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

Special Report

Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act

OAS-RA-10-04

February 2010

Department of Energy
Washington, DC 20585

February 19, 2010

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Special Report on "Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act

BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was enacted to stimulate the U.S. economy, create jobs and make infrastructure investments in energy and other areas. The Department of Energy's (Department) Weatherization Assistance Program received about $5 billion under the Recovery Act to improve the energy efficiency of nearly 590,000 residences of low income citizens -- a dramatic increase over the $450 million appropriated for this Program in Fiscal Year 2009. The Department awarded $4.73 billion of the Recovery Act funding in the form of grants to all 50 states, 5 territories, the District of Columbia and 2 Native American Tribes (the remaining $270 million was retained by the Department to administer the grants). It was anticipated that the expenditure of these funds would result in the almost immediate creation of jobs because they were to rely on the existing Weatherization Program infrastructure, recognizing that many homes of low income citizens were in need of energy usage improvements. As of December 2009, grantees had been authorized to spend up to 50 percent of awarded funds, with additional monies to be provided based on performance. Corresponding to funding increases, weatherization production goals increased significantly, rising from 104,000 in 2009 to 586,015 units over the 3 year life of the Recovery Act.

As noted in our *Special Report on the American Recovery and Reinvestment Act at the Department of Energy* (OAS-RA-09-01, March 2009), the Department of Energy's grant-making authority, an essential component of the Weatherization Program's strategy, was critical to achieving the desired Recovery Act-related economic stimulus. In that report, we suggested that the Department take steps to develop aggressive safeguards to ensure that performance was monitored throughout the life-cycle of the grants. Because of the importance of this program to stimulating the economy, creating jobs, and improving the quality of life in low income households, we initiated this review to provide the Department with an interim status report highlighting factors impacting progress in meeting Weatherization Assistance Program and Recovery Act goals.

OBSERVATIONS AND CONCLUSIONS

The Department had taken a number of proactive steps to foster timely implementation of the Weatherization Program. However, in spite of the Department's efforts, grantees had made little

progress in weatherizing homes. As of February 2010, the one-year anniversary of the Recovery Act, only a small percentage of Recovery Act weatherization funds had been spent and few homes had actually been weatherized:

- Only $368.2 million (less than 8 percent) of the total award of $4.73 billion had been drawn by grantees for weatherization work (please see Appendix I); and,

- Corresponding to the low spending rates, grant recipients fell significantly short of goals to weatherize homes. Notably, as shown in the following chart, only 2 of the 10 highest funded recipients completed more than 2 percent of planned units. If the State of Ohio, one of the most productive jurisdictions, is taken out of the mix for comparative purposes, the completion rate for the remaining nine states was well under two percent.

State	Units Planned	Units Weatherized as of December 2009	Percentage of Units Completed
New York	45,400	280	0.62%
Texas	33,908	0	0.00%
Ohio	32,180	6,814	21.17%
Pennsylvania	29,554	378	1.28%
Michigan	33,410	385	1.15%
Illinois	26,933	331	1.23%
California	43,400	12	0.03%
Florida	19,090	312	1.63%
Wisconsin	20,678	772	3.73%
North Carolina	22,203	197	0.89%

Source: Department's National Weatherization ARRA Snapshot Report dated February 16, 2010.

Appendix II to this report provides Weatherization Program data for all 58 recipients. As noted in the Appendix, 13 of these recipients, including a number of large states, had not weatherized any residences as of February 16, 2010. This finding was based on data provided by the Department as of February 16, 2010.

Because the consequences of the lack of progress by grantees in the implementation of the Weatherization Program were so significant, we found this data alarming. In short, the Nation has not, to date, realized the potential economic benefits of the $5 billion in Recovery Act funds allocated to the Weatherization Program. The job creation impact of what was considered to be one of the Department's most "shovel ready" projects has not materialized. And, modest income home residents have not enjoyed the significant reductions in energy consumption and improved living conditions promised as part of the massive Recovery Act weatherization effort.

To its credit, the Department, through site visits to 32 states and numerous interactions with state officials, identified challenges facing the grantees that delayed weatherization progress. Department officials worked aggressively with the states and other responsible agencies to mitigate these challenges. Further, we were informed that most grantees were able to weatherize some residences during Fiscal Year 2009 using funds awarded prior to the enactment of the Recovery Act. However, as a practical matter, program challenges, such as those identified in this report, placed the Recovery Act-funded Weatherization Program "on hold" for up to nine months. Despite its best efforts, the Department's actions to reduce or eliminate program delays appeared not to have significantly increased the tempo of actual units weatherized across the Nation.

