Commerce review the City of Phoenix's revised policies and procedures to ensure that the City:
 - 1.1. Evaluates and selects contractors based on competitive bidding; and,
 - 1.2. Obtains sufficient documentation of costs charged by contractors to allow the City to review and establish that costs charged are reasonable and allowable.
2. We also recommend that the Arizona Department of Commerce work with the City of Phoenix to address the costs questioned in this finding.

SECTION V Schedule of Findings (Cont.)

City of Phoenix Response

The City of Phoenix concurred with the finding and recommendation V.1.1 and has implemented a competitive low bid process to ensure cost reasonableness and full and open competition.

V.1 Questioned Costs for Weatherization Services Provided (Cont.)

The City also concurred with the finding and recommendation V.1.2 and now requires contractors to submit detailed documentation on all weatherization proposals to support allowable equipment costs. See Section VI for the City's full response.

Arizona Department of Commerce Response

The Arizona Department of Commerce concurred with the findings and recommendations put forth. See Section VII for the Arizona Department of Commerce's full response.

SECTION V. Schedule of Findings

Questioned Costs Findings (Cont.)

V.2 City of Phoenix Payroll Costs for Implementation of the Weatherization Program (Significant Deficiency)

Condition

The City charged three full time employees to Weatherization Program Recovery Act grants as direct costs even though payroll information to support such costs did not exist. Further, these personnel provide support to other City programs that were not funded by the Recovery Act. Federal regulations require that costs must be adequately supported and documented in order to be allowable under Federal awards.

At the time the City applied for Weatherization Program Recovery Act funds, officials determined that the additional weatherization efforts would necessitate hiring three additional staff. There was no formal study or analysis performed to support the City's estimate that three workers were necessary to support the Recovery Act Weatherization Program. The City's grant manager stated that since the employees were hired to address the support needs of the Weatherization Program, their full costs are charged to the Weatherization Program Recovery Act funds. We determined, however, that these employees provided support to other City programs and that other (non-Recovery Act funded) City workers provided support to the Recovery Act funded Weatherization Program. The City could not demonstrate actual staffing needs, nor could we determine how much time was actually spent by City workers conducting Recovery Act weatherization efforts.

Cause

The City's payroll system was not set up to track employees' time incurred on projects, or on any other functional basis. Management used an undocumented cost estimate in support of the three personnel charged to the Recovery Act funded Weatherization Program. Management did not understand the Weatherization Program requirements for tracking employees' time incurred on projects. Further, it did not initially recognize the need for a formal study to support costs charged to Recovery Act funded Weatherization Program for three personnel.

During the exit conference, management acknowledged the finding and did state that it was in the process of preparing a formal study of program needs supporting its decision to charge three staff to the Weatherization Program. According to the Department's Weatherization Program staff, the City of Phoenix' Weatherization Program may only account for hours of staff assigned to and performing on behalf of the Program. In addition, the fiscal records should be adjusted to reflect the actual hours of the work performed by these staff on behalf of the Program.

SECTION V. Schedule of Findings

V.2 City of Phoenix Payroll Costs for Implementation of the Weatherization Program (Cont.)

Effect

Without documentation of the level of effort provided by City employees to the Recovery Act Weatherization Program, we question the \$73,082 charged to the Weatherization Program for the three employees at the time of our review.

Recommendations

We recommend that the Arizona Department of Commerce ensure that the City of Phoenix:

1. Prepares a formal analysis which clearly supports the amount charged for the City's weatherization personnel costs in terms of full-time staff equivalents for review and approval by the Arizona Department of Commerce.

City of Phoenix Response

The City of Phoenix concurred with this finding and recommendation. The City has submitted a work force analysis indicating that the City incurred weatherization personnel costs in excess of amounts charged to the weatherization grant and the analysis appears adequate. The City is actively engaged in finding an alternative method to more accurately support future weatherization personnel costs in cooperation with the Arizona Department of Commerce. See Section VI for the City's full response.

Arizona Department of Commerce Response

The Arizona Department of Commerce concurred with the finding and recommendation put forth. See Section VII for the Arizona Department of Commerce's full response.

SECTION VI. City of Phoenix Response



November 5, 2010

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

Dear Mr. Collard:

Thank you for the opportunity to respond and provide additional information on the "The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed Upon Procedures" draft report dated October 22, 2010.

While we appreciate the time and effort of this outside review of our critical programs and services, we were disappointed to learn that the information previously provided was not sufficient enough to address or clarify all of your office's concerns.

Below please find our response to the recommendations outlined in the draft report. Attachment A is also included for additional detailed information in response to the two Questioned Costs Findings V.1 and V.2.

Recommendation V.1-1.1 – City of Phoenix evaluate and select contractors based on competitive bidding;

The City implemented this new ARRA Weatherization program based on a State approved process and was in the process of transitioning to a new procurement system at the time of the audit. Since then, the city has complied with the recommendation to replace the "next in line" process with a competitive low bid process which will ensure cost reasonableness and full and open competition. Please see Section V.1a of Attachment A for more detailed information.

Recommendation V.1-1.2 - City of Phoenix obtain sufficient documentation of costs charged by contractors to allow the City to review and establish that costs charged are reasonable and allowable.

