



# Department of Development

## Home Weatherization Assistance Program

### ARRA Audit

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**Audit Period: October 19, 2009 through November 16, 2009**



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## Executive Summary

### **Background**

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include the following statement of purposes:

- To preserve and create jobs and promote economic recovery.
- To assist those most impacted by the recession.
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio has applied for over 90 ARRA programs with expected total grant awards to exceed \$8 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- Countercyclical Funds: The two largest components of the State's budget that is exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.
- Appropriated Funds: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.
- Safety Net Funds: These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.
- Economic Growth Funds: These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Department of Development (DEV) has applied for approximately 19 awards. This audit will focus on the Home Weatherization Assistance Program (HWAP) ARRA Program which is a formula grant. As of October 31, 2009, the DEV has disbursed \$33,793,432 of the planned \$266,781,409 for this program. As of September 30, 2009, 2,296 HWAP jobs were reported as created or retained.



The Home Weatherization Assistance Program (CFDA<sup>1</sup> 81.042) is a formula grant awarded by the U.S. Department of Energy to reduce the burden of energy prices on the disadvantaged by making low income homes more energy efficient.

During the audit, OIA identified opportunities for DEV to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank DEV staff and management for their cooperation and time in support of this audit.

<sup>1</sup> Catalog of Federal Domestic Assistance



## Scope and Objectives

OIA staff was engaged to perform assurance work related to the HWAP ARRA Program. This work was completed between October 19, 2009 and November 16, 2009. The scope of this audit included the following areas:

- Program planning
  - Program risk assessment; and
  - Internal control process documentation
- Application process
  - Public award announcement; and
  - Applicant evaluation and award notification
- Program administration and monitoring
  - Communication of grant requirements; and
  - Program oversight and monitoring
- Reporting
  - Financial reporting; and
  - Non-financial statistical reporting

The following summarizes the objectives of the review along with a conclusion on the design of management’s internal controls. The scope of this audit was limited to the adequacy and design of internal controls with the expectation of a future audit to focus on operating effectiveness of internal controls.

Objective	Conclusion <sup>2</sup>
Evaluate the adequacy of DEV’s ARRA program risk assessment and internal control documentation based on guidance provided by State management.	Improvements Needed - See Observation 1
Evaluate the adequacy of the awarding process for ARRA funds to subrecipients and vendors.	Well-Controlled
Evaluate the design and adequacy of the communication related to program requirements, state guidance, and federal compliance requirements to grant recipients.	Well-Controlled
Evaluate the design of the controls over subrecipient and vendor monitoring process for the program.	Improvements Needed - See Observation 2



Objective	Conclusion <sup>2</sup>
Evaluate the design of controls over complete, accurate, and timely reporting of financial and non-financial information.	<b>Improvements Needed - See Observation 3</b>

<sup>2</sup> Refer to [Appendix A](#) for classification of audit objective conclusions.



### Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. There were no low risk observations and recommendations identified as a result of this audit.

No.	Observation	Recommendation	Risk <sup>3</sup>
1.	<b>Program Documentation Process</b> – DEV has not completed the process of documenting what procedures the agency has in place, identification of key ARRA related risks and related mitigating controls for the fiscal draw and expenditure processing, ARRA 1512 reporting process, and subrecipient monitoring process.	DEV should update the current HWAP process diagrams and supporting narratives to ensure it reflects an end-to-end process flow that identifies key program risks and controls to assist in minimizing potential exposures to the department.	<b>Moderate</b>
2.	<b>Subrecipient Monitoring</b> - DEV’s risk-based approach to carrying out its monitoring procedures is not well documented. As is routinely completed for federal grant programs, DEV advanced approximately \$20 million of the total HWAP allocation to its subrecipients to enable HWAP subrecipients to ramp-up and begin timely production. DEV should employ existing processes to account for advanced dollars and assure dollars are properly expended.	Through a coordinated effort between the program offices and DEV Audit office, a comprehensive, risk-based monitoring program should be developed that aligns controls with risks associated with disbursing ARRA funds to subrecipients.	<b>Moderate</b>
3.	<b>ARRA Reporting</b> - DEV does not identify the roles, responsibilities, risks and controls associated with the ARRA reporting process. DEV only reported HWAP program’s 1512 statistical data through August 31 <sup>st</sup> and not through September 30 <sup>th</sup> as required through the ARRA. Additionally, DEV does not have a process in place to validate the jobs created/jobs retained information reported from its subrecipients.	Procedures should be developed defining the process of accumulating, compiling, and validating information that is required to be uploaded into the ARRA Hub. DEV should issue additional guidance to its subrecipients on the proper method for reporting jobs created/jobs retained.	<b>Moderate</b>



