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United States Government Accountability Office
Washington, DC 20548

June 30, 2010

Mr. Don Thompson
Executive Director
Mississippi Department of Human Services
750 North State Street
Jackson, MS 39202

*Subject: Independent Oversight of Recovery Act Funding for Mississippi's
Weatherization Assistance Program*

Dear Mr. Thompson:

The American Recovery and Reinvestment Act of 2009 (Recovery Act) assigns GAO a range of responsibilities to help promote accountability and transparency.¹ One of the act's recurring requirements includes having GAO conduct bimonthly reviews of selected states' and localities' use of funds made available under the act.² GAO's review of the use of Recovery Act funding in Mississippi this year included the Weatherization Assistance Program. The Weatherization Assistance Program, administered by the Office of Energy Efficiency and Renewable Energy within the U.S. Department of Energy (DOE), enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating equipment, air circulation fans, and air-conditioning equipment. For a full description and requirements of the Weatherization Assistance Program, see appendix XVIII of GAO-10-605SP.

As part of our overall review of the weatherization program in Mississippi, we visited community action agencies responsible for weatherization activities located in Columbia, D'Lo, McComb, and Meridian. In our review of client files, and other data provided by the Division of Community Services (DCS) personnel and one community action agency, we found several problems at the community action agency, which we shared with DCS. We also identified issues concerning the quality of oversight of the program by Mississippi Department of Human Services' (MDHS) Division of Program Integrity (DPI), which we have discussed with MDHS officials. This correspondence confirms the substance of our conversations with DCS and MDHS officials. Accordingly, we are reporting on (1) the extent that the state monitoring program provides sufficient oversight of community action agencies to ensure that the agencies expend Recovery Act funds effectively while preventing

¹ Pub. L. No. 111-5, 123 Stat. 115 (Feb 17, 2009).

² Recovery Act, div. A, § 901, 123 Stat. 191

fraud, waste and abuse, and (2) the extent that local agencies have sufficient internal controls in place to ensure that the agencies expend Recovery Act funds effectively while preventing fraud, waste and abuse. We conducted this performance audit from January 2010 through May 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program—which DOE is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes. DOE allocated \$49.4 million in Recovery Act funding to Mississippi for its Weatherization Assistance Program. This represents a large increase in funding over prior years when the state’s allocation typically ranged from \$1.5 million to \$2 million. The increased funding will allow more than 5,000 homes to be weatherized in Mississippi. As of March 31, 2010, 2,460 or 45 percent of planned homes had been weatherized. The program is scheduled to be completed March 30, 2012.

DCS, a division within MDHS, is responsible for administering these funds and overseeing the weatherization activities of the nine sub grantees or community action agencies responsible for weatherizing homes. In order to ensure that these funds are expended appropriately and efficiently, DOE requires that DCS monitor the programmatic and fiscal operations of community action agencies.

In March 2009, DOE established requirements for the use of Recovery Act funds for the Weatherization Assistance Program.³ As such, DCS is required to conduct comprehensive monitoring of each community action agency at least once a year. This is to include a review of client files and community action agency records, as well as the inspection of at least 5 percent of the weatherized units or units in the process of being weatherized. While not required, DOE strongly encourages the inspection a higher percentage of units.

DCS Monitoring Efforts Identified Mismanagement in the Weatherization Program

DCS has implemented a monitoring plan that generally exceeds the requirements established by DOE. In its Recovery Act training and technical assistance review plan, DCS states that it plans to monitor more than 22 percent of all homes completed. As of March 31, 2010, DCS has monitored 33 percent, and has set a goal for itself to monitor 40 percent of all homes completed from April 2010 through the end of the program. It was during the course of monitoring community action agencies’ weatherization activities that DCS identified significant mismanagement by one community action agency, Southwest Mississippi Opportunity (SMO).

³ Weatherization Program Notice 09-1B, Department of Energy, March 12, 2009.

DCS determined that SMO failed to provide adequate oversight of contractors weatherizing homes and SMO program staff. Specifically, DCS determined that SMO staff did not perform adequate inspections of homes weatherized and that 23 of 40 homes weatherized by SMO contractors exhibited poor workmanship. DCS also determined that SMO was 188 homes behind schedule. Other problems identified by DCS included incomplete client files and a lack of qualified staff. DCS subsequently terminated its subgrant with SMO because of SMO's failure to take corrective action as directed by DCS.