Regulatory Requirement

The Recovery Act required that recipients of weatherization funds pay laborers at least the prevailing wage as determined under the Davis-Bacon Act. This requirement was not previously applicable to weatherization activities, and as such, grantees lacked information on which to base wage rates. In response, the Department asked the Department of Labor (Labor) to provide necessary wage determinations for each of the geographical areas expected to receive weatherization funds. Labor then began to conduct wage surveys across the country to determine the appropriate wage for weatherization work.

Recognizing that delays would occur while the wage surveys were completed, Federal officials attempted to mitigate the effects of implementing the Davis-Bacon Act. The Secretaries of Energy and Labor issued a joint memorandum in July 2009 to grantees stating that state and local agencies should begin weatherizing homes "now" while they were waiting for the results of the surveys. The guidance recommended proceeding with weatherization efforts and adjusting salaries retroactively, if workers had been paid less than the appropriate wage rates. In many cases, however, states elected not to proceed with weatherization efforts as recommended. They were concerned with avoiding perceived administrative problems and burdens associated with retroactive adjustments to wages. Many grantees chose not to begin work until the prevailing wage rates were formally established. Even after Labor's work was complete, additional delays occurred while grantees prepared guidance for sub-recipients on how to apply the wage rates. As such, efforts to begin the work of weatherizing homes did not begin in earnest until after guidance was completed in October 2009.

State-Level Issues

A number of other factors at the state level also contributed to delays in developing and implementing plans for the Weatherization Program. Among other things, certain states were unable to prepare their required program plan and submit it to the Department for review and approval in a timely manner. Ironically, given the anticipated stimulus effect of the program, economic problems in many states adversely impacted their ability to ensure that weatherization activities were performed. State hiring freezes, problems with resolving significant local budget shortfalls, and state-wide planned furloughs delayed various aspects of the program and contributed to problems with meeting spending and home weatherization targets.

Several grantees from which we obtained information encountered other delays in preparing their Weatherization Program plans. The Department required all grantees to submit plans for implementing the Weatherization Program by May 2009. The state plans were to outline the use of Recovery Act funds and detail performance metrics for weatherizing homes. Upon approval of the plans by the Department, grantees were eligible to receive 40 percent of their Weatherization Program allocation. The statewide Weatherization Assistance Program in North Carolina, for instance, encountered difficulties in finalizing its plan when the administration of the program was transferred to the State's Department of Commerce in August. Although North Carolina's original state plan had been approved by the Department in June 2009, the State had to submit an amended plan, including budget information, through its Department of Commerce. The amended state plan was ultimately not approved by the Department of Energy until November 2009. Accordingly, North Carolina did not have access to its allocation for the Weatherization Program until that time. In another instance, the State of Wisconsin did not have

an approved plan in place until September 2009. Subsequently, the State amended the plan with the new wage determinations. Until it had incorporated the new wage determinations issued in December 2009 into its plan, Wisconsin chose not to proceed with amendments to sub-recipient contracts, thus delaying weatherization production.

Certain states also faced fiscal challenges that contributed to the delay in the implementation of the Weatherization Program. For example, because of budget shortfalls associated with the economic downturn, certain states were under hiring freezes that applied to all employees regardless of the source of their funding, including those tasked with weatherization-related work. In other states, progress was impacted because personnel involved with the program were subject to significant state-wide furloughs. Further, the approval of state budgets was delayed in states such as Pennsylvania as legislators deliberated over how to address overall budget shortfalls. Lacking staff, states were unable to perform required implementation tasks necessary to handle the large infusion of Recovery Act Weatherization Program funding. Without budgets, states did not have spending authority and, hence, were not able to obligate or expend any Weatherization Program funds.

Officials in California, one of the largest recipients of weatherization funds, reported that furloughs created significant staffing challenges in implementing the Weatherization Program. Similarly, officials in Illinois indicated that their plan to hire staff necessary to implement their weatherization plans had been delayed because of a hiring freeze in the State. Illinois projected an additional need for 21 staff members to meet its Recovery Act goals. As we noted in our *Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois* (OAS-RA-10-02, December 2009), the lack of staff adversely impacted its ability to implement its Weatherization Program plan. The hiring freeze in Illinois was lifted in November 2009 and a sustained hiring effort was underway. A hiring freeze in New York City also slowed the implementation of weatherization work in that jurisdiction.