The City has always had field staff perform onsite verification of installed allowable equipment, however, to further improve upon these efforts, the City of Phoenix now requires contractors submit detailed documentation of equipment make and model numbers on all weatherization bid proposals as well as provide serial numbers on all invoices to ensure that equipment costs on projects are associated with allowable weatherization specifications. Please see Section V.1b of Attachment A for more detailed information.

Recommendation V.1-2 - Arizona Department of Commerce work with City of Phoenix to address the costs questioned in this finding.

To date, the average weatherization cost per unit is \$6,134 which is below the Recovery Act's anticipated average unit cost of \$6,500. The sampled projects were highlighted to show that the

SECTION VI. City of Phoenix Response

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projects included an inordinate number of above average costs in both the multi-family and especially the single-family units selected. The City will work with ADOC to ensure actions taken to address these findings and recommendations are in place and working. Please see Section V.1 of Attachment A for more detailed information.

Recommendation V.2-1 - Arizona Department of Commerce ensure that the City of Phoenix prepares a formal analysis which clearly supports the amount charged for the City's weatherization personnel costs in terms of full-time staff equivalents for review and approval by the Department of Commerce.

The City implemented this new ARRA Weatherization program based on State approved contracting procedures, and an ARRA Weatherization Plan Outline that was submitted to the State, complete with a staffing request resulting from performing State funded weatherization programs over the past 34 years. To provide the quickest most efficient program delivery to such a high risk and high demand population, staff was pooled together to work across all rehabilitation programs, and charged directly on full time equivalent basis, not to exceed the program's pro-rata share of costs based on expected program unit delivery.

We admit this method is not ideal; however, actual unit delivery was sufficient enough to lead the state in production and at approximately \$75,000 less cost annually than its pro-rata share would have required or would have received through direct time-card charges. Given the complexity of multi-funded rehabilitation the City performs, finding the right costing mechanism has been extremely challenging.

The City is actively engaged in finding an alternative method to more accurately support the amount charged for the City's weatherization personnel costs. Section V.2 of Attachment A has more detail on how the City provided proof that the amount charged for staff was appropriate for the time frame reviewed in the audit and documents the cost savings achieved. This information will be shared with the Department of Commerce and an alternative agreed upon methodology will be reached, implemented and documented.

We appreciate the assistance and cooperation provided during this audit review by the Office of Inspector General and its independent certified public accounting firm, Lopez and Company, and look forward to making the recommended changes and enhancements. If you have any questions or need additional information, please contact Kweilin Waller, Management Assistant, at (602) 495-0474 or kweilin.waller@phoenix.gov

Sincerely,



Chris Hallett
Acting Neighborhood Services Director

Attachment

SECTION VII. Arizona Department of Commerce Response

Janice K. Brewer
Governor



Donald L. Gordon
Director

November 4, 2010

George W. Collard
Assistant Inspector General
for National Security and Energy Audits
Department of Energy
Office of Inspector General
1000 Independence Avenue Southwest
Washington, DC 20585

SUBJECT: Draft 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”

Dear Mr. Collard,

Upon review of the report submitted by the Office of Inspector General (OIG) the Arizona Department of Commerce, Energy Office understands and appreciates the recommendations provided by the OIG.

The Energy Office will continue to work with the City of Phoenix to address the findings that were outlined in the report. More specifically, the Energy Office has already engaged the City of Phoenix in correcting the “Material Weakness” of the questioned cost for weatherization services provided.

As stated in the draft report, the prior procedure for “awarding” contracts to contractors was based on a “next in line” process of approved contractors. The Energy Office recognizes that the City of Phoenix has since changed that process and now all jobs are awarded through a competitive bidding process where each job is submitted to three or more approved contractors for bidding and all bids are opened at a bid meeting weekly, where the lowest bidder is awarded the job. In addition, if any winning bid appears to still be unreasonable, the job is then re-bid by a different set of approved contractors to ensure the best use of ARRA funds.

The Energy Office is also working with the Department of Energy (DOE) in reviewing the Priority List that the City of Phoenix utilizes in supporting cost effective measures that meet the 1-to-1 Savings to Investment Ratio (SIR) that is required by federal regulation. The Priority List is a list of measures that, through the use of computer modeling, have been deemed cost effective and approved by DOE. The Energy Office expects this to be completed within the next 90-120 days.

SECTION VII. Arizona Department of Commerce Response

Janice K. Brewer
Governor



Donald L. Cardon
Director

In response to the Significant Deficiency of the City's Payroll Cost for Implementation of the Weatherization Program, the City of Phoenix is conducting a labor distribution study which will clearly support the City's weatherization personnel cost in terms of full-time equivalents

In conclusion, the Energy Office is committed to resolving these findings and appreciates the opportunity to review and comment on this report. As stated above, corrective actions have been taken and the Energy Office will continue working with the City of Phoenix to ensure complete resolution of the findings in the OIG report.

If you have any questions please contact Terry Rother, Manager, Building Science and Efficiency at (602) 771-1253 or email TerryR@azcommerce.com.

Sincerely,

A handwritten signature in cursive script that reads 'Sandra Watson'.

Sandra Watson
Arizona Department of Commerce
Chief Operating Officer

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