During the course of GAO's review of SMO's client files we determined, and DCS concurred, that SMO paid contractors in excess of the levels established by DCS. The Director of DCS told us that the amount paid for labor should not exceed 110 percent of material costs. GAO determined that SMO had paid contractors between 200 percent and 400 percent of material cost. Because these actions did not correspond with DCS policy, DCS has required that SMO reimburse more than \$38,000 in Recovery Act funding to DCS. DCS subsequently modified its guidelines for community action agencies regarding labor costs, raising the rate from 110 percent to 125 percent. The new rate is significantly lower than that paid by SMO.

During our review of client files we also found that the reporting of labor costs by community action agencies visited were not uniform, and, in some cases, labor costs were unclear, and we could not determine what work those costs reflected. In response DCS has implemented a uniform labor invoice form to be included in all client files, which should aid in future file reviews.

Independent Monitoring of the Weatherization Assistance Program Can Better Assure the Program's Integrity

MDHS' DPI is responsible for performing independent reviews of all federal grants received by MDHS that are administered by its divisions such as DCS. For the Recovery Act Weatherization Assistance Program, MDHS requires DPI to monitor fiscal and programmatic records. In addition, DPI has established a policy to inspect 10 percent of homes completed by each community action agency.

DPI monitors visited SMO in early December 2009 and inspected the files and homes of 10 clients, as well as SMO's fiscal and program operations. DPI's visit coincided with DCS' ongoing review of SMO which resulted in termination of SMO's Recovery Act Weatherization Assistance Program. DPI monitors did not identify any problems with SMO's fiscal and program operations although SMO had paid contractors in excess of levels established by DCS. MDHS officials stated that DPI monitors did not find problems with the 10 homes inspected because their visit was performed after the initial problems were found and corrected. However, DPI officials previously stated that they were unaware that DCS had directed SMO to discontinue home weatherization because of poor workmanship. A draft report prepared by DPI stated that there were no significant adverse findings noted during its review of SMO.

Given the large increase in funding for the Weatherization Assistance Program we believe there is a need for vigorous and independent oversight of the program to ensure that Recovery Act funds are spent efficiently and effectively. Based on the findings discussed above we believe that the Weatherization Assistance Program

would benefit by ensuring that DPI reviews are sufficiently thorough to ensure that special attention is paid to weatherization financial and program files in an effort to identify problems such as those found at SMO. Similarly, we believe that MDHS should ensure that DPI coordinates the results of their reviews of weatherization activities by community action agencies with DCS.

Agency Comments and Our Evaluation

MDHS provided us with written comments on a draft of this correspondence. The comments are enclosed.

MDHS concurred with our finding that SMO paid contractors beyond acceptable levels as set by DCS and agreed with our statement that DCS required SMO to reimburse \$38,000 in Recovery Act funding. MDHS also provided updated information regarding the \$16,000 of disallowed costs incurred by SMO. MDHS stated that these funds have been accounted for and thus SMO is not required to refund them. Our correspondence has been amended accordingly.

MDHS commented on our characterization of DPI and DCS interaction regarding the review of SMO. We stated that DPI officials told us that they did not coordinate their review of SMO with DCS and were unaware of the problems discussed above, referring to problems DCS found at SMO. MDHS stated that we did not explain that DPI does not coordinate regular monitoring visits with any funding division in order to maintain independence of the funding division's relationship with the subgrantee. While a level of independence between DPI and DCS may be necessary it should be noted that because DPI did not coordinate with DCS, DPI was unaware of issues with SMO that were so significant as to warrant terminating home weatherization by SMO. In addition, because DPI was unaware of these problems it prepared a draft report that stated there were no significant adverse findings noted during its review of SMO. We have amended our correspondence to reflect the fact that DPI should coordinate the results of their weatherization monitoring activities with DCS to ensure that reports are thorough and accurate.

MDHS disagreed with our statement that DPI did not identify any of the problems that DCS identified. According to MDHS the reason DPI did not find any problems in the homes was because they had already been corrected. We amended our correspondence to reflect MDHS' concern. However, we continue to believe that all home inspections should include a thorough review of program files because, as we note, SMO had paid contractors far above levels established by DCS. Notably, 5 of the ten homes inspected by DPI had overpayments of between 300 percent and 400 percent of material costs, which indicates that DPI's inspections need to be more robust.

