



STATE OF WASHINGTON

August 3, 2011

The Honorable Brian Sonntag
Washington State Auditor
P. O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to provide this official management response to the July 14, 2011, performance audit report on the Department of Commerce's (Commerce's) Low-Income Weatherization Assistance Program (Weatherization Program) funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). These funds aided our economy by creating and saving local jobs and by improving the energy efficiency, health, and safety of our state's vulnerable low-income households.

Washington State has consistently been among the top 12 Recovery Act weatherization producers in the nation. Since 2009, our program weatherized 11,034 units, which is 154 percent of the 7,170 Recovery Act units targeted for Washington. Weatherization measures improved energy efficiency in homes, reduced energy bills, addressed health and safety concerns, created and sustained jobs, and supported local businesses, from subcontractors to suppliers. The U.S. Department of Energy conducted two comprehensive monitoring assessments in 2010. The two reports issued to Commerce earlier this year stated "...*there were no findings or corrective actions cited...*".

We appreciate the thorough review by the State Auditor's Office (SAO). Your report affirms that Washington's Recovery Act Weatherization Program met sound practices overall by:

- Citing seven examples of employing leading practices in our weatherization monitoring procedures; and
- Finding that Commerce meets 29 of 33 (88 percent) of the "Elements of an Effective System."

We concur with the recommendations from your report. Program managers at the Department of Commerce acted quickly and decisively during and following the SAO review to enact changes, provide training, and communicate expectations. Based on your report, we are implementing additional changes at Commerce and through local agency administrators to make improvements and enhancements to the weatherization program.

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Commerce has:

1. Trained all monitors and inspectors to use monitoring and inspection checklists consistently and as a tool for engagement and follow through with local agency program contractors.
2. Reinstated monitor review of project costs as reasonable, documented, and having received final inspection.
3. Reminded local agency service providers of program expectations for work quality control, documentation, and inspections.
4. Implemented a new weatherization data collection and reporting system for Commerce and local agencies.
5. Scheduled and conducted refresher training for local agency weatherization managers and inspectors on inspection standards, consistency, and documentation.

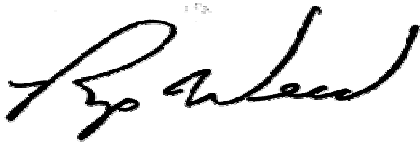
In addition, Commerce will begin:

1. Documenting its monitoring and inspection procedures to increase consistency.
2. Conducting additional inspector trainings.
3. Revising reimbursement and documentation requirements for greater fiscal accountability.

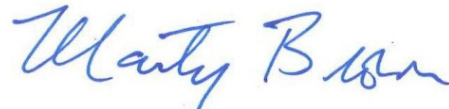
Attached are additional details in response to portions of the report.

Thank you for your assistance in improving Washington's Recovery Act Weatherization Program.

Sincerely,



Rogers Weed, Director
Department of Commerce



Marty Brown, Director
Office of Financial Management

Attachment: Coordinated Management Response from Commerce and OFM

cc: Marty Loesch, Chief of Staff, Office of the Governor
Wendy Korthuis-Smith, Director, Accountability & Performance, Office of the Governor
Dan McConnon, Assistant Director, Community Services and Housing Division,
Department of Commerce
John Thomas, Internal Auditor, Department of Commerce

OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON THE DEPARTMENT OF COMMERCE LOW-INCOME WEATHERIZATION ASSISTANCE PROGRAM

AUGUST 3 2011

This coordinated management response is provided by the Department of Commerce (Commerce) and Office of Financial Management (OFM) for the performance audit report received July 14, 2011.

SAO Issue 1: The division [Commerce's Community Services and Housing Division] did not establish the sound financial monitoring processes necessary to ensure adequate monitoring of the \$68.1 million in weatherization funds it spent in 2009 and 2010. (Page 13)

RESPONSE:

Based on observations and suggestions by the SAO in January 2011, Commerce made immediate changes to the program's monitoring and inspection procedures. These changes included assessing project scope of work and cost reasonableness and reviewing project documentation, such as final inspection assurance and proof of payment after a satisfactory inspection. These items compose a part of the Weatherization Program's monitoring and inspection review checklist.

In 2009, the Weatherization Program conducted fiscal monitoring at 19 of 25 local agencies. In-depth Weatherization Program fiscal monitoring was conducted at two of the 19 agencies. Comprehensive fiscal monitoring procedures and checklists have been developed and followed for the past three years.

The division's dedicated financial monitor is a certified public accountant whose reviews will supplement Weatherization Program monitoring and inspections.

Action Steps and Time Frame

- Develop monitoring tool checklist to perform a financial assessment of each project selected for review. (Completed November 2010)
 - Implement use of financial assessment checklist in monitoring procedures. (Completed January 2011)
 - Direct local agencies to retain project cost documentation in client files. (Completed January 2011)
 - Examine sample of local agency invoices paid to verify reasonableness and accuracy of amounts charged. (October 2011)
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SAO Issue 2: The Division's follow-up inspections did not emphasize improving local agencies' inspection processes, did not ensure local agencies resolved substandard work, and did not provide for increased monitoring at low-performing agencies. (Pages 17-21)

RESPONSE:

Commerce set a minimum inspection goal of 5 percent of the Recovery Act units weatherized. By the end of 2010, Commerce inspected 34 percent, or 704 units. As of March 31, 2011, Commerce inspected 1,118 weatherized units.