Training

To ensure successful implementation of the Recovery Act requirements for the Weatherization Program, the Department required that program personnel at the state and community action agency level receive additional training. The training was required to ensure that recipients were familiar with requirements associated with the Davis-Bacon Act, new eligibility requirements for homes to be weatherized, increased allowable costs per unit, and monitoring of work performed by sub-recipients. As with other activities, necessary state training initiatives were delayed by budget shortfalls and staff furloughs. As a result, additional time was needed to develop effective training programs and to deliver the training to impacted personnel.

PATH FORWARD

During consideration of the Recovery Act and following its enactment, the conventional wisdom was that the Department's Weatherization Program was about as close to meeting the definition of "shovel ready" as virtually any program in the Department's portfolio. Specifically, the Recovery Act weatherization effort had the following attributes:

- An existing programmatic infrastructure, including processes and procedures which had been in place for many years;

- The techniques for weatherization tasks were well known and comparatively uncomplicated, and the requisite skills were widely available;
- Performance metrics were relatively easy to establish and understand;
- The potential benefits for low income citizens were easily recognized; and,
- The potential beneficial impact on energy conservation was obvious.

Under these circumstances, it seemed that the $5 billion in Recovery Act funds allocated to this program would have had a prompt and easily discernable impact on job creation and economic stimulation. These goals have proven to be much more difficult to achieve than originally envisioned.

The results of our review confirmed that as straight forward as the program may have seemed, and despite the best efforts of the Department, any program with so many moving parts was extraordinarily difficult to synchronize. In this case, program execution depended on the ability of the Federal government, (multiple agencies, in fact) state government, grant sub-recipients and weatherization contractors, working within the existing Federal and state regulatory guidelines, to respond to a rapid and overwhelming increase in funding. Further, anticipated stimulus impact was affected by certain conditions and events clearly outside of Departmental control including state budget difficulties; availability of trained and experienced program staff; and, meaningful changes in regulatory requirements.

As these issues are resolved, it appears likely that pressure will increase to accelerate the weatherization of residences in the compressed statutory timeframe available under the Recovery Act. In a situation like this, our concern is that the understandable desire to spend the Weatherization funds on a catch-up basis may lead to an environment conducive to wasteful, inefficient and, perhaps even abusive practices.

To its credit, the Department recognized the need to ensure adequate monitoring of the Weatherization Program, and is in the process of hiring staff for this purpose. However, given the increased risk associated with accelerating expenditures, we recommend that the Department re-evaluate its monitoring and staffing plans and adjust them as necessary to prevent, detect, and remedy instances of fraud, waste and abuse of Recovery Act funds.