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

<sup>3</sup> Refer to [Appendix A](#) for classification of audit observations.





## Detailed Observations and Recommendations

### **Observation 1 – Program Documentation Process**

An effective and transparent risk management process includes program documentation that identifies key risks, internal controls, decision points, and program outcomes as described in Office of Budget and Management Guidance Memo #5, issued to state agencies on March 27, 2009.

DEV developed process diagrams to document the flow of the ARRA-funded Home Weatherization Assistance Program (HWAP) for the administrative planning, funding decision, grant implementation, monitoring, reporting, and closeout processes. However, during our review of the fiscal draw and expenditure processing, ARRA 1512 reporting process, and subrecipient monitoring process, the documentation failed to clearly detail what procedures DEV has in place, and identify key ARRA related risks and related mitigating controls. The HWAP documentation does not:

- identify the methodology behind the selection of units and subrecipients that will be monitored and the planned scheduling of when technical and administrative monitoring will occur throughout the year,
- indicate what information is being reviewed when on-site monitoring visits occur and what tools/protocols are utilized,
- identify the roles and responsibilities of those involved in the 1512 reporting process,
- identify the individual roles and responsibilities of those involved in their fiscal processing, although there is a general reference made to the DEV Budget and Finance Office.

The DEV Budget and Finance Office did prepare fiscal processing diagrams which are applicable for all DEV programs, including HWAP; however, there is no direct reference in the HWAP process diagrams to these fiscal diagrams, nor are the key risks/controls associated with the fiscal processes identified consistently. Although an informal process exists, DEV's longstanding relationships with and knowledge of Ohio's HWAP providers was considered in the award and monitoring processes.

Without fully documenting all of the processes associated with the ARRA-HWAP program, DEV management may not have identified the highest program risks and effective controls to mitigate those risks to an acceptable level. Additionally, opportunities for process improvement may have been revealed from the completion of this process.



**Recommendation**

DEV should update the current HWAP process diagrams and supporting narratives to ensure it reflects an end to end process flow which includes all key stages of the grant process, key reviews/validations, and key program risks to assist in minimizing potential exposures to the agency. When evaluating key risks and internal controls, management should consider:

- adequate training of staff;
- matching, level of efforts, or earmarking requirements;
- contracts awarded to subrecipients/vendors are evaluated for resource capacity;
- contracts awarded have required terms and clauses included;
- drawdowns are complete, accurate, and consider cash management, and period of availability;
- reported financial and non-financial information is accurate and complete; and
- corrective action plans provide prompt resolution of audit findings.

Additionally, in association with updating the HWAP process diagrams, DEV should identify in the process where controls are in place to mitigate the above risks, and provide adequate activity narrative detail and/or reference standard review protocols/tools (i.e., monitoring checklists, reporting checklist, etc.) explaining the purpose for the protocol/tool.

**Management Response**

Management is continuing to update its process diagrams to include key processes, risks and controls. In addition, relevant process documentation will be maintained and provided to the OBM Office of Internal Audit. It is important to note that established processes do exist and DEV fiscal and operations staff and managers utilize those processes to timely and effectively carry out their management and oversight responsibilities.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Office Chief, Office of Community Services	January 2010



## Observation 2 – Subrecipient Monitoring

OMB Circular A-133, Subpart D, requires the department to monitor the activities of subrecipients to reasonably ensure that laws, grant agreements, and performance goals are achieved. Additionally, DEV signed an assurance statement indicating a risk-based subrecipient monitoring process would be in place to ensure achievement of program and economic outcomes.