The following response addresses the observations on page 17:

1. *SAO Report: Local agencies' inspections were consistently cited for failing to identify substandard work and the Division did not consistently ensure that the issues were corrected or processes improved.*
 - Commerce rigorously inspects weatherized units reported as complete and inspected by local agencies. Every instance of substandard work is used as a technical assistance opportunity to correct or improve local agency inspection systems.
 - All corrections require a response from the local agency, including the name of the person performing the repairs and the date the response was completed. This is reviewed for completeness by Commerce. If the written response is inadequate, additional follow-up with the local agency is scheduled, which includes monitoring and inspections when appropriate.
 - Local agencies have access to the Building Performance Center (BPC), a federally-funded training and technical assistance organization for weatherization training. All local energy auditors and work-quality inspectors are required to be certified to federal standards by BPC.
 - Commerce performed an all-agency assessment in September 2010 to determine whether work documented as "corrected" by local agencies was, in fact, corrected. Commerce found an unacceptable error rate of 19 percent. Field testing of preliminary procedures and practices (to ensure that corrections are performed and verified) began in July 2011. Final development and implementation of written procedures is expected by October 2011.

2. *SAO Report: The Division did not increase monitoring at local agencies that exhibited consistent performance problems.*
 - The high volume of Recovery Act funds Commerce received was unprecedented. The funds came quickly and with extraordinary expectations for rapid expenditure and results. To optimize performance and minimize the risk of jeopardizing Recovery Act funding, Commerce chose to temporarily treat all local agencies that were to receive Recovery Act weatherization funding equally until August 2011. When agencies with performance problems were identified, Commerce redirected resources to address specific performance concerns.
 - The increase in production volume, addition of less-experienced personnel and subcontractors, and imposition of federal and state wage determinations challenged even the best performing agencies.
 - During the performance audit review period, quality control was a major emphasis of Commerce. An elevated inspection level was implemented and maintained for all local agencies with the intention to shift to risk-based monitoring and inspection beginning August 2011. Local agencies were still developing capacity in 2009. By 2010, local agencies achieved full implementation with new crews and vendors.
 - Commerce has developed, and is field testing, a risk assessment tool to drive its local agency monitoring and inspections. Local agencies will receive a rating based on eight performance measures. Depending on the determined risk, 10 to 20 percent of completed

projects will be inspected. This exceeds the Department of Energy's (DOE) minimum inspection requirement of 5 percent.

- Commerce has historically received recognition from DOE for monitoring and inspection procedures, including being named as a model for other states. DOE conducted a three-day monitoring assessment of the Recovery Act-funded program in December 2010, and issued its report to Commerce on May 3, 2011. DOE's assessment included monitoring one local agency and three client homes, and reviewing and observing Commerce's monitoring and inspection procedures. Once completed, DOE's report stated "...there were no findings or corrective actions cited..."

3. *SAO Report: We observed one instance when Division staff allowed a local agency to select projects for follow-up inspections, potentially compromising the integrity of the monitoring process.*

The circumstance observed by SAO was an anomaly. In January 2010, Commerce adopted a policy that states, "Commerce or its designees will select all projects for inspection."

The assigned monitor worked with the local agency two weeks prior to the scheduled visit, identifying projects Commerce wanted to inspect, thus following the agency's stated policy. Unfortunately, a local agency employee failed to cooperate and respond to requests from Commerce. Because this visit was scheduled to be observed by the SAO, Commerce chose to proceed with the monitoring and inspection visit, and accepted projects selected by the local agency employee.

Nevertheless, the Commerce inspector still observed and recorded necessary corrections. Commerce registered concerns in its monitoring report to the local agency about the lack of cooperation by the employee. The local agency conducted its own investigation, which resulted in the employee's dismissal.

Action Steps and Time Frame

- Notify and remind local agencies of the weatherization program's work quality expectations and documentation. (Completed January 2011)
- Send notice for statewide inspector workshop to local agency weatherization managers and inspectors, including a reminder on work quality expectations and documentation. (Completed March 2011)
- Revise and update monitoring tools and procedures. (Initiated November 2010 and scheduled for completion September 2011)
- Implement written procedures to verify corrections made. (October 2011)
- Develop written step-by-step monitoring and inspection protocol. (October 2011)
- Develop and apply risk assessment tool. (August 2011)
- Select projects for inspection. (Adopted January 2010 and reaffirmed October 2010)
- Schedule and conduct inspection workshop for all local agency weatherization inspectors. (Completed June 2011)

SAO Issue 3: The Division did not have the information systems it needed to handle the significant demands of the Recovery Act.

RESPONSE:

Commerce recognized that the Weatherization Program needed a new data system. Work began on this system in 2008, before the Recovery Act was enacted. The SAO report describes the challenges Commerce and local agencies had in meeting demanding Recovery Act reporting requirements. Since Recovery Act funding was unexpected and so large, a more sophisticated interim data system was developed as soon as the Recovery Act took effect.

Commerce met DOE's reporting expectations and voluntarily provided data to DOE more frequently than required. Commerce was able to meet all Recovery Act reporting requirements, including state Office of Financial Management and federal DOE reporting requirements, and weekly reporting requirements instituted by the Governor's Office in the fall of 2009.

The agency replaced the interim database with a comprehensive online data system that exceeds Recovery Act data requirements. The Weatherization Information Data System went live in February 2011. Commerce acted immediately to ensure that all Recovery Act reporting requirements were satisfied while concurrently developing and refining the system to meet program management needs more efficiently.