MANAGEMENT COMMENTS

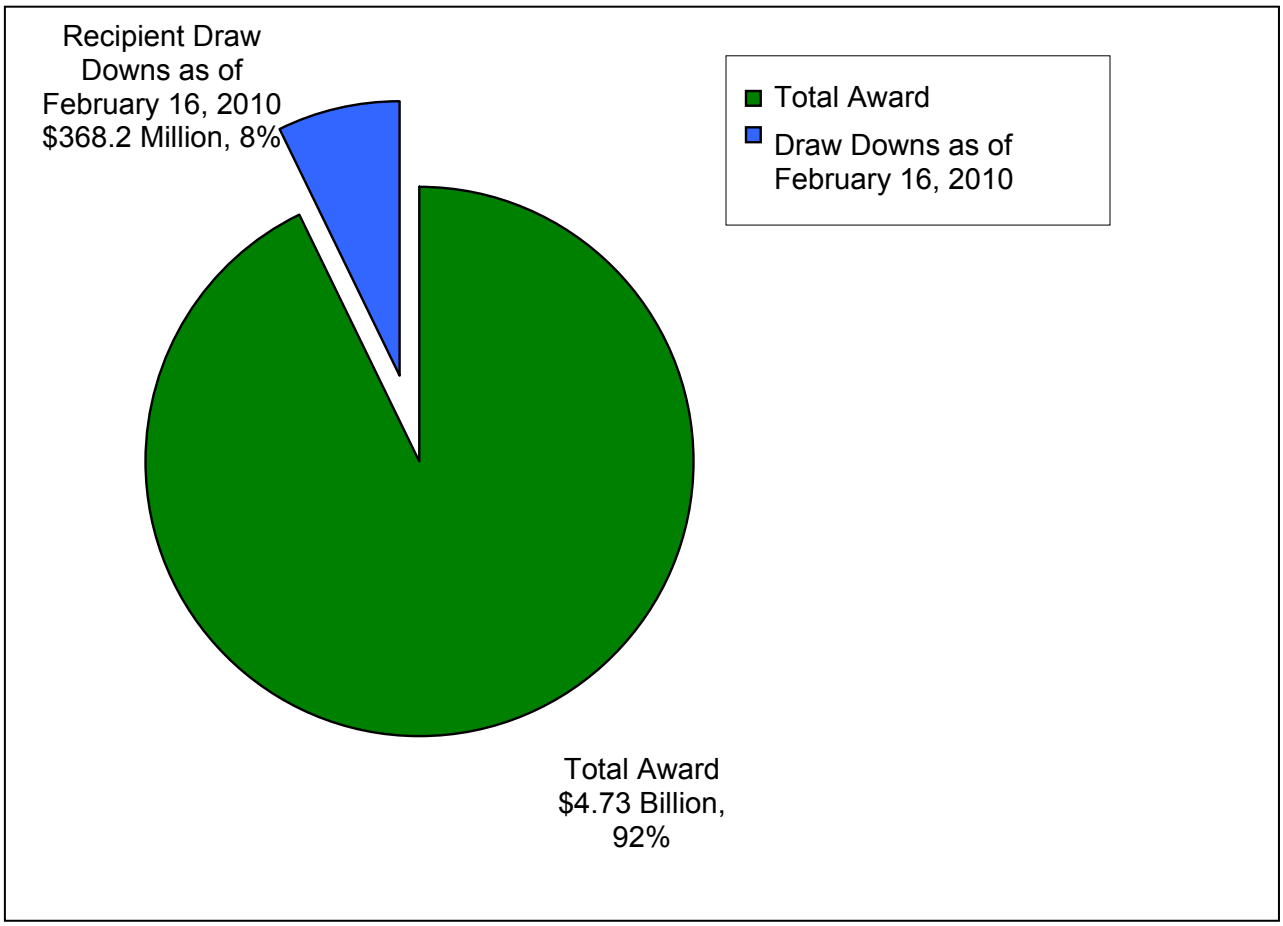
Management provided comments which expanded upon the findings presented in this report. The Department responded that it continues to ramp up to achieve the full impact of this important program. Management expressed its resolve to work diligently to achieve robust spending while maintaining proper programmatic oversight. Management also told us that Departmental officials have worked closely with states in incorporating new Weatherization Assistance Program Recovery Act requirements, such as the Davis-Bacon Act prevailing wage provisions. The Department also asserted that it is taking proactive steps to accelerate the program schedule, such as issuing 12 program guidance documents to provide grantees with clarification on important topics, including the implementation of the Davis-Bacon Act and monitoring requirements.

We considered management's comments to be integral to any consideration of the current status of the Department's Weatherization efforts. For that reason, other than technical issues which we considered in the report process, management's comments are provided in their entirety at Appendix III of this report.

cc: Deputy Secretary
Under Secretary of Energy
Chief of Staff
Assistant Secretary for Energy Efficiency and Renewable Energy, EE-1
Director, Office of Risk Management, CF-1.2
Team Leader, Office of Risk Management, CF-1.2
Audit Liaison, EE-3A

Appendix I

Distribution of Weatherization Recovery Act Funds to States and Territories



Source: Source: Department's National Weatherization ARRA Snapshot Report dated February 16, 2010.