We are sending copies of this report to DOE's National Energy Technology Laboratory in Pittsburgh, Pennsylvania; Mississippi's Office of the State Auditor; and Mississippi's Recovery Act Coordinator, Office of the Governor. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John K. Needham". The signature is fluid and cursive, with a long horizontal line extending to the right.

John K. Needham

Director
Acquisition and Sourcing Management Issues

Enclosure

Comments from Mississippi Department of Human Services



STATE OF MISSISSIPPI
HALEY REEVES BARBOUR, GOVERNOR
DEPARTMENT OF HUMAN SERVICES
DON THOMPSON
EXECUTIVE DIRECTOR

June 18, 2010

Mr. John K. Needham, Director
Acquisition and Sourcing Management Issues
U.S. Government Accountability Office
Washington, D.C. 20548

Re: Independent Oversight of Recovery Act Funding for Mississippi's Weatherization Assistance Program

Dear Mr. Needham:

This correspondence is in response to your June 2010 letter regarding the Mississippi Department of Human Services, Division of Community Services' (DCS) and Division of Program Integrity's (DPI) supervision and monitoring of Mississippi's Weatherization Assistance Program. The Government Accountability Office (GAO) conducted a performance audit from January 2010 through May 2010 by visiting various community action agencies responsible for weatherization activities in Mississippi. As a result of GAO's findings and concurrent with the aforementioned letter, the state continues its efforts to provide sufficient oversight of this program. Listed below are responses and improvement plans currently in progress to address the state's monitoring and implementation abilities:

1. On page three of the GAO Draft Report session entitled DCS Monitoring Efforts Identified Mismanagement in the Weatherization Program, it states that the Director of DCS quoted that the amount paid for labor should not exceed 110 percent of material costs. DCS subsequently increased the labor costs guidelines for community action agencies, raising the rate from 110 to 125 percent of material costs. Therefore, the amount paid for labor should not exceed 125 percent of material costs. It was determined by GAO that Southwest Mississippi Opportunity (SMO) paid contractors between 200 and 400 percent of material costs. These actions did not correspond with DCS policy.

2. In the same paragraph on page three, the report states that as a result of the overpayment of material costs to SMO contractors, DCS required SMO to reimburse more than \$38,000 in Recovery Act funding. The Executive Director of SMO also provided documentation of \$16,000 of expenses incurred to rework homes that had not been weatherized properly. After a

Mr. Needham
June 18, 2010
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review of these expenditures, DCS learned that they were coded incorrectly. Therefore, it was determined that the disallowed cost was \$1,998.44 and the remaining \$14,001.56 was eligible expenditures. DCS ceased processing Requests for Cash in December of 2009 and no additional requests were processed because of the problems that were identified at SMO. This action minimalized additional costs from being incurred by SMO in finalizing weatherized homes and operational costs. At this time, SMO is not required to refund DCS because all available funds were accounted for.

3. GAO stated on page three of the draft report under the heading Independent Monitoring of the Weatherization Assistance Program Can Better Assure the Program's Integrity that DPI monitored SMO in December 2009. DPI officials told GAO that "they did not coordinate their review of SMO with DCS and were unaware of any problems." This is true; however, it was not explained that DPI does not coordinate regular monitoring visits with any funding division in order to maintain independence of the funding division's relationship with the subgrantee.

4. The same paragraph on page three of the draft report states that "DPI did not identify any of the problems that were identified by DCS during the same period." This monitoring visit of the work performed on the homes would warrant no problems because this visit was performed after the initial problems were found and corrected. Therefore, the monitors would not have been expected to find any problems. DPI agrees that the monitors did not pick up on the fiscal problems noted by DCS.

5. Communication between the DCS and DPI has been substantially increased to ensure the accountability of the ARRA Weatherization funds and these divisions will continue to work together cooperatively on new guidelines, policies, ideas and challenges.

We appreciate this opportunity to provide input to your draft report. Please contact Sollie Norwood, Director of Community Services at (601) 359-4768 or sollie.norwood@mdhs.ms.gov or Laura Griffin, Director of Program Integrity at (601) 359-4900 or laura.griffin@mdhs.ms.gov if you have questions or need additional information.

Sincerely,



Don Thompson

DT:lb

cc: Jim Elgas, Senior Analyst, Mississippi Team
Sollie Norwood
Laura Griffin

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