DEV is responsible for monitoring the use of the ARRA HWAP grant funds for 34 subrecipients. During our review of the documentation and process walk throughs, it does appear DEV has procedures in place to monitor the subrecipients financial and program compliance. However, DEV did not have evidence to support a risk-based approach in carrying out these monitoring procedures; instead, onsite program visits are based on reviews of production reports as units are completed. The method DEV schedules the required visits to cover 5% of production and 5% of administrative files for each subrecipient was also not evidenced.

Furthermore, the DEV's Audit Office performed an internal risk analysis of the subrecipients approximately seven years ago to establish an audit cycle, but has not performed this analysis since, instead relying on the results of cyclical financial audits, program monitoring, and feedback from program offices to drive adhoc audits performed throughout the year. DEV plans to add staff to both the Audit Office and program area to ensure the department can execute the additional monitoring needed to effectively administer the ARRA HWAP program.

Additionally, DEV advanced a portion of each subrecipient's allocation, totaling approximately \$20,000,000, for the essential purpose of funding recipient start-up activities. Dollars advanced are in fact subject to oversight by Development. Processes do exist to account for advances. Advances are routinely provided for other federal grant programs with the complete knowledge of the federal granting agency. HWAP providers operate using dollars from the federal grants. Providers cannot get programs up and running without having the dollars in advance. DEV has indicated they are in the process of updating their current monitoring procedures to reconcile the advancement to expenses reported when performing site visits/financial audits of the subrecipients and they currently utilize a tracking sheet to account for approximately \$18 million of the advancement as being expensed; however, this amount has not yet been validated by DEV.

DEV's monitoring process does take into account risk. However, a formalized, coordinated risk-based process may minimize the risk of subrecipient noncompliance or questioned costs and limit the exposure of the department to increased oversight by federal agencies.



**Recommendation**

Through a coordinated effort between the program offices and DEV Audit office, a comprehensive, risk-based monitoring program should be developed that aligns controls with risks associated with disbursing ARRA funds to subrecipients. The program should prioritize monitoring activities to minimize risk to an acceptable level as established by DEV management. This risk-based approach should be reassessed annually through a combined effort with program and fiscal functions to communicate relevant issues and/or concerns with subrecipient activity that could impact the annual audit scope and schedule. Additionally, procedures should illustrate how to coordinate the frequency and scope of onsite visits, desk reviews, communication and training, and remediation processes for subrecipient issues identified.

**Management Response**

Management implemented program site visits to conform with the percentage required by federal inspection requirements. These inspections ensure adequate oversight of subrecipients occur and validate the adequacy of the weatherization service. In December 2009, management will develop a comprehensive risk based monitoring program to encompass both fiscal and program activities. Additionally, the monitoring approach will be updated on a continuous basis and will include a review and follow-up on external audit results.

ARRA weatherization funds will begin to be audited in December 2009. In January 2010, management plans to hire four additional employees (2 program monitors and 2 External Auditors) to increase its oversight for fiscal and program site monitoring of subrecipients. It is the intent of Development to use these additional employees to audit each agency’s ARRA funds each year over the next three years.

Aspects of the situation that do serve to mitigate risk should be noted. For example, with few exceptions, Development is in regular contact with HWAP agencies in regard to the agencies administration of other federal grant programs such as the Home Energy Assistance Program and the Community Services Block Grant program. DEV has extensive experiential knowledge of the providers in question and a cache of information about those providers compiled over many years.