Appendix II

Total Units Weatherized Compared to Total Units Planned
As of February 16, 2010

Recipients	Total Completed Units	Total Units Planned	Percent of Units Completed
Alabama	477	6,651	7.17%
Alaska	0	1,523	0.00%
Arizona	359	6,409	5.60%
Arkansas	625	5,578	11.2%
California	12	43,400	0.03%
Colorado	1,369	10,478	13.07%
Connecticut	23	7,500	0.31%
Delaware	519	1,526	34.01%
District of Columbia	0	785	0.00%
Florida	312	19,090	1.63%
Georgia	632	13,871	4.56%
Hawaii	0	672	0.00%
Idaho	551	3,113	17.70%
Illinois	331	26,933	1.23%
Indiana	974	19,736	4.94%
Iowa	370	7,196	5.14%
Kansas	267	5,820	4.59%
Kentucky	431	9,076	4.75%
Louisiana	104	5,136	2.02%
Maine	560	4,427	12.65%
Maryland	279	6,850	4.07%
Massachusetts	1,310	16,926	7.74%
Michigan	385	33,410	1.15%
Minnesota	1,423	16,858	8.44%
Mississippi	1,472	5,468	26.92%
Missouri	1,089	21,506	5.06%
Montana	244	2,477	9.85%
Nebraska	190	4,000	4.75
Nevada	84	5,539	1.52%
New Hampshire	349	2,609	13.38%
New Jersey	53	13,054	0.41%
New Mexico	155	2,788	5.56%
New York	280	45,400	0.62%
North Carolina	197	22,203	0.89%
North Dakota	402	3,267	12.30%
Ohio	6,814	32,180	21.17%
Oklahoma	520	7,060	7.37%
Oregon	191	4,635	4.12%
Pennsylvania	378	29,554	1.28%
Rhode Island	0	2,532	0.00%
South Carolina	286	6,500	4.40%
South Dakota	53	2,327	2.28%
Tennessee	1,430	10,524	13.59%
Texas	0	33,908	0.00%
Utah	720	4,474	16.09%
Vermont	280	1,612	17.37%
Virginia	1,358	9,193	14.77%
Washington	1,007	7,170	14.04%
West Virginia	660	3,574	18.47%
Wisconsin	772	20,678	3.73%
Wyoming	0	928	0.00%
Territories (5) , Native American Tribes (2)	0	7,891	0.00%
Total (58)	**30,297**	**586,015**	**5.17%**

Source: Source: Department's National Weatherization ARRA Snapshot Report dated February 16, 2010.

Department of Energy
Washington, DC 20585

February 16, 2010

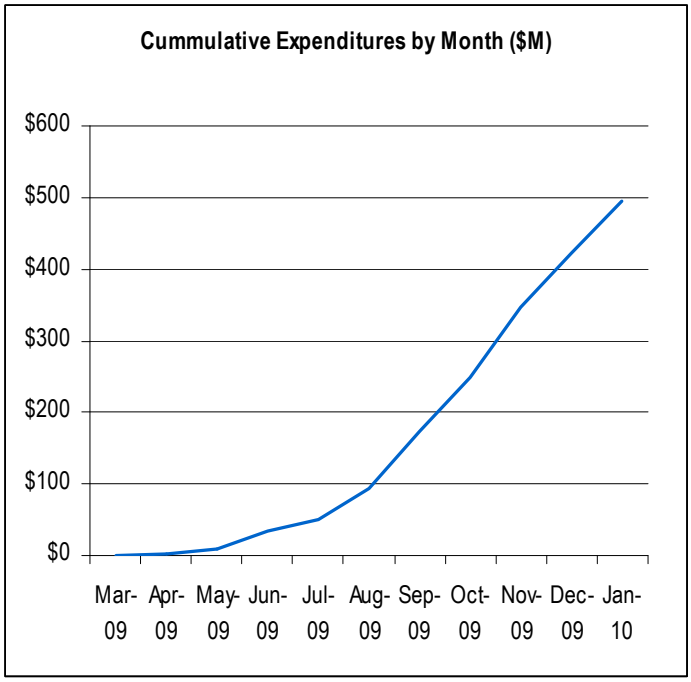
MEMORANDUM FOR: GREGORY H. FRIEDMAN
INSPECTOR GENERAL

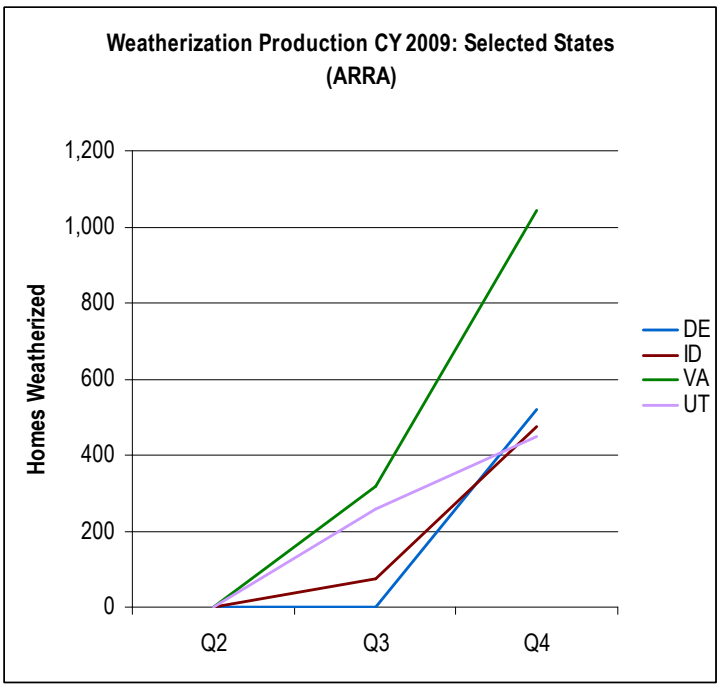
FROM: KATHLEEN B. HOGAN (508 VERSION, NO SIGNATURE)
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENY
OFFICE OF TECHNOLOGY DEVELOPMENT
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Comments on the DRAFT Special Report on "Progress in Implementing the Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act"

The Department's Office of Weatherization and Intergovernmental Program (OWIP) welcomes the opportunity to review and comment on the DRAFT special report on "Progress in Implementing the Department of Energy's Weatherization Assistance Program (WAP) under the American Recovery and Reinvestment Act (ARRA)."

The Department continues to ramp up to achieve the full impact of this important program. The graphs below show the nearly exponential increase in funds spent for the national program and the number of units weatherized for selected states.





The Department's OWIP has worked diligently to achieve robust spending while maintaining proper programmatic oversight. We have worked closely with States in incorporating WAP Recovery Act requirements not previously required (e.g., Davis-Bacon Act prevailing wage provisions). After prevailing wage rates were established by the U.S. Department of Labor in September 2009, States then needed to incorporate these rates into their contracts with local agencies that perform the weatherization work. For WAP, some States had as many as 30 contracts that needed modification to incorporate revised wage rates, the requirement for weekly pay, and other changes. With States facing severe budget shortfalls, and furloughs in some cases, it was challenging for them to provide the support services (e.g., human resource departments, legal) needed to put funding mechanisms in place for Recovery Act Programs and then to spend quickly.

States stepped up and weatherized 36,872 homes in the fourth quarter of calendar year 2009 compared to 21,638 homes in the same quarter in 2008. The change from 2008 to 2009 represents a 70% increase in unit production. The increase in unit production tells only part of the story of improvement, given that the maximum allowable expenditure per home more than doubled from $3,200/home to $6,500/home. With the increased expenditure level, the national weatherization network performed more weatherization services on the average home in 2009, while also reaching significantly more homes than in previous years.

The Department continues to take proactive steps to accelerate the program schedule. For instance, we have developed a national agreement on Historic Preservation. The standardized template, developed for all States to use, will streamline processes for States in dealing with Historic Preservation Offices. We have also streamlined the eligibility of multi-family dwellings by adopting an established Department of Housing and Urban Development procedure. Already for Program Year 2010 (which began October 1, 2009), the Department's OWIP has issued 12 program guidance documents to provide grantees with clarification on important topics, including the implementation of the Davis-Bacon Act, the protection of historic properties, monitoring requirements, grantee performance needed before drawing down the remaining 50% of their Recovery Act WAP funding, and maintaining the privacy of recipients of services.

The Department continues to put measures in place to accelerate the program while mitigating wasteful spending risks associated with faster spending pressure. The Department's OWIP has implemented a new and improved accounts management and customer service focus, hired dozens of Project Officers (POs) to oversee State performance, and revamped its monitoring processes. The POs have formalized weekly check-ins with their grantees to enable DOE to identify and quickly respond to issues as they arise, and the POs will visit thousands of completed homes to review work products and assess local quality control efforts. Furthermore, performance-based milestones are in place. For example, States must weatherize a minimum of 30% of their total units before drawing down the remaining 50% of their Recovery Act WAP funding.

To support grantees, the Department's leadership has been actively involved in identifying and addressing challenges facing States. An outreach initiative entitled "Operation Green Light," dispatched senior leadership to visit and assess nine of the highest risk states. In addition, Assistant Secretary Cathy Zoi made telephone calls to fifty-one state energy offices—calls that in many cases included participation from state governors—to identify barriers and provide guidance to ensure that money would be spent well and quickly. Since November 19, 2009, the Department's OWIP leadership has also held weekly calls with the National Association for State Community Services Programs (NASCSP) and the National Community Action Foundation (NCAF) to further assist

grantees and the weatherization assistance network in identifying and resolving issues that hinder effective and quick program spending.

In summary, the Department is confident that the weatherization efforts under the Recovery Act continue to ramp up and will achieve the economic impact envisioned while creating clean energy jobs across the nation. There is more specific feedback in the Attachment. Thank you again for the opportunity to comment.

IG Report No. OAS-RA-10-04

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