In addition, required formal training of HWAP workers, technical training and assistance provided by DEV Staff, administrative and technical monitoring, and financial auditing all serve to mitigate risks. Those existing oversight mechanisms – taken together – do in fact enable Development to prevent, deter, detect and correct problems.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Office Chief, Office of Community Services	February 2010



### Observation 3 – ARRA Reporting

An effective reporting process includes documented procedures that define roles and responsibilities as well as detail the process steps to achieve the ARRA reporting objectives as described in Office of Budget and Management Guidance Memo #9, issued to state agencies on July 30, 2009. Furthermore, the federal Office of Management and Budget (OMB) Guidance M-09-21, issued June 22, 2009, provided guidance to recipients on the 1512 reporting elements, including an approved methodology for calculating the jobs created/retained.

DEV is responsible for validating the quality of information of both the department and its subrecipients that is entered into the ARRA Hub. DEV has documented its reporting process but does not identify the roles, responsibilities, risks and controls associated with the process. For the 1<sup>st</sup> quarter reporting on ARRA activity, the 1512 statistical data for the HWAP program only reflected activity through August 31<sup>st</sup> and not through September 30<sup>th</sup> as required through the ARRA Act. Additionally, DEV does not have a process in place to validate the jobs created/jobs retained information as it is received from its subrecipients and then entered into the ARRA Hub. DEV did provide guidance to its HWAP subrecipients on the jobs calculation methodology, but procedures were not put into place to ensure subrecipients were adhering to the guidance.

Without a formal validation process, incomplete and /or inaccurate information could be reported to federal oversight agencies, thereby decreasing reliance to the public on whether the department will achieve the overall ARRA program objectives.

#### Recommendation

Procedures should be developed that define the process of accumulating, compiling, and validating information that is required to be uploaded into the ARRA Hub. The data quality review and validation process should include procedures that define:

- who validates the data;
- from where the data is obtained;
- how management ensures the subrecipients submit accurate, complete, and timely data; and
- how management ensures all reporting data as required by the American Recovery and Reinvestment Act, Section 1512 are included and is through the end of the quarter.

DEV should issue additional guidance to its subrecipients with instructions on the proper method to report jobs created/jobs retained. Furthermore, DEV should implement procedures as they conduct onsite monitoring visits to validate the jobs reported by its subrecipients.



**Management Response**

Development’s method for determining the number of created and retained job was established in keeping with the definition for jobs created and maintained contained in the “Recipient Data Reporting Model V3”. Ohio devised a sub-recipient survey to ascertain “the number of new positions created and the number of existing filled positions that were retained to support or carry out projects, activities or federally awarded contracts managed directly by the recipient or federal contractor”. In addition, Development directed HWAP providers to convert total hours worked to full-time equivalents. The following was among the information communicated to the HWAP providers by Development in this regard:

*Please fill out the attached spreadsheet in regard to your current staffing and upcoming ARRA employment. A fulltime equivalent employee is defined as a person or persons who work a total of 2,080 hours a year. An example would be 4 people work 520 hours a year equals 1 FTE.*

In addition, Development staff responsible for data collection with respect to the creation and retention of jobs regularly provided assistance to and fielded questions from providers on how jobs should be counted and how the number of FTEs should be calculated.

As a result, management is currently working with OBM’s central reporting ARRA team to develop consistent reporting of jobs retained/created. In addition, management will provide guidance, training, and additional data quality reviews for jobs reported. Subrecipient monitoring site visits will include validation tests on jobs reported.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Office Chief, Office of Community Services	January 2010



**Appendix A – Classification of Audit Objective Conclusions and Observations**

**Classification of Audit Objective Conclusions**

Conclusion	Description of Factors
<b>Major Improvements Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
<b>Improvements Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Well-controlled with Improvements Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

**Classification of Audit Observations**

Rating	Description of Factors	Reporting Level
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Audit Committee, Senior Management, Department Management
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Audit Committee, Senior Management, Department Management
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)



## **Appendix B – Audit Follow-up Procedures**

OIA will periodically follow-up on management’s plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.
  
- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.
  
- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer’s procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.